

**Compendium  
of the  
Icelandic Financial Market  
Legislation**

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## ***Introduction***

*The coalition Government of the Independence Party and Progressive Party formed in April 1995 for a four-year term of office. The core of the Government's economic policy is to enhance the macroeconomic environment in general and to ensure thereby growth and employment.*

*The financial market has been rapidly developing in recent years and further developments can be expected. Recently I have on behalf of the Government presented to Alþingi a proposal to change two state owned Commercial Banks to Limited Liability Companies which is to be regarded as the first step to widen the ownership base of the two remaining Icelandic State owned Commercial Banks.*

*The Government is firmly committed to ensure that the trade and investment opportunities offered inter alia by Iceland's membership of the agreement on the World Trade Organization and the Agreement on the European Economic Area (EEA), and OECD, will be explored, and likewise to ensure that competition between private and public enterprises will be based on equal footing.*

*Iceland's access to the European Single Market is assured through its membership of the EEA Agreement. The legal framework in which the Icelandic financial institutions operate is therefore based on the directives of the European Union. This ensures the good functioning of the Single Market.*

*The Icelandic legislation on financial services is thus constantly evolving to take account of developments at international and domestic levels. In Iceland plans are underway to initiate paperless securities trading. In March 1997 I submitted to Alþingi a proposal for a law on electronic registration of securities. Simultaneously the technical solutions and infrastructure for the paperless trading is being prepared. It is expected to initiate paperless trading in securities early in the year 1999. In the near future revision of the Act on Iceland Stock Exchange will take place in order to accommodate better the needs of the rapidly growing market in Iceland for trading in securities.*

*It is of utmost importance that the evolution of the legislation on financial services takes place rapidly and in coherence with national developments, as well as internationally. It is therefore the intention to keep this publication updated on a continuous basis by use of the modern technology of computer networks. The relevant legislation on Insurance services is not included in this edition mainly because several amendments are to yet to be adopted in order to transpose several directives of the European Union. In future publications the Insurance services legislation will be included.*

*The aim of this compendium of the legislation on the Icelandic financial market is to provide a single comprehensive reference source in English for the many practitioners in this field. It is preceded with a short summary overview of the Icelandic financial system in facts and figures. It is my hope that it will be useful and promote an interest in the Icelandic financial market.*

*Finnur Ingólfsson  
Minister of Industry and Commerce*





## ***The Icelandic Financial System***

### **A thriving Modern Financial Environment**

Iceland enjoys a well-evolved banking system and rapidly growing financial market comparable to those of other industrial nations, although on a much smaller scale. The main pillars of the financial system are the Central Bank of Iceland, commercial and savings banks, pension funds, investment credit funds, insurance companies, securities companies, mutual funds, equity funds and the Iceland Stock Exchange, which lists securities, including equities.

The legal framework in which Iceland's financial institutions operate is based on European Union directives, which automatically apply under Iceland's membership of the European Economic Area. Icelandic financial institutions are obliged to meet the same security provisions as EU companies, including capital adequacy of banks and securities houses. Icelandic financial legislation has undergone major reform in recent years and all foreign exchange restrictions have been lifted.

### **Institutions in the Financial Market**

#### ***The Central Bank of Iceland***

The Central Bank of Iceland performs all the traditional central banking functions, as well as the supervision of financial institutions. The Bank determines its own interest rates and interventions in foreign exchange, and money markets. The Government has the final word on exchange rate policy, although the Central Bank has decisive influence on its formulation through its recommendations and advice. The Bank pursues its monetary policy by indirect means through market operations, primarily in the money market and the inter-bank market for foreign exchange. The Bank acts as the borrowing agent for the Republic of Iceland in international capital markets.

Operations of almost all institutions in the Icelandic financial market, except the insurance companies, are supervised and monitored by the Central Bank through its Bank Inspectorate, which is modelled on European standards. Through its supervision of financial institutions the Bank is committed to ensuring that their operations are sound and their financial situation healthy.

#### ***Commercial and Savings Banks***

Currently, there are four commercial banks operating in Iceland and over 29 savings banks, some of which are very small. Two state-owned commercial banks and one private engage in all traditional commercial banking activities; the fourth is owned by the savings banks and operates as their clearing institution and liaison in foreign transactions. Commercial and savings banks in Iceland have long experience in handling foreign transactions on behalf of their clients, although none of them operates overseas. The commercial and savings banks form the retail branch banking system, which covers the whole country. Together with the Central Bank of Iceland, they operate a highly modern and efficient money transmission/payments system. Both companies and individuals can have direct computer access to the banks to undertake a variety of banking transactions.

All the banks are members of SWIFT, which ensures efficient money transmission to and from the country. The banks offer corporate customers a thorough range of fx-services, including swaps and forward contracts in all major currencies and the Icelandic króna. In addition, their corporate services include deposit taking as well as short- and medium-term finance, and to an increasing degree long-term lending. The banks also offer a variety of related financial services, such as securities brokerage and leasing, through their subsidiaries or directly.

### Commercial and savings banks

	No. of branches	Gross assets*
Búnaðarbanki Íslands	35	810
Íslandsbanki	33	1,038
Landsbanki Íslands	62	1,664
Sparisjóðsbanki	1	163
Savings banks group	51	869

\*Amounts in millions of USD at end of 1996

Source: Central Bank of Iceland.

Foreign banks have not yet taken advantage of the legal freedom to open branches or establish subsidiaries in Iceland, although a number of major Icelandic companies have been doing business with international banks as well as domestic ones for many years. Nonetheless, foreign banks play a vital role in the provision of credit in Iceland.

### Gross assets of financial institutions 1980-1996

In millions of USD at end of year	1980	1985	1990	1994	1995	1996
Commercial banks	931	1,471	3,323	3,114	3,252	3,655
Savings banks	112	167	593	670	799	869
Savings departments of co-ops	16	17	36	32	35	34
Insurance companies	144	167	421	610	682	755
Pension funds	337	679	2,318	3,434	4,026	4,440
Investment credit funds	498	962	2,745	3,737	4,113	4,331
Leasing companies	..	2	181	194	169	215
Mutual funds (open-end)	..	10	246	249	228	318
Mutual funds (closed-end)	..	..	27	35	67	167

Source: Central Bank of Iceland

### Market securities 1990-1996

In millions of USD at end of year	1990	1992	1993	1994	1995	1996
Government savings bonds	691	833	881	1,154	1,196	1,157
Treasury bills	146	243	241	232	238	229
Government notes	..	..	29	89	101	155
Bank bonds and bills	316	323	313	355	369	463
Housing bonds	105	580	753	1,154	1,306	1,607
Bonds of other ICFs	42	61	91	146	219	206
Mutual fund units (open-end)	239	141	167	258	222	306
Bonds of leasing companies	45	64	74	97	75	103
Shares 1)	606	567	483	731	1,001	1,942

1) Market value of shares quoted on the Iceland Stock Exchange and the OTC market.

Source: Central Bank of Iceland.

### Securities Companies - Mutual Funds

Several well established domestic securities companies are currently active in Iceland. They have acquired considerable skills and expertise in securities market activities, such as new issue activity, e.g. for foreign firms operating in Iceland, arrangement of private placements, fund management and the like. They have also played a role in the privatization programme of the government, both as advisors and arrangers. Four of the securities houses operate mutual funds, or unit trusts, of various kinds, including funds which invest partly or solely in foreign securities. A new Securities Transactions Act, based on the Investment Services Directive of the European Union, entered into force in March 1996.

### Iceland Stock Exchange

The Iceland Stock Exchange is rapidly evolving into one of the main pillars of the financial market. Companies which traditionally borrowed from banks and investment credit funds are now increasingly seeking new funds through share and bond issues on the Exchange. In March 1997, the shares of 35 Icelandic companies were listed on the Exchange with a total market capitalization of about 1,6 billion US dollars. The turnover is relatively limited but has been rising at a healthy rate. Share trading has been aided by the operation of closed-end mutual funds which invest primarily in shares.

Among securities listed on the exchange are equities of Icelandic companies, government bonds, notes and bills and various private bond issues. Fifteen institutions are currently members of the Exchange, including the Central Bank, all the commercial banks and securities companies and some savings banks. Registration on the Exchange is subject to listing requirements set by the Exchange, including disclosure requirements.

Alongside the Iceland Stock Exchange there is an over-the-counter (OTC) market in non-listed stocks. In March 1997 the shares of about 60 companies were listed on the OTC market. Normally bids and offers are posted in the shares of about 30 companies.

Iceland Stock Exchange trading regulations either already conform in principle to those applying within the EEA (EU), or are in the process of being harmonised. They take into account EU directives on share trading.

### Market value of securities listed on Iceland Stock Exchange

Millions of USD	Securities market						Money market	
	Total	Government bonds	Housing bonds	Government notes	Other bonds	Shares	Treasury bills	Bank bills
1992	1,767	808	487	30	107	229	107	..
1993	2,397	900	761	29	166	263	277	..
1994	3,286	1,066	1,022	82	365	484	268	..
1995	3,949	1,174	1,220	94	481	722	258	..
1996	5,169	988	1,563	121	788	1,387	260	63

Source: The Iceland Stock Exchange.

### Equity listed on Iceland Stock Exchange

	1991	1992	1993	1994	1995	1996	March 1997
Turnover/market capitalization (%)	0.3	1.0	5.7	4.0	6.1	6.3	..
Market capitalization/GDP (%)	0.4	3.7	4.6	7.6	10.3	18.8	..
Number of companies listed	2	11	17	24	27	32	35
Change in share index (ICEX) (%)	7	-10	-17	24	35	60	14

Source: Central Bank of Iceland, The Iceland Stock Exchange.

### ***FX and Money Market***

Foreign exchange controls, in particular controls on capital movements, were gradually liberalized and finally completely removed in the early to mid-1990s. This means that there are no restrictions on the repatriation of capital, interest or dividends. A formal inter-bank market in foreign exchange was established in 1993. The official rate of the króna is set in the market in daily fixing meetings attended by the commercial banks and the Central Bank. This market has developed comfortably and its operations are now undergoing a review with the aim of modernizing its mechanics.

There is a thriving money market in Iceland. Treasury bills and bills issued by commercial and savings banks are the most important money market instruments.

### ***Main Characteristics of Instruments***

For a long time, all long-term bonds in Iceland have been index-linked. Indexation was brought into the financial market during a period when Iceland suffered a very high rate of inflation, mainly in the 1970s. As price stability has been established, indexation is receding from the short to medium-term end of the financial market. At the end of 1995, Treasury paper ranged from three-month Treasury bills to five-year non-indexed Treasury notes and long-term bonds of up to 20 years' maturity, which are fully linked to changes in the consumer price index (CPI) and therefore offer full protection against erosion of the principal by inflation. All of these bills and bonds are registered on the Iceland Stock Exchange. Two-way prices for all the major issues are continuously pointed by market makers. At the end of 1996, the total amount of outstanding long-term government bonds was the equivalent of about 1.3 billion US dollars. The amount of outstanding Treasury bills fluctuates but was about 200 million dollars at the end of 1996. All of these government instruments are sold at regular auctions held by the National Debt Management Agency.

The housing finance system in Iceland is a public system based on the issuance of housing bonds. These are 25-year CPI-linked bonds carrying a government guarantee. In the last year their stock has become quite large. They are traded on the Stock Exchange.

Other bonds in the market have been issued by the various investment credit funds, and by private companies and municipalities. The single most important source of long-term capital in Iceland at present is from pension funds which are independent non-governmental entities.

### **MAJOR INTERNATIONAL BANKS ACTIVE IN ICELAND**

European Investment Bank	Luxembourg
Nordic Investment Bank	Finland
Sumitomo Bank	Japan
Chemical Bank	USA
JP Morgan & Co.	USA
Enskilda	Sweden
Union Bank of Switzerland	Switzerland
Bank of America NT&SA	USA
West LB Group	Germany
LTCB	Japan
Citicorp	USA
Hambros Bank	UK
Royal Bank of Scotland	UK
Société Générale SA	France

## **THE CENTRAL BANK OF ICELAND**

### **ACT NO. 36 of 5 MAY 1986**

THE PRESIDENT OF ICELAND

*makes known:* The Althingi has passed the present Act and I have ratified it with my approval:

#### CHAPTER I

#### ***Organization and Functions of the Central Bank***

##### Article 1

The Central Bank of Iceland (Seðlabanki Íslands) is an independent institution owned by the State but subject to separate management according to this Act.

##### Article 2

The State Treasury is liable for all the obligations of the Central Bank. The domicile and venue of the Central Bank is in Reykjavík.

##### Article 3

The functions of the Central Bank are:

- a. to issue bank notes, to mint and issue coins, and to endeavour to maintain a supply of money and credit appropriate for a stable price level and for the full and efficient utilization of the productive capacity of the economy,
- b. [to preserve and strengthen foreign exchange reserves sufficient to ensure free trade with other countries and the external financial security of the nation. The foreign exchange reserves shall be preserved, as far as possible, in secure and easily convertible securities or deposits and convertible foreign exchange.]1)
- c. to buy and sell foreign exchange, to deal with exchange rate matters and to control and supervise foreign exchange transactions,
- d. to advise the Government on all matters relating to foreign exchange and monetary policy,
- e. to act as bankers to the State Treasury,
- f. to act as bankers to deposit institutions, to maintain supervision of banking operations and to promote a sound market in securities and money,
- g. to prepare as complete reports and forecasts as possible on all matters pertaining to the functions of the Bank,
- h. to engage in other activities which are consistent with its purpose as a central bank.

1) Article 1 of Act No. 14/1992

##### Article 4

The Central Bank shall in all its activities maintain close co-operation with the Government and present to the Government its views on policy in economic affairs and the implementation thereof. In the event of significant disagreement with the Government the Board of Governors of the Central Bank may state so publicly and explain its views. It shall, nevertheless, consider it as one of its main objectives to endeavour to implement such policy as the Government ultimately lays down.

The Central Bank shall not less than twice in each year submit to the Minister a report on developments and prospects in monetary affairs and in matters of balance of payments and rates of exchange.

## CHAPTER II

### *Issue of Notes and Coins*

#### Article 5

The Central Bank has the sole right to issue bank notes and mint and issue coins or other currency which may circulate in place of bank notes or lawful coins.

The bank notes and coins issued by the Bank shall be legal tender for all payments at full nominal value.

The Minister decides, upon receiving the recommendations of the Central Bank, the form, appearance and denominations of the notes and coins issued by the Central Bank and causes an announcement thereof to be published.

## CHAPTER III

### *Domestic Activities of the Central Bank*

#### Article 6

The Central Bank accepts deposits from deposit institutions, which consist of commercial banks, savings banks, savings departments of co-operative societies [branches of foreign limited liability company banks]1) and such other institutions or societies as may be authorized by law to accept deposits from the public for safekeeping and earning of interest. The Central Bank may in this respect agree with the Loan Fund of the Savings Banks (Icebank Ltd.) to have a joint account for savings banks maintained with the Bank.

It may be determined by Regulations in special circumstances to have the Central Bank accept deposits from financial institutions other than those referred to in paragraph 1.

The Central Bank lays down further rules with respect to its transactions pursuant to this Article.

1) Article 2 of Act No. 14/1992

#### Article 7

The Central Bank may advance loans to financial institutions which engage in deposit transactions with the Bank, cf. Article 6, by way of purchase of bonds or in other form against security which the Bank deems valid.

The Central Bank may advance loans to deposit institutions on conditions where the principal amount of the loan is denominated in a specific foreign currency, the repayment of principal and interest is subject to changes in the exchange rate of a specific foreign currency or changes in the exchange rate of the Icelandic króna (ISK). If the principal amount is denominated in a specific foreign currency the deposit institution shall disburse the loan proceeds to its borrower in Icelandic krónur based on the buying rate of such foreign currency on the date of borrowing. The term foreign currency also refers to units of account which are based on more than one currency and are used in general lending transactions in the international market.

The Central Bank lays down further rules with respect to its transactions pursuant to this Article.

#### Article 8

In special circumstances the Central Bank may determine with the approval of the Minister that deposit institutions be obliged to maintain reserves on restricted account with the Bank equivalent to a specific percentage of the total funds on deposit with each institution or of its disposable funds.

For purposes of this Act the term disposable funds refers to all funds which an institution employs for lending. However, specific classes of loans may be exempted subject to the approval of the Minister. [The Central Bank of Iceland shall likewise have the same rules, or equivalent ones, apply to collective investment undertakings being in duty bound to purchase safe securities, Government Bonds in particular, as may be applicable.]1)

The Central Bank may determine that a specific portion of increases in deposit funds or disposable funds with each institution be placed as required reserves with the Bank, provided that the total reserves which the institution concerned is obliged to maintain with the Central Bank do not exceed the maximum stated in paragraph 1.

The Central Bank lays down further rules with respect to the basis and implementation of reserve requirements pursuant to paragraphs 1 and 2 of this Article, subject to the approval of the Minister.

[The Central Bank is furthermore authorized to impose upon deposit institutions stipulations as to the minimum or average of liquid assets which they must at all times have available. The term liquid assets refers to Icelandic cash in hand, unrestricted net bank deposits in Icelandic currency, total assets after deducting total liabilities subject to the rate-of-exchange of foreign currency, State drafts and other comparable assets.

The Central Bank is authorized to impose upon deposit institutions rules relating to their assets and liabilities subject to rate-of-exchange (foreign exchange balance) as well as relending balance with the aim that the deposit institutions concerned shall see to it that such assets be in balance so that the rate-of-exchange risk be at a minimum. The Central Bank may make deposit institutions subject to penalties in accordance with Article 41 in case the Bank's decisions in this respect be not abided by.]1)

- 1) Article 1 of Act No. 11/1989

#### Article 9

The Central Bank fixes the interest rates on deposits with the Bank and on credit advanced by the Bank.

[The Central Bank may upon approval by the Minister impose limits to the determination of interest rates by deposit institutions in order to ensure that real interest on loans from deposit institutions will be moderate and no higher than those generally prevailing in the major trading countries of Iceland, as well as to reduce any inordinate margin between deposit and lending rates of interest after having regard to other earnings of deposit institutions.

In case the Central Bank of Iceland has intervened concerning the rate of interest with deposit institutions on the basis of the present Article the Bank may for the duration of such intervention and upon approval by the Minister impose limits to the profit requirements and other remuneration for finances in the business of property leasing firms, securities companies and collective investment undertakings based on similar risk categories. The Central Bank will lay down further rules relating thereto.]1)

The decisions of the Central Bank pursuant to paragraph 2 shall be published in the Legal Gazette.

- 1) Article 2 of Act No. 11/1989

#### Article 10

The Central Bank shall act as bankers to the Treasury, undertaking for it any kind of banking services. Deposits of the Treasury shall to the extent possible be held with the Central Bank.

The Central Bank may advance short-term loans to the Treasury. Such loans shall be paid up within three months after the end of each fiscal year through borrowing or other acquisition of funds outside of the Central Bank. Treasury bills, bonds and other securities which are issued by the Treasury and are bought by the Central Bank in the securities market or from financial institutions in order to promote balance in the money market shall not count as loans to the Treasury for purposes of this Article.

#### Article 11

The Central Bank may buy and sell Government bonds and other sound securities, and the Bank shall endeavour to establish an organized market in securities. For this purpose the Bank may establish and operate in cooperation with deposit institutions and recognized securities brokers a stock exchange where business is transacted in securities. The Central Bank issues regulations for the stock exchange upon the approval of the Minister.

The Central Bank may enter into obligations domestically by the issue of securities on terms to the effect that the principal and/or interest be tied to the rate of exchange of foreign currencies. The tax treatment of such securities shall be in accordance with the same rules as each time apply with respect to deposits with commercial and savings banks.

#### Article 12

The Central Bank may engage in other banking activities which may be regarded as consistent with its function as a central bank. The Bank shall not engage in activities which are considered to be the appropriate function of deposit institutions according to law, custom or the nature of the case. The Bank therefore may not engage in business transactions with the public or compete with other deposit institutions for business. In the event of a dispute over the provisions of this Article, the Minister shall decide the issue.

### CHAPTER IV **Bank Inspection**

#### Article 13

The Central Bank shall supervise that deposit institutions conduct their activities in conformity with the laws, regulations and articles of association in force, and which are applicable to their activities.

This function shall be entrusted to a special department within the Bank to be known as the Bank Inspectorate which shall operate under the control of the Board of Governors and the Board of Directors. The Minister appoints the Head of the Bank Inspectorate, who shall be appointed for a period not longer than six years at a time. If the Head of the Bank Inspectorate is temporarily indisposed the Minister may, after obtaining the recommendations of the Board of Directors, assign a person to act in his place.

A special co-operation committee of the Ministry and the Central Bank shall supervise the activities of the Bank Inspectorate. The committee shall be composed of one representative of the Ministry, one Governor of the Central Bank and the Head of the Bank Inspectorate. The Minister appoints the Chairman of the Committee.

#### Article 14

The Bank Inspectorate shall inspect the books and accounts of deposit institutions and otherwise examine their finances and operations as often as considered necessary. Deposit institutions are obliged to grant the Bank Inspectorate access to all their books, minutes of meetings, documents, valuable assets and other records in possession of the institution which relate to their activity, and otherwise furnish such information as the Bank Inspectorate may consider necessary for purposes of supervision, in such manner and as often as requested.

#### Article 15

The Bank Inspectorate shall ascertain that loans and other obligations of customers towards a deposit institution are commensurate with the risk involved in the transaction in the light of the security for payment, the financial strength of the institution and the equity of the institution. The same applies to the aggregate obligations of more customers than one when these are financially related to such extent that their obligations toward the deposit institution must be weighed jointly from the point of view of credit risk.

#### Article 16



The Bank Inspectorate may demand that deposit institutions:

- a. submit regularly information on their financial status and operations in such manner and itemized to such degree as requested,
- b. furnish other information which it considers necessary for purposes of supervision.

#### Article 17

If it appears in the course of inspections of the Bank Inspectorate pursuant to the provisions of this Chapter that a deposit institution does not comply with laws and other rules which apply to its activities, the Bank Inspectorate shall demand that this be rectified within a specific time limit.

If the governing board of a deposit institution has neglected a duty which it is under pursuant to law, regulation or articles of association the Bank Inspectorate may summon a meeting of the board of the institution to deal with corrective measures. A representative of the Inspectorate shall attend the meeting with freedom of expression and motion and shall chair the meeting.

The Bank Inspectorate may submit recommendations if it considers the status or operations of a deposit institution to be unsound even though the provisions of paragraphs 1 and 2 may not apply.

If the demands or recommendations of the Bank Inspectorate for rectification are not observed, it may resort to sanctions against the deposit institution, cf. Article 41. The Bank Inspectorate also may then appoint its representative as an inspector over the institution concerned. The institution shall be obliged to grant the inspector access to all of its books, minutes of meetings, documents, valuable assets and other records in its possession and otherwise furnish such information as requested by the inspector. The inspector shall have a right to attend meetings of the governing board of the institution with freedom of expression and motion. The cost of the work of the inspector shall be borne by the deposit institution concerned.

Demands, recommendations and proposed actions of the Bank Inspectorate pursuant to this Article shall forthwith be brought to the notice of the Minister, the Board of Directors of the commercial bank concerned or the corporate Board of directors in the case of a deposit institution of another kind. The Central Bank shall also submit to the Ministry a report on the activities of the Bank Inspectorate not less than twice a year.

### CHAPTER V

#### *Exchange Rate Matters and Foreign Transactions*

#### Article 18

[The Central Bank determines, subject to the approval of the Government, how the value of the Icelandic króna in relation to foreign exchange shall be fixed. It is permissible to determine that the rate-of-exchange of the króna shall be defined in relation to a single foreign currency, the average of foreign currencies or a combined currency, such as the European Currency Unit (ECU) and Special Drawing Rights of the International Monetary Fund (SDR). A decision relating thereto shall be published by means of an announcement in the Government Gazette. It is also permissible to fix a specific maximum and minimum rate-of-exchange for the Icelandic króna in relation to the foreign exchange basis which has been selected. The Central Bank will buy and sell foreign exchange or apply other actions which it considers necessary thus to intervene in order that the rate-of-exchange of the króna be within the limits which may thus be decided.

The Central Bank shall during each day, when banking institutions are generally open for business, specially register, at the time of day it decides, the rate-of-exchange of the króna in relation to the principal currencies. This shall be used as a standard for official agreements, court cases and other agreements between parties when an alternative standard for a rate-of-exchange is not specified.

Under special circumstances the Central Bank may suspend own registration of the rate-of-exchange and restrict or stop transactions in an organised foreign exchange market.

The Central Bank is authorized to lay down further rules relating to registration of the rate-of-exchange and transactions in the foreign exchange market.]]

1) Article 3 of Act No.14/1992

Article 19

In addition to the Central Bank, the commercial banks, the savings banks [branches of foreign limited liability company banks]1) and the Loan Institute of the Savings Banks (Icebank Ltd.) have the right to deal in foreign exchange, within limits determined by the Central Bank upon the approval of the Minister. The Central Bank may, upon the approval of the Minister, permit the Postal Administration to deal in foreign exchange.

1) Article 4 of Act No. 14/1992

Article 20

The Central Bank is in charge of the implementation of payments agreements with other states as well as of transactions with international financial institutions as agent for the Government. The Bank shall advise the Government on all matters pertaining to foreign exchange, including foreign borrowing, and undertake the administration of affairs in this field as may be agreed.

Article 21

The Central Bank may raise loans abroad for purposes of maintaining and strengthening the foreign exchange reserves.

Furthermore, the Central Bank may raise loans abroad for the purpose of re-lending the proceeds within Iceland, provided such relending is guaranteed by the State Treasury.

Article 22

The Central Bank exercises control over the trade in foreign exchange and supervision of compliance with laws and rules respecting transactions in and disposal of foreign exchange. In this capacity the Central Bank is entitled to demand of individuals, concerns and institutions any information on matters relating to foreign exchange.

Further rules concerning the handling of foreign exchange and the implementation of foreign exchange control shall be laid down in Regulations to be issued by the Minister upon obtaining the recommendations of the Central Bank, in accordance with this Act and the Act on Administration of Foreign Exchange and Trade.

Article 23

The Central Bank is, on behalf of the State, a financial agent of the International Monetary Fund.

CHAPTER VI  
*Statistical Reports*

Article 24

The Central Bank compiles reports and prepares forecasts with respect to balance of payments, foreign exchange and monetary policy and to other matters pertaining to the functions of the Bank, and shall publish the fullest possible information on those subjects.

All those concerned are obliged to furnish to the Central Bank such information as it may require in connection with the compilation of statistical reports, and the Bank shall in this respect enjoy the same rights as the Statistics Iceland and the same penalties shall be applicable in the event of non-compliance.

CHAPTER VII

### **Administration of the Central Bank**

#### Article 25

The supervisory authority of the Central Bank is vested in the Minister of Commerce and a Board of Directors as provided in this Act. Otherwise the administration of the Bank is in the hands of a Board of Governors.

#### Article 26

The Board of Governors of the Central Bank consists of three Governors. The Governors elect a Chairman from among their number for a term of three years at a time.

The Minister appoints the Governors upon obtaining the recommendations of the Board of Directors. Governors shall be appointed for a term not longer than six years at a time.

In the event of the temporary absence of a Governor the Minister may nominate an acting Governor upon obtaining the recommendations of the Board of Directors.

#### Article 27

The Board of Governors is responsible for the operation of the Central Bank and has executive authority in all affairs of the Bank which are not entrusted to others according to this Act.

The Board of Governors holds meetings as often as is considered necessary and whenever any of the Governors may so desire.

The signatures of two Governors are required to commit the Bank. The Board of Directors may, however, grant powers to specific employees of the Bank for committing the Bank by their signatures in specific matters. Further provisions on powers of commitment shall be laid down in Regulations.

#### Article 28

The Board of Directors shall determine the salaries and other terms of appointment of Governors of the Bank. Upon the termination of their duty, Governors shall receive a suspensive salary for a period of twelve months, equal to the regular salary appertaining to their office. If a Governor has qualified for a pension the payment of a suspensive salary shall not apply. If a Governor accedes to another office during the period of suspensive salary the payment of suspensive salary shall discontinue if the office provides an equal or higher salary, while otherwise the difference in salary shall be payable to the end of the suspensive salary period. The Board of Directors shall determine the pension of Governors of the Bank.

Governors and Executive Directors of the Bank may not hold directorships in institutions or business concerns outside of the Bank or participate in business operations in other respects except where this is provided for by law or where the Bank is a party to the institution or concern in question.

#### Article 29

Having received the opinion of the Board of Directors the Minister may dismiss a Governor. The letter of dismissal shall specify the grounds for dismissal. The Governor shall be entitled to full salary for one to three years, although not longer than to the end of his term of appointment, and to a pension as further determined by the Board of Directors. In the event of a Governor resigning from office before the end of his term, he shall receive regular salary for up to twelve months and a pension as determined by the Board of Directors.

The Minister may dismiss a Governor without notice and without special payment of salary if he has committed an offence while in office.

#### Article 30

The Board of Directors of the Central Bank consists of five members elected by the Althingi by proportional ballot for a term of four years at a time, together with an equal number of

Alternates. The Minister appoints one of the elected Directors as Chairman of the Board of Directors for a term of four years and a second Director as Vice-Chairman.

The Minister determines the fees of the Board of Directors.

#### Article 31

The Board of Directors superintends the activities of the Central Bank, and the Board of Governors shall consult closely with the Board of Directors on the general policy of the Bank and seek its opinion on decisions in important matters of consequence to the policy of the Bank, such as decisions pursuant to Article 8 and paragraph 2 of Article 9. Furthermore, the Board of Governors shall furnish the Board of Directors with regular reports on the activities of the Bank and the development of foreign exchange and monetary matters.

The Board of Directors submits proposals concerning the Regulations of the Central Bank and letters of instruction for the Governors to be issued by the Minister.

The Board of Directors holds meetings as necessary, but usually not less than fortnightly. The Chairman of the Board of Directors prepares meetings of the Board of Directors together with the Board of Governors. The Governors attend meetings of the Board of Directors and participate in discussions, except when the Board of Directors otherwise decides.

The Board of Directors shall be responsible for the supervision of the Bank's assets, for taking decisions on operations and the appropriation of profit in so far as national law does not provide otherwise.

#### Article 32

In meetings of the Board of Directors three members constitute a quorum. Issues are decided by majority of vote.

#### Article 33

[A special Auditing Department shall operate within the Bank under the supervision of the Board of Directors. In addition thereto, auditing within the Central Bank of Iceland shall be undertaken by the National Audit Bureau and an auditor appointed by the Minister for a term of four years at a time and he shall be a State Authorized Public Accountant.]1)

1) Article 3 of Act No. 11/1989

#### Article 34

The Board of Directors engages and dismisses the Head of the Auditing Department of the Central Bank. The salary and other terms of employment of this officer shall be determined by the Board of Directors.

The Board of Governors engages and dismisses all other employees of the Bank. The appointment of Executive Directors is, however, subject to the approval of the Board of Directors.

### CHAPTER VIII

#### *Accounting*

#### Article 35

The fiscal year of the Central Bank is the calendar year. Annual accounts shall be prepared for each fiscal year and shall be completed as early as possible.

The preparation of the annual accounts shall be in accordance with the law and with recognized accounting principles, both as regards the structure of the accounts, the evaluation of the various items and other respects.

The Minister shall lay down further rules on the accounting and preparation of the annual accounts upon receiving the recommendations of the Board of Directors.

Article 36

Upon completion of the annual accounts of the Bank they shall be signed by the Board of Governors and confirmed by the Board of Directors. If a Director has any comments to make on the annual accounts they shall be signed with a reservation specifying the nature of the reservation.

The audited account shall be submitted to the Minister for ratification not less than four months after the end of the fiscal year.

The annual accounts shall be published in the Government Gazette and in the Annual Report of the Central Bank. A monthly balance sheet shall also be published in the Legal Gazette.

Article 37

In each year one-half of the average net profit of the three previous years, after deduction for allocation to dividend fund pursuant to paragraph 2, shall be paid out to the Treasury. In the calculation hereof the profit of the prior two years shall be revalued to correspond with the price level of the third year. The payment shall be rendered on 1 June of each year.

In each year an allocation shall be made to a dividend fund of not less than the equivalent of 40 million krónur based on the price level at the end of the year 1984. The dividend fund shall be maintained at the best available terms as to interest and value maintenance, while one-half of the annual income of the fund shall accrue to the Icelandic Science Fund, cf. the Act on the Science Foundation of Iceland.

CHAPTER IX

*Miscellaneous Provisions*

Article 38

Members of the Board of Directors, Governors, and all employees of the Central Bank are bound to secrecy concerning the affairs of customers of the Bank, the affairs of the Bank itself and other matters of which they gain knowledge in their occupation and which should be kept secret according to law, instructions of superiors, or the nature of the case, except where a judge may decree that information must be provided in court or to the police or there is a duty to provide information according to law.

The duty to secrecy shall prevail even though employment may cease.

Notwithstanding the provisions of paragraph 1, the Central Bank may engage in exchanges of information with other banks and public institutions abroad relating to the examination or assessment of the financial soundness of deposit institutions and public agencies in this country and abroad, according to rules to be laid down by the Minister by Regulations.

Article 39

The Bank is exempt from income tax and property tax, cf. the Act on Income Tax and Property Tax.

The books of the Bank, drafts and obligations of any kind issued by the Central Bank and in its name, as well as obligations giving the Bank title to a pledge, coupons of bonds of the Bank and transfers thereof shall be exempt from stamp duty.

CHAPTER X

*Entry into Force*

Article 40

This Act shall take effect on 1 November 1986.

The provisions of Chapter VIII on accounting shall apply to the fiscal year 1985. The provisions of paragraph 2 of Article 26 and paragraph 2 of Article 28 shall apply only to those who are appointed as Governors after the entry into force of this Act. The provisions of paragraph 1 of Article 28 shall not reduce the pension rights of those who hold the office of Governor as their regular principal occupation upon the entry into force of this Act.

#### Article 41

By Regulations to be issued by the Minister upon obtaining the recommendations of the Board of Directors, further provisions shall be laid down respecting the activities of the Bank in accordance with this Act, including provisions for sanctions in the form of per-diem penalties and punitive interest for failure to comply with decisions of the Bank. [Collected penalties under the present Article shall accrue three-quarters to the Treasury and shall be paid on 1 June each year in respect of the immediate past year.]1)

- 1) Article 4 of Act No. 11/1989

#### Article 42

Upon the entry into force of this Act, the following enactments and legislative provisions shall be repealed:

- a. Act No. 10/1961, on the Central Bank of Iceland,
- b. Act No. 20/1962, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- c. Act No. 10/1964, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- d. Act No. 103/1973, on Amendment to the Act No. 20/1962 on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- e. Act No. 114/1978, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland, cf. Article 3 of the Act No. 10/1964,
- f. Act No. 36/1983, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- g. the provisions of Articles 30-33 and 37 and of subparagraph 3 of paragraph 1 of Article 39 of the Act No. 13/1979, on Administration of Economic Affairs etc.,
- h. the provisions of Articles 2 and 3 of the Act No. 10/1981, on Measures to Curb Inflation,
- i. the provisions of Article 5 of the Act No. 12/1981, on Pricing Restraints, Reduction of Goods Charge and Reserve Requirements for Deposit Institutions,
- j. the provisions of Article 26 of the Act No. 43/1984, on Measures in Fiscal, Monetary and Credit Affairs in 1984.

### Interim Provisions

#### I.

Upon the entry into force of this Act, the Althingi shall elect five members of the Board of Directors of the Central Bank together with alternates of equal number. As from the same date the mandate of the members then sitting on the Board shall expire.

#### II.

Upon the entry into force of this Act, the Althingi shall elect two auditors of the Central Bank.

#### III.

The provisions of Article 37 on the allocation of net profit of the Central Bank to the Treasury shall initially apply in respect of the operating year of 1985.

#### IV.

The Central Bank shall determine the maximum, permissible rate for penalty interest pursuant to Article 5 of the Act No. 58/1960, on Prohibition of Usury, Penalty Interest etc., until specific legislation on penalty interest etc. has been enacted.

#### V.

The determination of the payment of profit of the Central Bank to the Treasury in the year 1986, cf. Article 37, shall be made with reference to one-half of the average net profit of the Bank for the years 1985 and 1984, with the profit of the year 1984 being revalued to correspond with the price level of 1985.

#### VI.

[Three quarters of collected penalties under Article 41 which were levied during 1988 shall be paid to the State Treasury on 1 June 1989.]1)

1) Article 5 of Act No. 11/1989

Done in Reykjavík, 5 May 1986.

Vigdís Finnbogadóttir  
(L.S.)

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Matthías Bjarnason.

**ACT**  
**on Commercial Banks and Savings Banks**  
**No. 113 of 12 July 1996**

THE PRESIDENT OF ICELAND

*makes known:* That I, in accordance with Article 26 of Act No. 39/1996, have had the body of that Act incorporated in Act No. 43/1993 on Commercial Banks and Savings Banks and hereby issue it thus amended:

CHAPTER I  
*General Provisions*

Article 1

This Act shall apply to commercial banks owned by the State, hereinafter referred to as state commercial banks, commercial banks operated by limited companies, hereinafter referred to as limited liability company banks, and savings banks.

Article 2

Unless otherwise prescribed by law, commercial banks and savings banks may only engage in commercial banking and savings bank activities as defined in Chapter V of this Act.

Article 3

Unless otherwise prescribed by law, it shall be obligatory for commercial banks and savings banks to use in their firms' names, or, as a further explanation of their operations the words "bank" or "savings bank", either individually or in a compound with other words, and these shall be the only institutions authorized to do so, cf., however, Article 83, paragraph 5.

A commercial bank may not name its operations in such a way as to make it possible to believe that the Central Bank of Iceland is referred to.

CHAPTER II  
*Establishment, Operating Licences, etc.*

Article 4

A commercial bank or savings bank may not begin operations without having received an operating licence from the Minister of Commerce. The registration of a limited liability company bank in the Company Register does not automatically confer the right to begin such operations.

Applications for operating licences shall be made in writing. They shall be accompanied by a programme of operations setting out, inter alia, the types of business envisaged and the organizational structure of the company bank or savings bank. They shall also be accompanied by information concerning the founders, the share capital or guarantee capital, the shareholders or guarantee capital owners and the size of the holding of each, and such other information and materials as may be determined by the Minister of Commerce. Applications for operating licences shall be accompanied by the articles of association of the limited liability company bank or savings bank.

In addition to the particulars referred to in paragraph 2, the application shall be accompanied by information on the close links between the institution and any natural or legal persons. "Close links" shall mean a situation in which two or more natural or legal persons are linked by



ownership, direct or indirect, of 20% or more of the capital or the voting rights of an undertaking. It shall also be regarded as constituting a close link if the above-mentioned bodies, or their subsidiaries, have a dominant influence over an undertaking (a commercial bank or a savings bank) or a similar relationship between any legal or natural person and an undertaking.

Before processing an application for an operating licence, the Minister shall seek the comments of the Bank Inspectorate of the Central Bank of Iceland.

Decision on an application for an operating licence shall always be made within three months of the Minister's receipt of the complete application, cf. the provisions of Chapter III.

Announcements of the granting of operating licences for commercial banks and savings banks shall be published in the Government Gazette.

#### Article 5

Only natural and legal persons resident in Iceland may be the founders of a commercial bank or savings bank, cf., however, Article 8.

Citizens and legal persons of other states within the European Economic Area shall be exempt from the residence requirement of paragraph 1. The Minister may grant citizens of other states the same exemption.

Any commercial bank or a savings bank applying for an operating licence in accordance with Article 4 shall have its headquarters in Iceland.

#### Article 6

No commercial bank or savings bank may be established with share capital or guarantee capital lower than ISK 400 million, and the share capital or guarantee capital may at no time be less than this sum. This sum shall be linked to the exchange rate of the European Currency Unit (ECU), based on the buying rate of the ECU on the date of issue of this Act.

The Minister may waive the minimum requirements of paragraph 1 concerning the guarantee capital of a savings bank after receiving the proposals of the Bank Inspectorate and the Savings Banks' Deposit Guarantee Fund. However, guarantee capital may at no time be less than ISK 80 million, and shall be linked to the exchange rate of the ECU as specified in paragraph 1.

No commercial bank or savings bank may begin operations until its share capital or guarantee capital has been paid up in full in cash.

#### Article 7

Commercial banks or savings banks operating at the time that this Act takes effect with own funds lower than the share capital or guarantee capital prescribed in Article 6, paragraph 1 or 2, may continue their operations provided that their own funds do not drop below the level to which they amounted when this Act took effect. If own funds drop below the aforementioned limit, the Bank Inspectorate may grant the institution concerned a reasonable period in which to rectify the situation. If the institution does not meet the own funds requirement at the end of the period, its operating licence shall be revoked in accordance with the provisions of Chapter XIII.

If new parties take over the operations of a commercial bank or savings bank operating under paragraph 1, the institution's own funds shall reach the minimum level specified in Article 6, paragraph 1 or 2, within three months of the takeover.

### *A. State Commercial Banks*

#### Article 8

State commercial banks shall be independent institutions subject to separate management under this Act. They may only be established in accordance with special Acts of the Althing.

The domicile and venue of state commercial banks shall be in Reykjavík unless other provision is made in law.

The Treasury shall be responsible for all obligations contracted by state commercial banks. State commercial banks may not take subordinated loans in excess of those which the Commercial

Banks' Deposit Guarantee Fund may grant in order to strengthen their capital position, cf. Article 75 of this Act, without the approval of the Althingi.

Further provisions may be made concerning the operations of state commercial banks through the issue of regulations.

### *B. Limited Liability Company Banks*

#### Article 9

Only limited liability companies may operate commercial banks other than state commercial banks. Unless otherwise specified in this Act, the Limited Companies Act shall apply to limited liability company banks.

#### Article 10

No restrictions may be imposed on dealings in shares in limited liability company banks, cf., however, Article 100.

The articles of association shall specify the voting rights accompanying shares in limited liability company banks and how these are to be exercised. It shall not be permitted to grant particular shares an additional vote weighting in the articles of association or to group shares into special categories in any other way.

Those shareholders who own or propose to acquire a qualifying holding in a commercial bank shall notify the Bank Inspectorate of this in advance. "An active shareholding" means a direct or indirect shareholding amounting to 10% or more of own funds or the voting rights, or another shareholding which makes it possible to exercise substantial influence on the management of the institution involved. The person concerned shall also notify the Bank Inspectorate if he proposes to increase his shareholding by such an extent that his share in the limited liability company bank, or his corresponding voting rights, amounts to 20%, 33% or 50% or to such a large share that the limited liability company bank can be regarded as his subsidiary company.

The Minister may, having received the proposal of the Bank Inspectorate, refuse a shareholder the right to acquire a share or the right to exercise a vote under paragraph 3 if he considers the person concerned incompetent in terms of the sound and prudent management of the institution involved. The Minister's refusal, supported by reasons, shall reach the person concerned within three months from the date when the notification under paragraph 3 is received by the Bank Inspectorate.

In the case of an increase of a shareholding under paragraph 3, the Minister may determine a period of notice by which it shall be effected, providing that the increase has not been rejected.

If a shareholder who owns 10% or more of the share capital in a limited liability company bank proposes to reduce his shareholding, he shall notify the Bank Inspectorate of this in advance, also stating how large his shareholding will be. If his shareholding falls below 20%, 33% or 50%, or so far that the bank ceases to be the subsidiary company of the person concerned, cf. paragraph 3, notification shall also be given of this fact.

#### Article 11

On receipt of notification of the purchase or change of ownership of shares in a limited liability company bank which result in a shareholding exceeding or falling below the limits stated in Article 10, paragraphs 3, 4, or 5, the board of directors or management board shall inform the Bank Inspectorate of this without unnecessary delay.

At least once a year, every limited liability company bank shall inform the Bank Inspectorate of those shareholders who own 10% or more of the bank's share capital, and of the size of the shareholding of each.

#### Article 12

If a party who owns a share in a limited liability company bank of the size referred to in Article 10, paragraph 3, exploits his share in such a way as to interfere with the sound and prudent management of the bank, the Minister may, having received the proposals of the Bank

Inspectorate, decide that this share shall not be accompanied by voting rights or require the bank involved to take appropriate measures.

The Minister may, having received the proposals of the Bank Inspectorate, decide that shareholdings of which advance notice has not been given under Article 10, paragraph 3, shall not be accompanied by voting rights. If the Minister does not refuse the person concerned the right to acquire such a share or increase it under Article 10, paragraphs 4 and 5, these shares shall again acquire voting rights.

If the Minister decides under paragraph 1 or 2 that shares are not to be accompanied by voting rights, these shares shall not be included in calculations of the proportion of votes represented at shareholders' meetings.

#### Article 13

Commercial banks may not own or accept as collateral more than 10% of their own share capital. Should such an institution acquire a larger proportion of its share capital, e.g. through purchase or by other assignment, it shall sell shares so as to comply with the legally specified limit within three months.

#### Article 14

Articles 10-12 shall also apply, where appropriate, to savings banks.

### *C. Savings Banks*

#### Article 15

There shall be no fewer than 30 guarantee capital owners in a savings bank.

Each guarantee capital owner shall have one vote at the initial meeting of a savings bank. The initial meeting shall establish the articles of association for the savings bank. These shall contain provisions applying particularly to the savings bank involved, e.g.:

1. the name of the savings bank,
2. its domicile and venue,
3. the total amount of its guarantee capital, its division into guarantee capital holdings and voting rights,
4. rules regarding change of ownership of guarantee capital holdings and the raising of guarantee capital,
5. the election of the board of directors of the savings bank, and its functions,
6. amendments to the articles of association, and
7. the dissolution of the savings bank and the disposition of its own funds in the event of dissolution.

A decision regarding the amendment of the articles of association of a savings bank shall only be valid if it receives the approval of 2/3 of the votes cast, and also the approval of the guarantee capital owners who control at least 2/3 of the guarantee capital which is represented by votes at a meeting of the guarantee capital owners.

In cases where the operation of a savings bank is restricted to a specific geographical area, the guarantee capital owners shall be resident in, or operate a business or other enterprise in that area, cf., however, Article 5, paragraph 2.

#### Article 16

Guarantee capital certificates shall be issued representing the registered guarantee capital holdings, and these shall be signed by the board of the savings bank. They may not be handed over until each holding is fully paid up. Guarantee capital certificates shall be registered in the name of the owner, and any assignment of them to a bearer shall not be valid from the point of view of the savings bank. The following shall be set forth in the guarantee capital certificates:

1. the name and address of the savings bank,
2. the number and nominal value of the holding,

3. the name, address and ID No. of the guarantee capital owner,
4. the date of issue of the guarantee capital certificate,
5. the text of Articles 18 and 20-21 of this Act, and
6. special matters concerning the rights and obligations of the guarantee capital owners.

A register of the guarantee capital owners shall be kept, to which they shall all have access.

#### Article 17

Guarantee capital owners shall not be liable for the savings bank's commitments beyond the extent of their guarantee capital.

Guarantee capital owners shall not have the right to a share of the profits arising from the savings bank's operational surplus in excess of the amount stipulated in this Act.

Guarantee capital owners shall only receive dividend on their paid-up guarantee capital.

Guarantee capital shall not be refunded to guarantee capital owners except under Article 70.

#### Article 18

The sale or other assignment of guarantee capital in a savings bank shall not be permitted without the approval of the board of the savings bank. The hypothecation of a guarantee capital certificate in a savings bank shall not be permitted.

#### Article 19

Savings banks may not own more than 10% of their own guarantee capital. Should a savings bank acquire a larger proportion of its guarantee capital as a result of the provisions of Articles 20 or 21, it shall sell a guarantee capital holding so as to comply with the legally specified limit within three months.

#### Article 20

The board of a savings bank may redeem a guarantee capital holding in the savings bank under the following circumstances:

1. in the event of the death of a guarantee capital owner,
2. in the event of change of ownership of a guarantee capital holding when a married couple divide their joint financial affairs, and
3. when a guarantee capital owner moves out of the operational area of the savings bank.

The board of a savings bank shall be obliged to redeem a guarantee capital holding in the following cases:

1. when an institution which owns a guarantee capital holding is dissolved or abolished,
2. when the estate of a guarantee capital owner is wound up due to bankruptcy, and
3. in the event of attachment of a guarantee capital owner's guarantee capital holding.

#### Article 21

If a savings bank refuses to grant authorization for the sale of a guarantee capital holding, cf. Article 18, or does not exercise its authority to redeem it, cf. Article 20, paragraph 1, it shall then, if requested, act as an intermediary in the sale of the holding or redeem it within one year from the receipt of a written request for the sale or redemption, cf., however, Article 19.

If a guarantee capital holding is redeemed, it shall be redeemed at its nominal value plus the unutilized authorization for the revaluation of guarantee capital, cf. Article 23.

#### Article 22

A guarantee capital owners' meeting may decide to raise the guarantee capital of a savings bank which is in operation, and set rules for the subscription of new guarantee capital holdings in accordance with the provisions of the articles of association.

The price to be paid by a new guarantee capital owner for a holding shall be the nominal value plus the unutilized authorization for the revaluation of guarantee capital, cf. Article 23.

#### Article 23

From the beginning of 1993, savings banks may revalue their guarantee capital and make payments into the guarantee capital accounts of the guarantee capital owners. When this revaluation is made, the following factors shall be taken into account:

1. changes in price levels since 1 January 1992, as measured by the Credit Terms Index, and
2. the savings bank's capital position.

New guarantee capital shall qualify for proportional revaluation in accordance with the date of payment within the year in which it was paid in.

### CHAPTER III

#### *Rejection of Applications for Operating Licences*

#### Article 24

If a commercial bank or savings bank, as appropriate, does not meet the conditions stated in Article 4, paragraph 2, regarding the form of an application, in Article 5 regarding the founders, in Article 6 regarding guarantee capital, in Article 8 regarding the establishment of state commercial banks, in Article 9 regarding the establishment of limited liability company banks, in Article 10, paragraphs 1-3, regarding shares in limited liability company banks, in Article 15, paragraph 2, regarding the establishment of savings banks and in Article 38 regarding the management of commercial banks or savings banks, its application for an operating licence shall be rejected.

#### Article 25

The Minister may, having received the proposals of the Bank Inspectorate, reject an application for an operating licence if the holding of a shareholder in a limited liability company bank or of a guarantee capital owner in a savings bank under Article 10 is considered incompatible with the normal running of the institution involved.

The Minister may reject an application for an operating licence if the close links of a commercial bank or a savings bank with any natural or legal persons might, in the opinion of the Bank Inspectorate, prevent the regular exercise of the Inspectorate's supervisory functions. This is also the case if laws and rules applying to such natural or legal persons prevent regular supervision.

#### Article 26

The Minister's rejection of an application shall be supported by arguments and sent to the applicant in writing.

### CHAPTER IV

#### *Management*

##### *A. State Commercial Banks*

#### Article 27

The supreme authority over a state commercial bank shall be in the hands of the Minister of Commerce and the board of directors of the bank as stipulated in this Act.

The board of directors of a state commercial bank shall consist of five persons elected by the Althingi in a proportional election for a term of four years, with the same number of alternates. The Minister shall appoint the chairman of the board for a term of four years from among the principals elected, and appoint another as the vice-chairman. The board of directors' mandate shall remain valid until a new board has been elected.

The Minister shall determine the remuneration due to the directors and their alternates.

#### Article 28

The Minister may at any time demand information from the board of directors concerning the running and financial position of the state commercial bank involved.

#### Article 29

The management board of a state commercial bank shall consist of three bank managers, who shall not be engaged for terms longer than six years. If a bank manager commits an offense in the course of his work, the board of directors may dismiss him without notice and without pay. The board of directors shall explain the reasons for dismissal in writing.

Applications shall be invited for bank managers' positions by public advertisement with reasonable notice.

### *B. Limited Liability Company Banks*

#### Article 30

Supreme authority in matters concerning limited liability company banks shall rest with shareholders' meetings as determined by law and the articles of association of each bank.

#### Article 31

The board of a limited liability company bank shall be known as the bank's board of directors. The board of directors shall be in charge of the affairs of the limited liability company bank between shareholders' meetings.

The board of directors of a limited liability company bank shall consist of at least five persons, with the same number of alternates. The board shall be elected by the shareholders at the annual general meeting.

### *C. Savings Banks*

#### Article 32

Supreme authority in matters concerning savings banks shall rest with guarantee capital owners' meetings as determined by law and the articles of association of each savings bank. The board of each savings bank shall be in charge of its affairs between these meetings.

Annual general meetings shall be held in accordance with the articles of association, but not less often than once each year and never later than nine months after the end of the financial year.

Extraordinary meetings shall be held if guarantee capital owners who represent at least 1/3 of the guarantee capital demand a meeting in writing, stating the matters to be discussed.

In other cases, extraordinary meetings shall be held when considered necessary by the board of the savings bank.

#### Article 33

Guarantee capital owners' meetings shall be called in the manner stated in the articles of association, though with a minimum of ten days' notice. The agenda shall accompany notice of meetings. Guarantee capital owners shall not be permitted to delegate power of proxy to others at these meetings unless this is permitted in the savings bank's articles of association.

A majority of the votes, as specified in Article 35, shall determine issues at meetings except where other provisions are made in this Act.

Every guarantee capital owner shall have the right to have any particular matter dealt with at a guarantee capital owners' meeting if he makes a written request to this effect to the savings bank's board with sufficient notice to have the matter included in the meeting's agenda.

#### Article 34

The following matters shall *inter alia* be on the agenda of the annual general meeting:

1. the directors' report on operations during the past operational year,

2. the approval of the audited annual accounts and the disposition of profits, after the recommendations of the savings bank's board have been made known, cf. Article 59,
3. the election of the savings bank's board, cf. Article 36, and the appointment of auditors, cf. Article 60,
4. remuneration to the directors and the auditors, after the recommendations of the savings bank's board have been made known,
5. amendments to the savings bank's articles of association, and
6. other matters which are required under this Act to be discussed at the annual general meeting, or which the board of the savings bank decides to present to the meeting.

#### Article 35

Guarantee capital owners shall own equal holdings unless the articles of association permit some other arrangement.

Guarantee capital owners shall have equal voting rights unless the savings bank's articles of association permit some other arrangement. At no time, however, shall individual guarantee capital owners be permitted to exercise votes, on their own behalf or that of others, amounting to more than 5% of the total number of votes in the savings bank, cf., however, Article 98 in cases where a local authority is the sole guarantee capital owner.

It shall not be permitted to exercise votes in respect of the guarantee capital certificates owned by the savings bank itself, cf. Article 19.

The words "total number of votes in a savings bank" in this Act refer to the total number of votes less those which represent the guarantee capital certificates owned by the savings bank itself.

#### Article 36

The board of directors of a savings bank shall consist of five persons. The guarantee capital owners shall elect three members of the board, and the local authorities or regional committees involved shall nominate two members of the board according to further provisions in the savings bank's articles of association. If local authorities are the sole guarantee capital owners, the local authorities involved, or their representatives, shall elect the entire board in accordance with the savings bank's articles of association. The board shall elect a chairman from among its members. Alternates (the same number as there are principals) may be elected according to the same rules as apply to the election of the principals. The board shall be elected by proportional representation if this is requested.

If there are more than 150 guarantee capital owners in a savings bank, it may be stated in the savings bank's articles of association that the annual general meeting shall elect a representative council consisting of at least 21 representatives. The representative council shall be elected for a term of three years, one third of its members being elected each year except the first. The representative council shall elect the savings bank's board according to the rules in paragraph 1 where applicable.

Members of the board who are not elected by guarantee capital owners attend annual general meetings and extraordinary meetings without voting rights.

Board members' mandates shall be valid for the period specified in the articles of association. At the latest, their term shall be completed at the end of the annual general meeting held four years after their election.

#### Article 37

If two or more savings banks merge, it may be stated in the articles of association that the savings bank's board is to be elected by a special representative council by proportional representation.

The representative council shall be composed as follows:

1. 3/5 appointed by the guarantee capital owners in the savings banks involved, as agreed between them,

2. 2/5 appointed by the local authorities or regional committees involved, provided that local authorities or county councils have previously elected members of the boards of the savings banks.

When savings banks merge, it may be stated in the articles of association that local boards of three to five members, elected under Article 36, shall be active in the operational areas of the savings banks applying prior to the merger. The savings bank's board shall send letters of instruction to the local boards further defining their sphere of operations; these shall be approved by a meeting of guarantee capital owners.

#### *D. Common Provisions*

##### Article 38

The managers of commercial banks and savings banks shall be resident in Iceland, be competent to manage their financial affairs, have an unblemished reputation and may not at any time have been deprived of the right to manage their own estate.

In addition to meeting the requirements of paragraph 1, the managers of banks and savings banks shall have educational qualifications and working experience of such a type as will ensure that they are able to discharge their duties in a responsible manner.

Directors of banks and savings banks shall also meet the requirements of paragraph 1. However, citizens of other states within the European Economic Area shall be exempt from the residence requirement. The Minister may grant citizens of other states the same exemption.

Bank managers and savings bank managers shall not be permitted to sit on the board of a bank or savings bank.

##### Article 39

The board of directors of a bank or savings bank shall be in charge of the operations of the commercial bank or savings bank in accordance with this Act, regulations or the articles of association. The board of a bank or savings bank shall also be in charge of general supervision of the running of the institution concerned. The board of a bank or savings bank shall *inter alia* attend to the following matters:

1. engaging bank or savings bank managers, deciding their salaries, terms of employment and division of responsibilities according to a special letter of instruction which shall be valid for a specified period,
2. engaging the manager of the auditing department, cf. Article 62, paragraph 7,
3. confirming the appointment of deputy bank or savings bank managers in accordance with the proposals of the bank or savings bank managers,
4. confirming the proposals of the bank's management board or the savings bank's manager concerning the main elements in the administration of the institution concerned,
5. defining policy as regards interest rates and service charges and setting general rules regarding the granting of loans and guarantee by the institution, in each case after receiving the comments of the bank or savings bank manager,
6. issuing directives (after receiving the proposals of the bank or savings bank manager) on reporting annually to the bank's or savings bank's board on loans and guarantees granted to natural and legal persons which, directly or indirectly, through their holdings or in another way, have substantial influence on the measures taken by the institution involved or are under the direction of natural or legal persons who have such influence,
7. deciding which employees, besides the bank or savings bank manager, are to have the authority to bind the institution involved, and to set rules regarding this,
8. deciding who is to represent the commercial bank or savings bank on the board of any institution or business concern, unless other arrangements are made in law,
9. deciding on the allocation of revenue surpluses to a reserve fund or other funds of a state commercial bank, or making proposals on these matters to a shareholders' meeting or



- annual general meeting of a limited liability company bank or the annual general meeting of a savings bank,
10. deciding on the establishment or closure of branches,
  11. deciding on the building, purchase, sale and mortgaging of the institution's property,
  12. deciding on the purchase and sale of shares and other shareholdings in companies or institutions of which the commercial bank or savings bank is a member, and
  13. deciding on the merger of the relevant institution with other commercial banks or savings banks, cf. Articles 72 and 74.

The proposals of the bank or savings bank manager shall be sought before decisions are taken under subparagraphs 7-13 of paragraph 1.

The boards of directors of banks and savings banks shall also discuss other matters which they are obliged to attend to under this Act, regulations or the articles of association of the institution concerned, and also matters which are referred to them by the bank managers or savings bank managers.

#### Article 40

The boards of directors of banks and savings banks shall hold meetings as necessary or according to the provisions of regulations or their articles of association. Meetings of the board of directors of a bank or savings bank shall always be held if one or more directors of the bank or savings bank so desires or if the bank or savings bank manager considers it necessary. Bank and savings bank managers shall attend meetings of the boards of directors of banks or savings banks and participate in discussions unless the board of the bank or savings bank decides otherwise.

Meetings shall be valid if the majority of the directors of the bank or savings bank are present. Issues shall be determined by a simple majority of votes. If the votes are evenly divided, the chairman shall have a casting vote. Business transacted at meetings shall be recorded in a minutes book and the minutes shall be approved in the manner decided by the board of the bank or savings bank.

Directors of banks or savings banks or their alternates shall not participate in the treatment of cases concerning their own business or that of companies in which they are shareholders or board members, in which they are managers or in which they have substantial interests in some other form. The same shall apply as regards the participation of bank or savings bank directors in the handling of cases concerning persons who are connected with them, either personally or financially.

Bank and savings bank directors, their alternates, the auditors and other employees may not act as agents for other parties in dealing with the institution concerned.

#### Article 41

Bank managers and savings bank managers shall bear responsibility for the day-to-day running of the institutions concerned and shall have the power to take decisions in all their affairs which are not entrusted to others under this Act. They shall be obliged to ensure that all aspects of operations conform with this Act, regulations or the articles of association and the decisions of the bank's or savings bank's board of directors.

#### Article 42

Bank and savings bank managers may not, without the permission of the board of the bank or savings bank, sit on the board of directors of institutions and business enterprises other than the commercial bank or savings bank or participate in other business enterprises unless other provisions are made in law or the institution or business enterprise concerned is one in which the relevant bank or savings bank is involved.

Authorization for other employees to participate in business operations under paragraph 1 shall be subject to the rules set by the board of directors of the bank or savings bank after receiving the proposals of the bank manager or savings bank manager.

#### Article 43

Bank directors, savings bank directors, bank managers and savings bank managers, auditors and other employees of commercial banks and savings banks shall be obliged not to divulge any information concerning the personal circumstances of the clients of the relevant institution and other matters of which they become aware in the course of their work and which should be kept secret according to law or the nature of the case, unless a judge rules that the information must be supplied to a court or the police or there is a duty in law to provide this information. The obligation not to divulge information shall remain even after termination of employment.

### CHAPTER V

#### *Activities*

#### Article 44

The activities of commercial banks and savings banks consist of the custody and investment of money, the transfer of funds, trading in securities and other services normally connected with such transactions:

1. The acceptance of deposits and other repayable funds from the public.
2. Lending, including:
  - a. consumer credit,
  - b. mortgage credit,
  - c. factoring and the purchase of debt instruments, and
  - d. commercial loans.
3. Financial leasing.
4. Money transmission services.
5. Issuing and administering means of payment (e.g. credit cards, travellers cheques and bankers' drafts).
6. Guarantees and commitments.
7. Trading for own account or for account of customers in:
  - a. money market instruments (cheques, bills, other comparable instruments, etc.);
  - b. foreign exchange,
  - c. forward contracts and options,
  - d. exchange and interest rate instruments, and
  - e. transferable securities.
8. Participation in securities issues and the provision of services related to such issues.
9. Advice to undertakings on capital structure, industrial strategy and related questions and advice and services related to mergers and the purchase of undertakings.
10. Money broking.
11. Portfolio management and advice.
12. Safekeeping and administration of securities.
13. Credit reference services.
14. Safe custody services.

The Securities Transactions Act, where appropriate, shall apply to securities trading by commercial banks and savings banks.

Only commercial banks, savings banks and other institutions with special authorization in law may accept deposits from the public for safekeeping and investment.

Commercial banks and savings banks may engage in insurance activities through the establishment of subsidiaries.

Commercial banks and savings banks may also engage in activities other than those covered in paragraph 1 providing such accessory activities constitute a natural extension of the activities of commercial banks or savings banks. The permission of the Bank Inspectorate shall be required for the aforementioned activities, and the Bank Inspectorate shall also be able to determine that they shall be handled by a special company.

#### Article 45

Commercial banks and savings banks may take over possession of property without restriction in order to secure the payment of claims. Such property shall be sold as soon as is considered convenient by the management board of the bank or the savings bank manager.

Commercial banks and savings banks may engage temporarily in activities other than those covered in Article 44 if these are solely for the purpose of concluding dealings between companies and the commercial bank or savings bank, or constitute an element in the restructuring of the activities of the customers of these institutions. A report on these matters shall be sent to the Bank Inspectorate.

#### Article 46

Commercial banks and savings banks may not own, or accept as collateral, shares in individual companies which engage in activities other than those covered in Article 44 and constitute amounts greater than 15% of own funds of the relevant institution before taking into account the deduction according to Article 55, paragraph 4. The shareholding of the commercial bank or savings bank and the total commitment of the company towards the institution concerned shall be within the limits in the rules set by the Minister after receiving the proposals of the Bank Inspectorate concerning large exposures to individual customers or financially related parties.

The total amount of a qualifying holding, cf. the definition in Article 10, paragraph 3, may not be greater than 60% of the own funds of the commercial bank or savings bank before taking into account the deduction according to Article 55, paragraph 4. The book value of the total shareholdings acquired by the commercial bank or savings bank may not be greater than 100% of its own funds. Shareholdings to be deducted from calculations of own funds, and shareholdings in companies which form a group with commercial banks or savings banks, shall not be included in the calculation of the ratios according to paragraph 1 and the first and second sentences of this paragraph. A temporary shareholding of a commercial bank or savings bank under Article 45 shall not be included in calculations according to paragraph 1 and the second sentence of this paragraph.

Shareholdings of commercial banks or savings banks may exceed the ratios stated in paragraph 1 or in the first sentence of paragraph 2, providing that the sum by which they exceed them is deducted in the calculation of the own funds of the relevant institution. Should the shareholdings at the same time exceed the ratios stated in paragraph 1 and in the first sentence of paragraph 2 the greater of the excess amounts shall be deducted in the calculation of the own funds of the relevant institution.

Commercial banks and savings banks shall submit to the Bank Inspectorate an itemized statement of the shareholdings in other commercial banks or savings banks which they acquire or accept as collateral, cf., however, Article 18.

If a commercial bank or savings bank grants a loan for the purchase of its own shares or guarantee capital holdings for an amount greater than 5% of the total share capital or guarantee capital of the relevant institution, unequivocal guarantees shall be advanced for the loans which are in excess of the aforementioned ratio.

#### Article 47

Commercial banks and savings banks may not grant bank managers or savings bank managers loans or stand surety for them unless the arrangement has been approved by the board of directors of the bank or savings bank, has been recorded in the minutes of the board's meetings and is not in any way different from comparable assistance rendered to other customers. Bank and savings bank managers may not stand surety towards the relevant institution. This Article shall also apply to their spouses.

In other respects, dealings between the employees and the commercial banks and savings banks concerned shall be subject to rules set by the board of directors of the bank or savings bank after receiving the proposals of the managers of the bank or savings bank.

#### Article 48

Deposit accounts, custody accounts and safe deposit boxes shall be registered in the name of the customer together with his address and identification number. The same information shall also be obtained, where possible, when other business relations are instituted between the institution concerned and its customers.

#### Article 49

If a deposit certificate or a receipt for acceptance issued by a bank or savings bank for a pledge or for money deposited with the bank to meet contractual obligations is lost, the bank's or savings bank's board of directors may summons the bearer of the aforementioned documents to contact it within three months of the last publication of an advertisement which must be published three times in the Government Gazette.

If no one responds to the summons by the deadline, all rights against the commercial bank or savings bank under the deposit certificate or the acceptance receipt shall expire. Then, at the request of the person who received the previous deposit certificate or acceptance receipt from the institution concerned, the commercial bank or savings bank shall issue a new document for that person or another person who demonstrates that he derives his right from that person in a legal manner, the new document containing the same conditions as the former one.

#### Article 50

Deposit certificates issued by commercial banks or savings banks, cheques and obligations of all types issued in their names, obligations which grant them the right to a pledge, dividend coupons on their bonds and assignments shall be exempt from stamp duty.

Paragraph 1 shall also apply to other institutions covered by this Act.

#### Article 51

Commercial banks and savings banks may not own real estate, or shares in companies formed for the purpose of owning real estate, worth more than 20% of their own funds. However, real estate used by commercial banks or savings banks in connection with their operations, and real estate which the institution concerned has taken possession of in order to secure the payment of a claim under Article 45, paragraph 1, shall not be included in this calculation.

#### Article 52

In determining interest rates and service charges, commercial banks and savings banks may not confer with other deposit institutions. Savings banks may, however, delegate the Icebank Ltd., to give the savings bank guideline proposals on interest rates and service charges, providing that this does not infringe the provisions of the Competition Act, cf. Chapter IV of that Act.

### CHAPTER VI

#### *Liquid Assets and Own Funds*

#### Article 53

Commercial banks and savings banks shall at all times strive to have sufficient liquid assets available to be able to pay out withdrawals of deposit funds and other payments involved in the activities of the institutions concerned. "Liquid assets" refers to cash in funds, net demand deposits in domestic and foreign deposit institutions, Treasury bonds and other comparable net assets.

#### Article 54

The own funds of commercial banks and savings banks, as defined in paragraph 2, shall not at any time be less than 8% of risk-weighted base. The risk-weighted base of an institution shall be assessed in relation to total assets, off-balance sheet items, foreign-exchange risks and other market risks in accordance with further rules set by the Central Bank regarding the assessment of risk-weighted base for the calculation of the solvency ratio of commercial banks and savings banks. The own funds requirement under paragraph 1 shall also apply to consolidated accounts, cf. Article 66.

For the purpose of calculating the solvency ratio under paragraph 1, own funds shall consist of three parts, Own Funds Part A, Own Funds Part B and Own Funds Part C and the deductible items under Article 55. The following restrictions shall apply to individual Own Funds Parts:

1. Own Funds Part A shall constitute at least half of own funds prior to the deduction according to Article 55.
2. The maximum total amount of Own Funds Part B may be 50% of Own Funds Part A.
3. The maximum total amount of Own Funds Part C may be 50% of Own Funds Part A. Furthermore, the maximum total amount of Own Funds Part C may be 4.8% of the commercial bank's or savings bank's risk-weighted base due to items of the trading book subject to market risks and foreign-exchange risk.

Own Funds Part A shall consist of:

1. Paid-up share capital.
2. Reserve funds, share premium account and retained earnings, after deducting the loss for the year.
3. The revaluation account according to inflation accounting principles.
4. From Own Funds Part A shall be deducted the own shares, goodwill and other intangible assets, and also any foreseeable tax charge not accounted for which reduces the ability of the commercial bank or savings bank to cover loss.

Own Funds Part B shall consist of:

1. A subordinated loan which a commercial bank or a savings bank takes against the issue of special debt instruments which state that the repayment period of the loan is not less than five years and that in the event of the bankruptcy of the commercial bank or savings bank concerned, or its dissolution, repayment may be obtained following all claims against the commercial bank or savings bank other than the repayment of share capital or guarantee capital or comparable own funds of a state commercial bank. When five years of the loan period remain, the amount of the loan shall be scaled down by 20% for each of these remaining five years. In case of a loan which is to be paid off in instalments over the loan period the remaining payments at the end of each year shall be scaled down in a similar manner.
2. The revaluation account, other than the one in Own Funds Part A.

Own Funds Part C shall consist of a short-term subordinated loan which a commercial bank or a savings bank takes against the issue of special debt instruments which state that the repayment period of the loan is not less than two years and that in the event of the bankruptcy of the commercial bank or savings bank concerned, or its dissolution, repayment may be obtained following all claims against the commercial bank or savings bank other than the repayment of share capital or guarantee capital or comparable own funds of a state commercial bank. Furthermore, provisions may be made that payments may neither be made nor interests paid on the loan if the solvency ratio of the commercial bank or savings bank concerned goes below 8% or if the repayment of capital or payment of interest rates results in the drop of the solvency ratio below 8%. The Bank Inspectorate shall be notified if such a payment results in the drop of the solvency ratio below 10%. In assessing Own Funds Part C the Bank Inspectorate may also authorize particular commercial banks or savings banks to take into account profit from trading book transactions, after deducting foreseeable charges or dividend and after deducting net losses on other operations, providing that these amounts are not included in Own Funds Part A.

The Bank Inspectorate may grant permission for the early repayment of subordinated loans, providing that the request is made at the initiative of the issuer and the capital position of the commercial bank or savings bank in question is not affected.

The Minister may, having received the proposals of the Bank Inspectorate, determine in a regulation that items other than those listed in paragraphs 3-4, are to be included in own funds of a commercial bank or a savings bank.

From own funds according to Article 54, paragraph 2, shall be deducted the book value of shareholdings and subordinated loans held by the commercial bank or savings bank in any other companies which engage in activities listed in Article 44, in accordance with the following provisions of subparagraphs 1-3, cf., however, paragraph 2:

1. Shareholdings in companies in which the shareholding of the commercial bank or savings bank concerned amounts to more than 10% of the share capital of the companies in question, and also subordinated loans made to the same companies. Shareholdings of a savings bank in the Icebank Ltd. shall be excluded.
2. Shareholdings in companies which the commercial bank or savings bank has acquired on a temporary basis in connection with the restructuring of the company shall not be deducted.
3. Shareholdings in companies in which the shareholding of the commercial bank or savings bank concerned amounts to up to 10% of the share capital of the companies in question and also shareholdings of a savings bank in the Icebank Ltd. The deduction shall be restricted to the total amount of the holdings and subordinated loans which is in excess of 10% of the own funds of the commercial bank or savings bank as calculated under Article 54, paragraph 2, prior to the deduction under this Article.

Shareholdings and subordinated loans made to other companies, cf. paragraph 1, which are included in the consolidated financial statement of the commercial bank or savings bank concerned, shall not be deducted from the own funds of the institution concerned.

Shareholdings and subordinated loans made to subsidiaries which engage in insurance activities under Article 44, paragraph 3, or activities under paragraph 4 of the same Article, shall be deducted from own funds when calculating the solvency ratio under Article 54, paragraph 2.

Furthermore, shareholdings in companies which are in excess of the limits stated in Article 46, paragraph 1, and the first sentence of paragraph 2, shall be deducted from own funds.

## CHAPTER VII

### *Annual Accounts, Auditing and Consolidated Accounts*

#### Article 56

A bank's board of directors and managers or a savings bank's board of directors and managers shall compile annual accounts for each accounting year. The annual accounts shall include a profit and loss account, a balance sheet, a fund flow statement and explanatory notes. In addition, a directors' report shall be prepared, and this, together with the annual accounts, shall form an entity. The accounting year of commercial banks and savings banks shall be the calendar year.

The annual accounts shall be signed by the board of directors of the bank or savings bank and by the managers of the bank or savings bank. The annual accounts of a state commercial bank shall also be confirmed by the Minister. A director of a bank or a savings bank or a bank manager or savings bank manager who contests the annual accounts shall sign them with a reservation whose nature shall be explained.

#### Article 57

The annual accounts shall give a clear picture of the financial position and operating results of the commercial bank or savings bank. They shall be prepared in accordance with law, rules and generally accepted accounting principles and contain *inter alia* a profit and loss account, a balance sheet, explanatory notes and information on off balance-sheet items.

In collaboration with the Icelandic Accountancy Council, the Bank Inspectorate shall ensure that at any given time, a definition of generally accepted accounting principles as regards the preparation of annual accounts and interim accounts for commercial banks and savings banks is available.

The Bank Inspectorate shall, after consulting the Icelandic Accountancy Council, lay down rules, on the layout of annual accounts, the contents of individual items of the profit and loss

account, the balance sheet and the off-balance-sheet items and explanatory notes and the assessment of individual items.

#### Article 58

The directors' report shall include a survey of the activities of the relevant commercial bank or savings bank during the year, and also information on matters which are important in connection with the assessment of the financial position of the institution concerned and its operating results during the accounting year, and which do not appear in the annual accounts.

The directors' report shall also give information on the following matters:

1. significant events following the end of the accounting period,
2. the likely future development of the institution, and
3. measures which have a bearing on its future development.

The directors' report shall provide information on the average number of employees during the accounting year, total wages, remunerations and other payments made to the employees, the bank's board of directors, the bank managers, the savings bank's board of directors, the savings bank manager and others in the service of the commercial bank or savings bank concerned. If a share of the profits is paid to the board of a bank or savings bank and the bank managers or savings bank managers, this shall be stated specially. The directors' report shall give information on the number of shareholders or guarantee capital owners at the end of the accounting year. As regards other matters, the Limited Companies Act shall apply where appropriate.

In the directors' report, the directors of the bank or savings bank shall make a proposal on the disposition of the profit of the institution concerned, or on measures to be taken to meet losses.

#### Article 59

Profit at a savings bank shall be disposed of as follows:

1. The annual general meeting may decide, after receiving the proposals of the directors, to pay the guarantee capital owners a dividend on their guarantee capital shares. The Deposit Guarantee Fund of the Savings Banks shall determine the maximum percentage of dividend payments each year. Authorization for the payment of dividend may not be transferred between years.
2. Profit which is not disposed of under subparagraph 1 shall be placed in a reserve fund.

#### Article 60

The annual accounts of commercial banks and savings banks shall be audited by a state authorized public accountant or an auditing firm. The annual accounts of a state commercial bank, however, shall be audited by the National Audit Office and a state authorized public accountant appointed by the Minister for a term of four years at a time.

Auditors as per the first sentence of paragraph 1 shall be appointed at the annual general meeting of the commercial bank or savings bank for terms of one year at a time.

If possible, the auditor of a commercial bank or savings bank shall be appointed as the auditor of its parent company, affiliate or subsidiary.

The auditor shall be given access to all assets, books, accompanying documents and other data of the commercial bank or savings bank. Furthermore, the directors of the bank or savings bank and the employees of the institution concerned shall provide him with all the information he requests and which it is possible to provide.

#### Article 61

The auditor of a commercial bank or savings bank may not be a member of the board, be an employee of the institution or work in its service on matters other than auditing.

The auditor of a commercial bank or savings bank may not be in debt to the institution for which he carries out auditing, either as a principal debtor or a guarantor. The same shall apply to his or her spouse.

#### Article 62

The auditor shall audit the annual accounts of the commercial bank or savings bank in accordance with generally accepted auditing principles. In his audit, he shall come to a reasoned conclusion concerning the reliability of the information given by the annual accounts. The auditor shall satisfy himself that the annual accounts have been compiled in accordance with law, rules, the articles of association and generally accepted accounting principles.

The auditor shall endorse the annual accounts, state the conclusion of his audit and express his opinion. His audit report shall *inter alia* include a declaration that the annual accounts have been audited and that they have been prepared in accordance with the provisions of law, rules, the articles of association and generally accepted accounting principles.

If the auditor considers that the directors' report does not contain the information which should be given, or that it is not in conformity with the annual accounts, he shall draw attention to this in his audit report, and, if possible, present additional information. In other respects, the auditor may mention in his audit report other matters which he considers appropriate to include in the annual accounts.

Suggestions and comments which the auditor wishes to express to the board of directors of the bank or savings bank shall be communicated in writing, and these parties shall be given a reasonable period in which to reply.

If the auditors reveal substantial flaws in the operation of a commercial bank or savings bank or in matters concerning their internal control, the collateral of loans, or other matters which may weaken the financial position of the institution concerned, and if an auditor has reason to believe that laws and regulations or rules applicable to the institution have been infringed, the auditor shall inform its directors and the Bank Inspectorate. This also applies to similar matters which an auditor of a commercial bank or a savings bank acquires knowledge of concerning an undertaking closely linked with the relevant institution, cf. Article 4, paragraph 3. The provisions of this Article shall not infringe the obligation of auditors not to divulge information, in accordance with Article 43 of this Act or the provisions of other laws.

The auditor shall have the right to attend meetings of the board of directors of the bank or savings bank at which the annual accounts are discussed. He shall also have the right to attend the annual general meetings of the commercial bank or savings bank.

Audit departments shall operate within commercial banks and savings banks to carry out internal auditing under the direction of supervisors, cf. Article 39, paragraph 1, subparagraph 2. Internal auditing shall be part of the structure of commercial banks and savings banks and constitute an element in their control system. The Bank Inspectorate may grant an exemption from the obligation to operate such an audit department and stipulate conditions which the institutions that are granted such an exemption must fulfill.

Commercial banks or savings banks shall at all times have at their disposal a secure internal control system to monitor risks, including interest-rate risks, regarding all their transactions. The Bank Inspectorate may lay down guideline rules on internal control systems in connection with risk-related factors in the operations of commercial banks or savings banks.

The Bank Inspectorate, in collaboration with the Association of State Authorized Public Accountants and other parties concerned, shall ensure that, at any given time, a definition of generally accepted auditing principles is available as applying to auditing at commercial banks and savings banks. The Bank Inspectorate shall set rules on the auditing of commercial banks and savings banks.



#### Article 63

The Bank Inspectorate may have a special audit carried out at a commercial bank or savings bank and engage a State Authorized Public Accountant for this purpose. The Bank Inspectorate may require the institution concerned to bear the cost of such an audit.

#### Article 64

The audited and endorsed annual accounts of the commercial bank or savings bank, together with the directors' report, shall be submitted to the Bank Inspectorate within ten days of the endorsement, and not later than three months after the end of the accounting year.

If amendments to the endorsed annual accounts are approved at the annual general meeting, the amended annual accounts shall be submitted to the Bank Inspectorate within ten days of the annual general meeting with an explanation of the amendments that have been made.

Commercial banks' and savings banks' annual accounts shall be available at the place of operations of the institution concerned and be given to any customer who requests it within two weeks of the confirmation by the Minister, in the case of a state commercial bank, or the approval of the annual general meeting in the case of other commercial banks or savings banks.

#### Article 65

The Bank Inspectorate shall set rules regarding:

1. monthly balance surveys,
2. interim statements of the solvency ratio, cf. Article 54,
3. interim profit and loss accounts and balance sheets, and
4. liquid asset accounts, cf. Article 53.

Interim accounts published by commercial and savings banks shall be in a standardized form to be determined by the Bank Inspectorate.

The Bank Inspectorate may grant exemption from the requirements concerning the preparation of interim accounts.

#### Article 66

A commercial bank or savings bank which is a parent company, shall, together with its subsidiary, be considered as a group.

A commercial bank or savings bank shall be regarded as a parent company when the institution concerned:

1. controls the majority of the votes in another company,
2. owns a holding in another company and has the right to nominate or dismiss the majority of the directors or managers,
3. owns a holding in another company and has the right to have a decisive influence on its activities on the basis of the company's articles of association or under an agreement to this effect,
4. owns a holding in another company and controls, on the basis of an agreement with other shareholders or owners, the majority of the votes in the company, or
5. owns a holding in another company and has a controlling position within it.

A company which is connected to a parent company in the ways described in paragraph 2, shall be regarded as a subsidiary.

In assessing the voting rights and rights to nominate or dismiss directors or managers, the rights controlled by both the parent company and the subsidiary shall be added together.

In assessing the voting rights in a subsidiary, the voting rights pertaining to the subsidiary's own shares or its subsidiaries shall not be counted.

The Bank Inspectorate shall set further rules on the preparation of consolidated accounts.

The provisions of Article 46 on shareholdings, etc., of Article 51 on real estate and of Articles 53-55 on liquid assets and own funds shall also apply in the case of a group. The directors and managers of the bank or savings bank shall see to the implementation of this provision.

The provisions of Articles 56-58 on annual accounts and directors' reports, of Article 60, paragraphs 1 and 4, on the auditing of the annual accounts, of Article 61, paragraph 1, and Article 62 on auditors, of Article 64, paragraphs 1 and 2, on annual accounts and of Article 93, paragraph 2, on the supervisory obligations of the Bank Inspectorate, shall apply, as appropriate, both to groups and to individual companies within groups. The provisions of Article 64, paragraph 3, on the submission of annual accounts to the Bank Inspectorate, and of Article 65, on how to fulfil the obligation of commercial and savings banks to provide information, shall also apply to groups.

The Bank Inspectorate may decide that the provisions of paragraphs 7 and 8 of this Article shall also apply to other cases involving a commercial bank or savings bank which, individually or in collaboration with another party, is related by ownership to another company in such a way as to cause it to be considered necessary to apply these rules.

The provisions of paragraphs 7 and 8 of this Article shall not apply to a company in which a commercial bank or savings bank has acquired a share on a temporary basis, either in order to guarantee the payment of a claim or in connection with the restructuring of the company. The Bank Inspectorate may, however, decide that the aforementioned provisions shall apply.

The Bank Inspectorate may grant exemption from the provisions of paragraphs 7 and 8 of this Article.

## CHAPTER VIII

### *Dissolution of Commercial Banks and Savings Banks*

#### Article 67

If the directors or managers of a commercial bank or savings bank have reason to believe that its own funds are under the minimum stated in Article 54, they shall notify the Bank Inspectorate of this immediately. A comparable obligation rests on the auditor of the institution concerned if he has reason to consider that its directors have not observed their duty according to the first sentence of this paragraph.

When the Bank Inspectorate receives a notification according to paragraph 1, or for some other reason considers there is reason to believe that the own funds of a commercial bank or savings bank are under the minimum stated in Article 54, it shall immediately require the board of directors of the institution to furnish it with financial statements, which the board shall deliver within a reasonable period.

If, in financial statements of the type mentioned in paragraph 2, it is revealed that the own funds of the commercial bank or savings bank do not meet the requirements of Article 54, the directors of the bank or savings bank shall immediately call a meeting of shareholders or guarantee capital owners to take a decision, and shall then submit to the Bank Inspectorate a report stating the measures they propose to take in response to this situation. The Bank Inspectorate shall immediately submit to the Minister the audited financial statements and the report of the directors of the bank or savings bank, together with its comments. The provisions of this paragraph shall also apply, as appropriate, to state commercial banks. In such instances, the Minister shall present to the Althingi his proposal on the measures to be taken.

When the Minister has received the materials referred to in paragraph 3, he may grant the commercial bank or savings bank concerned a period of up to six months in which to raise its own funds to the minimum specified in Article 54. If, in the Minister's opinion, there are strong reasons for doing so, he may extend this period by up to further six months.

#### Article 68

The estate of a commercial bank or savings bank may not be accepted for insolvency proceedings in accordance with general rules.

A commercial bank or savings bank must be dissolved in the following instances:

1. if the Minister refuses to grant the commercial bank or savings bank a period of the type referred to in Article 67, paragraph 4, or if a period granted under that provision has expired without the institution having managed to raise its own funds above the minimum level specified in Article 54,
2. if the commercial bank or savings bank must be dissolved according to the articles of association of the institution concerned,
3. if a shareholders' meeting or guarantee capital owners' meeting decides to dissolve the commercial bank or savings bank.

In the instances mentioned in items 2 or 3 of paragraph 2, the Bank Inspectorate shall, at the request of the Minister, obtain a statement of account from the directors of the commercial bank or savings bank concerned in the same way as specified in Article 67, paragraph 2, and present it to him together with their assessment of whether the assets of the commercial bank or savings bank are sufficient to meet its debts.

A decision of the type mentioned in subparagraph 3 of paragraph 2 shall be valid only if it receives the support of at least 2/3 of the votes cast, and also the support of the guarantee capital owners who control at least 2/3 of the guarantee capital represented by votes at a guarantee capital owners' meeting.

#### Article 69

When a commercial bank or savings bank must be dissolved under Article 68, paragraph 2, subparagraph 1, or when it is revealed in the assessment of the Bank Inspectorate in cases covered by subparagraphs 2 or 3 of the same provision that it is not certain that the assets of the commercial bank or savings bank will suffice to pay the institution's debts, the Minister shall send the district court judge in the venue of the institution concerned a request that its estate be accepted for insolvency proceedings. The prohibition of the Insolvency Act against the estate of a state body being accepted for insolvency proceedings shall not prevent this being done in the case of a state commercial bank.

When a commercial bank or savings bank must be dissolved under Article 68, paragraph 2, subparagraphs 2 or 3, and the Bank Inspectorate considers it clear that the assets of the institution concerned will not suffice to pay its debts, the Minister shall send the district court judge in the venue of the institution concerned a request that its estate be accepted for insolvency proceedings in order to dissolve the commercial bank or savings bank.

When the district court judge has investigated whether the conditions of Article 68 for the request have been met, he shall deliver a ruling as to whether or not it will be granted.

The invitation for claims against the estate of the commercial bank or savings bank shall state whether it has been accepted for winding-up proceedings in the manner described in paragraph 1 or in paragraph 2.

#### Article 70

Unless otherwise prescribed in this Act, the winding-up of the estate of a commercial bank or savings bank shall be subject to the general rules of the Insolvency Act, as appropriate, with the exception that the Act's provisions on the cancellation of measures shall not apply to winding-up which has come about under Article 69, paragraph 2.

Where the Insolvency Act bases the legal effect on the day of deferral, the day on which the Minister granted the period described in Article 67, paragraph 4, shall count as this day in the case of the winding-up of the estate of a commercial bank or savings bank, but if such a period does not precede winding-up, the legal effect shall be based on the day on which the district court judge receives the Minister's request under Article 69, paragraph 1 or 2.

When all the debts of a savings bank have been paid, the guarantee capital owners shall be paid their shares of the remains of the bank's assets. Any assets remaining shall be allocated in accordance with the savings bank's articles of association. It shall not, however, be permitted to allocate the remaining assets to the guarantee capital owners, cf. Article 17, paragraph 4.

#### Article 71

When the estate of a state commercial bank is wound up, the Minister shall enjoy the same authorization to attend settlement meetings and to voice objections or make demands at them as a creditor who presents an acknowledged claim against an estate.

### CHAPTER IX

#### *Mergers*

#### Article 72

A merger between commercial banks or savings banks shall only be permitted when a decision concerning the merger has received the approval of at least 2/3 of the votes cast and also the approval of shareholders or guarantee capital owners who control at least 2/3 of the share capital or guarantee capital represented by votes at shareholders' meetings or guarantee capital owners' meetings after the approval of the Minister and the comments of the Bank Inspectorate have been obtained. In other respects, mergers between limited liability company banks shall be subject to the Limited Companies Act, where appropriate, and the agreements between the parties concerned.

Procedure in mergers between commercial banks or savings banks and individual operational units of other institutions shall be subject to the provisions of paragraph 1.

In the event of a merger according to paragraphs 1 and 2, the combined institution shall take over all the activities, rights and obligations of the institutions involved.

A commercial bank or savings bank which is dissolved due to a merger as per paragraph 1 shall not be obliged to issue an invitation to its creditors to state their claims or to keep its assets separate. Amendments to the registration of ownership in mortgage registers shall be exempt from stamp duties.

The merger of commercial banks or savings banks shall be announced in the Government Gazette. The announcement shall state when the merger takes effect, the names of the institutions involved, the deadline for raising objections to the transfer of deposit accounts, possible changes in the places where bills are to be paid and other matters which are to be announced specially to the customers.

#### Article 73

In the event of the merger of two or more commercial banks or savings banks, the own funds formed by the merger shall not be less than the combined own funds of the institutions involved at the time of the merger if the minimum as per Article 6, paragraph 1 or 2, has not been reached.

#### Article 74

A merger of a state commercial bank with another commercial bank or savings bank shall be permitted only when the permission of the Minister has been obtained. In other respects, the provisions of Article 72 shall apply, as appropriate, to such a merger.

### CHAPTER X

#### *The Deposit Guarantee Funds of Deposit Institutions*

#### *The Deposit Guarantee Fund of the Commercial Banks*

#### Article 75

All commercial banks established in Iceland shall be members of the Deposit Guarantee Fund of the Commercial Banks. The Deposit Guarantee Fund of the Commercial Banks is an independent institution owned by the state. Members of the Fund are not liable for its obligations.

The role of the Deposit Guarantee Fund of the Commercial Banks is to guarantee a depositor the full payment of his deposit, the repayment of which he has required but which the relevant commercial bank or branch has been unable to repay.

The board of directors of the Deposit Guarantee Fund shall be appointed by the Minister of Commerce and serve for 3 years at a time. Three directors shall be appointed, with the same number of alternates. The Icelandic Bankers Association shall nominate one director.

The board of the Deposit Guarantee Fund of the Commercial Banks is authorized to establish a special loan department, with separate finances and accounting. The maximum total amount of guarantee capital shall be limited to the amount by which the Fund's own funds exceed the statutory minimum level in the deposit guarantee department, cf. Article 80. The assets of either department may not be used in order to meet the liabilities of the other. The role of the loan department shall be to guarantee the financial security of the commercial banks, e.g. with the granting of loans, takeover of assets, guarantees and other activities compatible with the department's objectives.

*The Deposit Guarantee Fund of the Savings Banks*  
Article 76

The Deposit Guarantee Fund of the Savings Banks is a private institution of which all savings banks shall be members. The principal role of the Deposit Guarantee Fund shall be to guarantee the financial security of the savings banks and the full payment of deposit funds in the event of a reorganization or the dissolution of a savings bank, cf. further provisions of this Act.

The Deposit Guarantee Fund of the Savings Banks shall operate in two independent departments, a deposit department and a loan department, with separate finances and accounting. The assets of either department may not be used in order to meet the liabilities of the other. The role of the loan department is to guarantee the financial security of savings banks. For that purpose the board of the Fund may grant a loan to a savings bank or take over certain of its assets, stand surety for a savings bank, make good certain losses and pay expenses incurred by a savings bank and grant savings banks other forms of support in any way decided by the board of the Fund in accordance with this Act and the articles of association of the savings bank. Furthermore, the Deposit Guarantee Fund of the Savings Banks may grant savings banks subordinated loans to strengthen their capital position. The board of the Fund may set certain conditions for the granting of a subordinated loan. Further rules on the operations of the loan department, as well as rules on its revenue and granting of loans, shall be laid down in the articles of association of the Fund. The board of directors of the Deposit Guarantee Fund of the Savings Banks shall have the authority to have the management and financial position of a savings bank that is granted a subordinated loan investigated. In this connection, the board may require the relevant savings bank to provide the necessary information.

Supreme authority in the affairs of the Deposit Guarantee Fund of the Savings Banks shall rest with the annual general meeting. Each member of the Fund shall have voting rights at the annual general meeting in accordance with this member's proportion of the total amount of guaranteed deposits during the year preceding the annual general meeting. In other respects, the provisions of Articles 32-34 shall apply to annual general meetings and extraordinary meetings, as appropriate.

The board of directors of the Deposit Guarantee Fund of the Savings Banks shall manage its affairs between annual general meetings and extraordinary meetings. The board shall consist of five persons, four of which shall, together with the same number of alternates, be elected at the annual general meeting for a term of one year at a time, by proportional representation if this is requested. The Minister nominates one person for a term of three years at a time. The board of the Deposit Guarantee Fund shall elect a chairman and divide responsibilities between the directors. The organization of the board and the operations of the Fund in other respects shall be further provided for in its articles of association.

The directors and employees of the Deposit Guarantee Fund of the Savings Banks shall be obliged not to divulge any information, in accordance with the provisions of Article 43.

The annual general meeting shall lay down articles of association for the Deposit Guarantee Fund of the Savings Banks, which shall be subject to the approval of the Minister after he has received the comments of the Bank Inspectorate.

### *Foreign Branches of Deposit Institutions*

#### Article 77

Branches of foreign commercial banks and savings banks established in other states within the European Economic Area which operate in Iceland are authorized to become members of the deposit guarantee funds of the deposit institutions operating in accordance with the provisions of this Act, on account of deposits not otherwise covered within the European Economic Area.

Branches of foreign commercial banks and savings banks established in states outside the European Economic Area and operating in Iceland shall be members of the Deposit Guarantee Fund of the Commercial Banks or the Deposit Guarantee Fund of the Savings Banks, as appropriate, provided that the branch is not a member of a similar deposit-guarantee scheme in its home state.

The Minister may lay down in a regulation further provisions regarding the membership of branches of foreign commercial banks and savings banks in the deposit guarantee funds of the deposit institutions and regarding the additional guarantees which the branches need in order to be able to operate in Iceland. Premiums and payments on account of guarantees according to this Article shall be further provided for in a regulation.

### *General Provisions on the Activities of Deposit Guarantee Funds*

#### Article 78

A depositor may demand payment from a deposit guarantee fund for a deposit, the repayment of which he has required from the relevant commercial bank or savings bank, in accordance with the applicable conditions, but which the commercial bank or the savings bank is unable, according to the opinion of the Bank Inspectorate, to repay for the time being and has no current prospect of being able to do so for reasons of payment difficulties. The Bank Inspectorate shall deliver its opinion not later than three weeks after having received a confirmation of that the relevant commercial bank or savings bank has failed to repay a deposit which it was obliged to pay. The obligation of the deposit guarantee fund to pay also arises if a decision is made to wind-up the commercial bank or savings bank.

The word "deposit" in the first paragraph shall mean any credit balance which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a commercial bank or a savings bank must repay under the legal and contractual conditions applicable. However, the guarantee does not include bonds, bankers' drafts and other claims issued by a commercial bank or a savings bank in the form of transferable securities.

The following shall be excluded from cover as defined in the first paragraph: Deposits made by other commercial banks, savings banks and other credit institutions on their own behalf and for their own account and deposits arising out of transactions in connection with which there has been a criminal conviction for money laundering as well as deposits made by subsidiaries or parent companies of these institutions.

The deposit departments of the deposit guarantee funds of the deposit institutions may neither be accepted for insolvency proceedings nor be subjected to enforcement proceedings.

The Minister shall, after consulting the boards of directors of the deposit guarantee funds of the deposit institutions, lay down in a regulation further provisions on the following items:

1. Methods of payment from the deposit guarantee funds under this Act.
2. The obligation of a commercial bank and a savings bank to inform its customers about its membership in the deposit guarantee funds of the deposit institutions and about the main elements of deposit protection as well as the limits on the use of this information as to prevent distortions of competition.
3. Deposit protection where there is a joint account or where the depositor is not absolutely entitled to the sums held in an account.
4. The role of the board and the investment of the Fund's assets.

The provisions of Chapter VII and XIV apply to the annual accounts and auditing of the deposit guarantee funds of the deposit institutions and to the supervision of their activities.

Deposit guarantee funds shall be exempt from income tax and property tax.

#### Article 79

The deposit guarantee funds of the deposit institutions may, in addition to deposit protection, grant a subordinated loan from the loan department to a commercial bank or a savings bank in order to strengthen its capital position, provided that capital for this purpose is raised specially by the taking of a loan. The board of a deposit guarantee fund may set certain conditions for the granting of a loan.

The board of directors of the deposit guarantee funds of the deposit institutions shall have the authority to have the management and financial position of a commercial bank or a savings bank that is granted a subordinated loan investigated. In this connection, the board may require the relevant commercial bank or savings bank to provide the necessary information.

#### Article 80

The aim shall be that the total assets of the deposit department of the deposit guarantee funds of the deposit institutions shall amount to at least 1% of the average level of guaranteed deposits in commercial banks and savings banks during the preceding year. If the total assets have not reached the minimum level, in accordance with the first sentence, each commercial bank and savings bank shall, not later than 1 March each year, pay a fee to the Fund equivalent to 0.15% of the average level of guaranteed deposits in the relevant commercial bank or the savings bank during the preceding year, without prejudice to the limit value in accordance with the first sentence of this paragraph. Until the total assets of the department have reached the required minimum level each commercial bank and savings bank shall submit surety for a percentage of the sum needed to reach the required minimum that is equal to the percentage which the guaranteed deposits of the relevant commercial bank or savings bank constitute of the total amount of guaranteed deposits. Payments to the Fund are non-refundable.

A new commercial bank or savings bank shall especially, on 1 March each year for seven years after the commencement of its activities in Iceland, pay to the Fund 0.15% of the average level of guaranteed deposits in the relevant commercial bank or savings bank during the preceding year for the first time a full year after the commencement of the operation. Furthermore, the relevant commercial bank or savings bank shall submit surety, which the board of the Fund shall approve, for the difference between payment to the Fund and the minimum level defined in the first sentence of this Article, in accordance with further provisions laid down in a regulation by the Minister.

In the event that the assets of the deposit guarantee funds of the deposit institutions are not sufficient to repay the total amount of guaranteed deposits in the relevant commercial bank or savings bank the repayment from the Fund shall be divided between depositors in such a way that the total amount of deposits of each depositor up to ISK 1.7 million will be fully compensated but everything in excess of this sum shall be compensated proportionally to the extent of the assets of the Fund. This sum shall be linked to the exchange rate of the European Currency Unit (ECU), based on the buying rate of the ECU on 3 January 1995. Further repayment may not be required from the Fund at a later date even though a deposit has not been fully compensated. Claims for payment to the Fund based on sureties can not be higher each year than one tenth of the Fund's minimum level in accordance with the first paragraph of this Article. If, in the opinion of the board of the Fund, there are urgent reasons for doing so, it may take a loan to repay the depositors when the assets of the Fund are not sufficient.

In the event of repayment from the deposit guarantee funds of the deposit institutions the Fund takes over claims made by a depositor against the relevant commercial bank, savings bank or bankruptcy estate.

#### Article 81

Should a commercial bank or a savings bank fail to fulfill its obligations to the deposit guarantee fund of a deposit institution in accordance with this Act its board shall immediately notify this to the Minister. He shall grant the commercial bank or savings bank a period of postponement of up to six months in which to rectify the situation. If, in the Minister's opinion, there are strong reasons for doing so, he may extend this period by up to further six months.

If, on the expiry of the period referred to in the first paragraph, the commercial bank or savings bank has not fulfilled its obligations to the Fund the Minister may, after consulting the Bank Inspectorate, revoke its operating licence, cf. Article 90 paragraph 1, subparagraph 3. The provisions of Article 90, paragraph 2, do not apply in such cases. Deposits, made before the expiry of the period referred to in the first paragraph, shall be covered in accordance with the provisions of Article 78.

The provisions of paragraph 1 and 2 also apply to the branches of foreign commercial banks and savings banks in Iceland which are members of the deposit guarantee fund of a deposit institution. If the period, referred to in the first paragraph, expires in the case of a branch of a commercial bank or savings bank established in other states within the European Economic Area, the Bank Inspectorate shall prohibit its operations in Iceland, cf. Article 95. In the case of a branch of a commercial bank or savings bank established in a state outside the European Economic Area the Minister shall, after consulting the Bank Inspectorate, revoke its operating licence.

### CHAPTER XI

#### *Foreign Commercial Banks' and Savings Banks' Activities in Iceland*

#### Article 82

Foreign commercial banks and savings banks which are based in countries within the European Economic Area and have received operating licences from the competent authorities in those countries may establish branches in Iceland two months after the Bank Inspectorate receives an announcement to this effect from the competent authorities in their home countries. These branches may provide any of the services covered by this Act providing that the institutions concerned are authorized to provide such services in their home countries.

The Bank Inspectorate shall obtain the following information from the competent authorities in the home country of a foreign commercial bank or savings bank:

1. a description of the activities of the branch, its structure and proposed activities in Iceland,
2. confirmation that the proposed activities are permitted in the home country,
3. the address of the branch,
4. the names of the managers of the branch,
5. the amount of own funds and the solvency ratio of the commercial bank or savings bank, and
6. measures taken in the home country, where these exist, to guarantee deposits in the branch.

If changes occur in information which has already been given in accordance with subparagraphs 1-4 and 6 in paragraph 2, the commercial bank or savings bank concerned shall report them to the Bank Inspectorate not later than one month before the changes are to take effect.

The provisions of the Limited Companies Act concerning the branches of foreign limited companies shall not apply to branches as per paragraph 1.

A commercial bank or savings bank as per paragraph 1 may use the same name as is used in the home country of the institution concerned. If there is a danger of confusion between the names of foreign and domestic commercial banks or savings banks operating in Iceland, the Bank Inspectorate may request the names of the former to be distinguished in a special way.

#### Article 83

Foreign commercial banks and savings banks which are based in states within the European Economic Area and have received operating licences from the competent authorities in those countries may provide services in Iceland without establishing branches when the Bank



Inspectorate has received a notification of this from the competent authorities in the home state of the institution concerned. The aforementioned institutions may provide any of the services covered by this Act under Article 44, providing that the competent authorities in their home countries have confirmed that their operating licences include such services.

#### Article 84

Undertakings from other states within the European Economic Area, which are authorized in their articles of association to engage in the activities listed in Article 44, paragraph 1, of this Act, may establish branches or provide services in Iceland without establishing branches, provided that they fulfill the following conditions:

1. The undertaking shall be the subsidiary of a commercial bank or a savings bank or a jointly-owned subsidiary of two or more commercial banks or savings banks in accordance with Article 66, paragraph 3.
2. The subsidiary shall be subject to the legislation of that state within the European Economic Area which has granted an operating licence to the parent undertaking or undertakings in accordance with subparagraph 1 and the subsidiary must also carry on the activities in question within the territory of the same state.
3. The parent undertaking or undertakings must hold 90% or more of the voting rights attaching to shares in the capital of the subsidiary.
4. The parent undertaking(s) must satisfy the conditions of the Bank Inspectorate regarding the sound and prudent management of the subsidiary and must also have declared, with the consent of competent authorities of the relevant home state, that they jointly and severally guarantee the commitments entered into by the subsidiary.
5. The subsidiary must be effectively included in the consolidated supervision of the parent undertaking, or of each of the parent undertakings. This applies in particular to supervision of the calculation of the solvency ratio, of the calculation of loans and guarantees to individual clients or groups of connected clients and supervision for purposes of the limitation of holdings in other undertakings, cf. Article 46.

The notification of activities in Iceland, in accordance with the first paragraph, shall be accompanied by a certificate of compliance with these conditions from the competent authorities of the parent undertaking's or undertakings' home state. The competent authorities of the parent undertaking's or undertakings' home state shall also declare that they will ensure adequate supervision of the undertaking's activities. In other respects, the provisions of Articles 82, 83 and 85 shall apply, as appropriate.

The provisions of paragraph 1 and 2 shall also apply to an undertaking which one or more subsidiaries own or exercise influence over, cf. the provisions of Article 66 of this Act, as appropriate.

#### Article 85

The Minister of Commerce may set further rules on the activities of commercial banks and savings banks mentioned in the first paragraph of Article 82 and Article 83, and the activities of undertakings in accordance with Article 84.

Authorization for foreign commercial banks and savings banks other than those covered by Article 83, paragraph 1, to operate in Iceland shall be subject to rules set by the Minister after he receives the proposals of the Bank Inspectorate.

### CHAPTER XII

#### *Activities of Domestic Commercial Banks and Savings Banks Abroad*

#### Article 86

Commercial banks and savings banks which have received operating licences from the Minister of Commerce under Article 4 and wish to operate branches in other countries within the

European Economic Area shall give notice of this to the Bank Inspectorate together with the following information:

1. in what state it is proposed to establish a branch,
2. a description of the activities of the branch, its structure and proposed activities,
3. the address of the branch, and
4. the names of its managers.

Not later than three months after the Bank Inspectorate has received the information listed in paragraph 1, it shall send it to the competent authorities in the host state together with information on the own funds of the institution concerned, its solvency and the measures taken to guarantee its deposits. An announcement of this shall also be sent to the institution concerned. At the same time, the Bank Inspectorate shall also send the competent authorities concerned confirmation that the proposed activity is in conformity with the commercial bank's or savings bank's operating licence.

The Bank Inspectorate may reject a request to send information as per paragraph 2 if it considers there is reason to doubt that the managerial structure and financial position of the commercial bank or savings bank concerned is sufficiently reliable to justify the establishment of a branch as per paragraph 1. The institution concerned shall be informed of the Bank Inspectorate's attitude as soon as possible, and not later than three months after the receipt of the information as per paragraph 1.

Commercial banks and savings banks shall inform the Bank Inspectorate, and the competent authorities in the state in which they operate branches, of any changes which may occur in the information they have already given as per paragraph 1 not later than one month before the proposed changes take effect.

#### Article 87

If a commercial bank or savings bank wishes to provide services in another state within the European Economic Area without establishing a branch there, it shall notify the Bank Inspectorate of this. The notification shall state what state is involved and what the proposed services are to consist of.

Not later than one month after the Bank Inspectorate receives a notification as per paragraph 1, it shall send this information on to the lawful supervisory body in the state concerned together with confirmation that the operating licence of the commercial bank or savings bank authorizes the activity proposed.

#### Article 88

The provisions of Article 86 and 87 also apply to the domestic subsidiary of a commercial bank or savings bank or the jointly-owned subsidiary of two or more commercial banks or savings banks, the articles of association of which permit the carrying on of the activities listed in Article 44, paragraph 1, and which fulfill the conditions of Article 84, paragraph 1, subparagraphs 1-5, as appropriate. The Bank Inspectorate's notification to the legal supervisory body in accordance with Article 86, paragraph 2, or Article 87, paragraph 2, shall be accompanied by the Bank Inspectorate's certification of compliance with those conditions.

The provision of the first paragraph also applies to an undertaking which one or more subsidiaries own or exercise influence over, cf. the provisions of Article 66 of this Act, as appropriate.

An undertaking according to this Article shall be under the supervision of the Bank Inspectorate. If an undertaking, which has commenced activities in accordance with the first paragraph, no longer complies with the conditions of Article 84, paragraph 1, subparagraphs 1-5, the Bank Inspectorate shall report this to the competent authority.

#### Article 89

If a commercial bank or savings bank intends to commence activity in a state outside the European Economic Area, advance notification of this shall be given to the Bank Inspectorate together with a description of the proposed activity and other information which the Bank Inspectorate considers necessary in this connection.

### CHAPTER XIII *Revocation of Operating Licences*

#### Article 90

The Minister may revoke commercial banks' and savings banks' operating licences after receiving the proposals of the Bank Inspectorate in the following circumstances:

1. if the institution concerned has obtained the operating licence by making false statements or by any other irregular means,
2. if the institutions concerned do not fulfil the requirements of Article 6 regarding guarantee capital, of Article 7 regarding own funds or of Article 15, paragraph 1, regarding the number of guarantee capital owners, as appropriate,
3. if the institution concerned does not make use of the operating licence within 12 months of its issue, expressly renounces the operating licence or ceases operations for more than six successive months,
4. if the institution concerned seriously or repeatedly infringes this Act, or rules, articles of association or regulations set in accordance with this Act, or
5. if circumstances are of the type described in Article 10, paragraph 4, concerning the competence of shareholders or in Article 38 concerning the competence of the bank or savings bank directors or the managers of the institutions concerned,
6. if the Bank Inspectorate considers that close links between a commercial bank or savings bank and any natural or legal persons are liable to prevent the regular exercise of its supervisory functions. The same applies if the laws and regulations applying to those parties prevent regular supervision. However, an operating licence will only be revoked after the Bank Inspectorate has made comments about it to the relevant bank or savings bank and given the undertaking the opportunity to rectify the situation.

Before a licence is revoked under paragraph 1, the institution concerned shall be granted a reasonable period in which to rectify the situation if this is possible.

#### Article 91

If a commercial bank or savings bank does not meet the conditions of Article 54 regarding own funds, the Minister shall revoke the operating licence of the institution concerned after receiving the proposals of the Bank Inspectorate if own funds have not been brought into line with the legal requirements within the period specified in Article 67, paragraph 4.

#### Article 92

Revocation of the operating licence of a commercial bank or savings bank shall be announced to the board of directors of the bank or savings bank and supported by reasons in writing. An announcement of the revocation shall be published in the Government Gazette and in the media. If the institution concerned operates branches or provides services in another state within the European Economic Area, the competent authorities in that state shall be informed of the revocation.

If the operating licence of a commercial bank or savings bank is revoked, the institution involved shall be dissolved.

### CHAPTER XIV

## **Supervision**

### Article 93

The Bank Inspectorate of the Central Bank of Iceland shall check that the activities of the companies and institutions to which this Act applies are in conformity with the provisions of this Act, the rules set under this Act and the articles of association of the institutions concerned. Supervision shall be carried out in accordance with this Act and the Central Bank of Iceland Act.

The Bank Inspectorate shall investigate the finances of commercial banks and savings banks, which shall provide all the information considered necessary by the inspectorate. To the extent which the Bank Inspectorate considers it necessary to assess the financial position of a commercial bank or savings bank, it shall have the right to acquire information and carry out on-the-spot checks in associated companies or companies in which the bank or savings bank is a shareholder.

### Article 94

Supervisory authorities in countries within the European Economic Area shall be permitted to conduct checks in branches in Iceland of institutions based in those countries after sending a notification of this to the Bank Inspectorate.

### Article 95

The Bank Inspectorate may prohibit a foreign commercial bank or savings bank with its headquarters in a state within the European Economic Area from engaging in activities in Iceland if the institution concerned has grossly or repeatedly infringed the provisions of this Act, or articles of association and rules set in accordance with this Act, or the provisions of other Acts on financial and credit institutions, providing attempts to stop the aforementioned infringements in accordance with the instructions or penalties prescribed in this Act have not produced results.

Procedure as per paragraph 1 shall be in accordance with the provisions of the Agreement on the European Economic Area, as appropriate.

Should a commercial bank or savings bank holding an operating licence in Iceland and engaging in activities in another state within the European Economic Area infringe the laws of that state and the competent authorities of this state take measures which are comparable to the measures referred to in paragraph 1, the Bank Inspectorate shall assist the competent authorities of the state concerned in their communication with the management of the credit institution concerned.

### Article 96

The Bank Inspectorate shall keep a register of the commercial banks and savings banks in operation, and also of their branches. The register shall contain all the necessary information on the institutions concerned. All changes in information which has already been recorded, including an increase or decrease in the number of branches, shall be reported in advance to the Bank Inspectorate.

## CHAPTER XV

### **Miscellaneous Provisions**

#### Article 97

The Minister of Commerce shall be responsible for the implementation of this Act. He may issue further provisions concerning its implementation by means of a regulation.

#### Article 98

The provisions of Article 15, paragraph 1, on the number of guarantee capital owners in a savings bank and of Article 35, paragraph 2, on the voting rights in savings banks, shall apply neither to those savings banks in which local authorities and regional committees are the only guarantee capital owners at the time that this Act takes effect, nor to mergers between them, cf.

Article 72. If a regional committee is the only guarantee capital owner, the voting rights of each member shall be restricted to 1/5 of the total votes in the savings bank.

Article 99

The cost of publishing announcements under this Act shall be borne by the commercial bank or savings bank concerned.

Article 100

Notwithstanding the provisions of Article 10, paragraph 1, it shall be permitted to impose restrictions on trading in shares in the Icebank Ltd., which is established by the savings banks.

CHAPTER XVI

*Penalties*

Article 101

Infringements of this Act shall be punished by fines or custody unless more severe penalties are prescribed in other statutes.

**Interim Provisions**

**I.**

The provisions of this Act concerning the owners of guarantee capital in savings banks shall also apply to guarantors, as appropriate, until the provisions of paragraphs 2, 3 and 4 of this Article have been met.

In savings banks in operation in which only guarantees, and not guarantee capital has been advanced, the annual general meeting shall, within three years of this Act taking effect, decide that guarantee capital shall replace the guarantees.

If a guarantor does not advance capital in accordance with the provisions of this Article, he shall cease to be one of the members.

Guarantee capital paid as per paragraph 1 may not amount to less than the total sum of guarantees in the savings bank. Guarantors shall have the right to guarantee capital in proportion to the amount of their guarantees.

When this Act takes effect, the credit balances of guarantee capital owners in private guarantee capital funds in savings banks shall be allotted to raise the guarantee capital of the guarantee capital owner concerned, upon which the function of the private guarantee capital fund will be terminated.

**II.**

The former Deposit Guarantee Fund of the Savings Banks, cf. Act No. 69 of 1941, shall, when the approval of the savings bank concerned has been obtained, be transferred to the Deposit Guarantee Fund as an additional annual subscription following the adjustment of contributions based on the total deposit funds of the savings bank at the end of 1992. The aim shall be that after adjustment, the additional contribution shall be equal to the accounted balance of the former Deposit Guarantee Fund as of 31 December 1992.

**III.**

Subordinated loans which are taken by a commercial bank or savings bank before the date of entry into force of this Act and which are to be paid by instalments are exempt from the provision of Article 54, paragraph 4, subparagraph 1, third sentence, of the Commercial Banks and Saving Banks Act on repayment of subordinated loans considered as Own Funds Part B.

**IV.**

At the entry into force of this Act the Treasury takes over all the assets and debts of the loan department of the Deposit Guarantee Fund of the Commercial Banks.

**V.**

The Deposit Guarantee Fund of the Savings Banks shall adapt its articles of association to the provisions of this Act at the first general meeting following its entry into force.

**VI.**

A state commercial bank may, until 31 December 1997, take a subordinated loan to refinance the subordinated loans taken by the bank. The maximum authorization in accordance with this provision is based on the level of such loans 1 January 1994.

Done in Reykjavík, 12 July 1996.

Vigdís Finnbogadóttir  
(L.S.)

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Finnur Ingólfsson

# Act

## on Credit Institutions other than Commercial Banks and Savings Banks No. 123 of 27 December 1993

THE PRESIDENT OF ICELAND

*makes known:* The Althingi has passed the present Act and I have ratified it with my approval:

### CHAPTER I

#### *Scope*

#### Article 1

This Act shall apply to credit institutions other than commercial banks and savings banks.

#### Article 2

For the purpose of this Act, "credit institutions" refers to companies or institutions whose principal activity is to make loans in their own name and which raise capital for this purpose through the issue and sale to the public of bonds and other repayable debt instruments, cf., however, Article 9.

Credit institutions may not accept deposits from the public for safekeeping and investment or engage in activities other than those covered by this Act.

Notwithstanding the Act on Commercial Banks and Savings Banks, credit institutions may use in their registered name or for further explanation of their activities the words "investment bank", either by themselves or in conjunction with other words.

### CHAPTER II

#### *Establishment and Operating Licences*

#### Article 3

A credit institution may only be established as a limited liability company. The operations of a credit institution may not commence unless an operating licence has been granted by the Minister of Commerce. Registration in the Company Register shall not automatically confer the right to commence such operations. [...]1)

[Applications for operating licences shall be made in writing. They shall be accompanied by the articles of association of the credit institution, a description of operations setting out, *inter alia*, the types of business envisaged and the organizational structure of the credit institution. They shall also be accompanied by information concerning the founders, the share capital, the shareholders and the size of the holding of each, and such other information and materials as the Minister of Commerce may decide.]2)

Before processing an application for an operating licence, the Minister shall seek the comments of the Bank Inspectorate of the Central Bank of Iceland.

[Decision on an application for an operating licence shall always be made within six months of the Minister's receipt of the complete application.]3)

Announcements of the granting of operating licences for credit institutions shall be published in the Government Gazette.

In other respects, the granting of operating licences for credit institutions, the rejection of applications for operating licences and the withdrawal of operating licences shall be subject to the provisions of Chapters II, III and XIII of the Act on Commercial Banks and Savings Banks.

Decision on an application for an operating licence shall always be made within six months from the date on which the Minister receives a complete application.

- 1) Article 1a of Act 20/1996
- 2) Article 1b of Act 20/1996
- 3) Article 1c of Act 20/1996

#### Article 4

Only natural and legal persons resident in Iceland may be the founders of a credit institution.

Citizens and legal persons of other states within the European Economic Area shall be exempt from the residence requirement of paragraph 1. The Minister may grant citizens of other states the same exemption.

#### Article 5

No credit institution may be established with share capital lower than ISK 400 million, and the share capital may at no time be less than this sum. This sum shall be linked to the exchange rate of the European Currency Unit (ECU), based on the buying rate of the ECU on [27 May 1993].1)

Notwithstanding the provisions of paragraph 1, leasing companies may be established, cf. Article 9, with minimum share capital of ISK 80 million; their share capital may at no time be less than this sum. This sum shall be subject to the same changes as specified in paragraph 1.

1) Article 2 of Act 20/1996

#### Article 6

In other respects, the establishment of credit institutions shall be subject to the provisions on the establishment of limited liability company banks in Chapter II of the Act on Commercial Banks and Savings Banks.

### CHAPTER III

#### *Management and Activities*

#### Article 7

Shareholders' meetings shall exercise supreme control of the affairs of credit institutions in accordance with the stipulations of the law and the articles of association of the institutions.

The board of directors of the credit institution shall be elected by the shareholders at the annual general meeting. It shall be in charge of the company's affairs between shareholders' meetings. The board of directors shall consist of not fewer than three persons, with the same number of alternates.

The board of directors of the credit institution shall engage a managing director, who shall be responsible for the day-to-day running of the institution concerned and have power of decision in all its affairs which are not entrusted to others under this Act.

In other respects, the management and managers of credit institutions shall be subject to the provisions on the management of commercial banks and savings banks in Articles 38-43 of the Act on Commercial Banks and Savings Banks.

#### Article 8

The activities of credit institutions shall consist of making loans in their own name and raising capital for this purpose through the issue and sale to the public of bonds and other repayable debt instruments. Their activities shall also include providing services which are connected in a normal way with such credit activities. In further detail, their activities consist of:

1. Lending, including:
  - a. consumer credit,
  - b. mortgage credit,
  - c. factoring and the purchase of debt instruments, and
  - d. commercial loans.
2. Financial leasing.
3. Money transmission services.
4. Issuing and administering means of payment (e.g. credit cards, travellers' cheques and bankers' drafts).
5. Guarantees and commitments.
6. Trading for own account or for account of customers in:
  - a. money market instruments (cheques, bills, other comparable instruments, etc.),
  - b. foreign exchange,



- c. financial futures and options,
- d. exchange and interest rate instruments,
- e. transferable securities.
7. Participation in securities issues and the provision of services related to such issues.
8. Advice to undertakings on capital structure, industrial strategy and related questions and advice and services related to mergers and the purchase of undertakings.
9. Money broking.
10. Portfolio management and advice.
11. Safekeeping and administration of securities.
12. Credit reference services.
13. Safe custody services.

Securities trading by credit institutions shall be subject to the provisions of the Securities Transactions Act, where appropriate, as well as those of the present Act.

Credit institutions may engage in insurance activities through the establishment of subsidiaries.

They may also engage in activities other than those listed in paragraph 1 providing that such accessory activities constitute a natural extension of their principal activities. The permission of the Bank Inspectorate shall be required for the aforementioned activities, and the Bank Inspectorate shall also be able to determine that they shall be handled by a special company.

In other respects, the activities of credit institutions shall be subject to the provisions of Chapter V of the Act on Commercial Banks and Savings Banks, with the exception of the provisions on deposit accounts and deposit certificates.

#### Article 9

"Leasing company" refers to a credit institution which has leasing as its main activity, irrespective of how this activity is financed. "Leasing" refers to leasing activities involving cash or assets in which the lessor sells the leased item to the lessee for an agreed rent for a specific minimum lease period according to special terms on the right of title and use after the expiry of the minimum lease period. Leasing companies may nevertheless also provide services in the areas listed in Article 8, paragraph 1, providing that these in no case constitute the principal activities of the company concerned.

The Minister may set further rules on leasing activities, including *inter alia* definitions of the various categories of leasing and the minimum provisions of leasing agreements.

### CHAPTER IV

#### ***Own Funds, Annual Accounts, Auditing, Dissolution and Mergers***

#### Article 10

[The own funds of credit institutions shall not at any time be less than 8% of risk-weighted base. The risk-weighted base of an institution shall be assessed in relation to total assets, off-balance sheet items, foreign exchange-risks and other market risks, in accordance with further rules set by the Central Bank regarding the assessment of risk-weighted base for the calculation of the solvency ratio of credit institutions. The own funds requirement under paragraph 1 shall also apply to consolidated accounts.]<sup>1</sup>

In other respects, the own funds of credit institutions shall be subject to the provisions of Chapter V of the Act on Commercial Banks and Savings Banks. However, the provisions on the liquid assets of commercial banks and savings banks shall not apply to those of credit institutions, which shall be subject to the Central Bank Act.

[The provisions of the Central Bank Act, as well as rules laid down in accordance with the Act concerning liquid assets, required reserves, exchange-rate-linked assets and debts of deposit institutions, shall also apply to other credit institutions, as appropriate.]<sup>2)</sup>

- 1) Article 3a of Act 20/1996
- 2) Article 3b of Act 20/1996

#### Article 11

[The annual accounts of credit institutions shall be audited by a state authorized public accountant or an auditing firm. The annual accounts of a credit institution, however, whose operation the Treasury is responsible for, or the Treasury owns one half or more of, shall be audited by the National Audit Office, cf. the National Audit Act. The Minister exercising control of the affairs of a credit institution owned by the Treasury shall approve its annual accounts.

In other respects the annual accounts and auditing, as well as consolidated accounts, shall be subject to the provisions of Chapter VII of the Act on Commercial Banks and Savings Banks.]1

1) Article 4 of Act 20/1996

#### Article 12

The dissolution of credit institutions and mergers between them and other institutions shall be subject to the provisions of Chapter VIII of the Act on Commercial Banks and Savings Banks.

### CHAPTER V

#### *Activities of Foreign Credit Institutions in Iceland and of Domestic Credit Institutions Abroad*

#### Article 13

Foreign credit institutions which are based in countries within the European Economic Area and have received operating licences from the competent authorities in those countries may establish branches in Iceland two months after the Bank Inspectorate receives an announcement to this effect from the competent authorities in their home countries. These branches may provide any of the services covered by this Act providing that the institutions concerned are authorized to provide such services in their home countries.

Foreign credit institutions which are based in countries within the European Economic Area and have received operating licences from the competent authorities in those countries may provide services in Iceland without establishing branches when the Bank Inspectorate has received a notification of this from the competent authorities in the home country of the institution concerned. These institutions may provide any of the services covered by this Act under Article 8, providing that the competent authorities in their home countries have confirmed that their operating licences include such services.

Authorization for foreign credit institutions other than those covered by paragraph 1 to operate in Iceland shall be subject to rules set by the Minister after he receives the proposals of the Bank Inspectorate.

In other respects, the activities of foreign credit institutions in Iceland shall be subject to the provisions of Chapter XI of the Act on Commercial Banks and Savings Banks.

[Authorization for the subsidiaries of foreign credit institutions to operate in Iceland is subject to the provisions of Chapter XI of the Act on Commercial Banks and Savings Banks.]1)

1) Article 5 of Act 20/1996

#### Article 14

Credit institutions which have received operating licences from the Minister of Commerce under Article 3 and wish to operate branches in another country within the European Economic Area shall give notice of this to the Bank Inspectorate together with the following information:

1. in what country it is proposed to establish a branch,
2. a description of the activities of the branch, its structure and proposed activities,
3. the address of the branch, and
4. the names of its managers.

If a credit institution wishes to provide services in another country within the European Economic Area without establishing a branch there, it shall notify the Bank Inspectorate of this. The notification shall state what country is involved and what the proposed services are to consist of.

If a credit institution intends to commence activity in a country outside the European Economic Area, advance notification of this shall be given to the Bank Inspectorate together with a description of the proposed activity and other information which the Bank Inspectorate considers necessary in this connection.

In other respects, the activities of domestic credit institutions abroad shall be subject to the provisions of Chapter XII of the Act on Commercial Banks and Savings Banks.

[Authorization for the subsidiaries of domestic credit institutions to operate abroad is subject to the provisions of Chapter XII of the Act on Commercial Banks and Savings Banks.]1)

1) Article 6 of Act 20/1996

## CHAPTER VI

### *Supervision*

#### Article 15

The Bank Inspectorate of the Central Bank of Iceland shall check that the activities of credit institutions are in conformity with the provisions of this Act, the rules set under it and the articles of association of the institutions concerned. Supervision shall be carried out in accordance with the Central Bank of Iceland Act.

The Bank Inspectorate shall investigate the finances of credit institutions, which shall provide all the information considered necessary by the inspectorate. To the extent which the Bank Inspectorate considers it necessary to assess the financial position of a credit institution, it shall have the right to acquire information and carry out on-the-spot checks in associated companies or companies in which the institution is a shareholder.

#### Article 16

Supervisory authorities in countries within the European Economic Area shall be permitted to conduct checks in branches in Iceland of institutions based in those countries after sending a notification of this to the Bank Inspectorate.

#### Article 17

The Bank Inspectorate may prohibit a foreign credit institution with its headquarters in a country within the European Economic Area from engaging in activities in Iceland if the institution concerned has grossly or repeatedly infringed the provisions of this Act, or articles of association and rules set in accordance with this Act, or the provisions of other Acts on financial and credit institutions, providing attempts to stop the aforementioned infringements in accordance with the instructions or penalties prescribed in this Act have not produced results.

Procedure as per paragraph 1 shall be in accordance with the provisions of the Agreement on the European Economic Area, as appropriate.

Should a domestic credit institutions engaged in activities in another EEA Member State infringe its laws and the competent authorities of this State take measures which are comparable to the measures referred to in paragraph 1 the Bank Inspectorate shall assist the competent authorities of the state concerned in their communication with the management of the credit institution concerned.

[Should a domestic credit institution operating in another state within the European Economic Area infringe the laws of that state and the competent authorities of this state take measures which are comparable to the measures referred to in paragraph 1 the Bank Inspectorate shall assist the competent authorities of the state concerned in their communication with the management of the credit institution concerned.]1)

1) Article 7 of Act 20/1996

#### Article 18

The Bank Inspectorate shall keep a register of the credit institutions in operation, and also of their branches. The register shall contain all the necessary information on the institutions

concerned. All changes in information which has already been recorded, including an increase or reduction in the number of branches, shall be reported in advance to the Bank Inspectorate.

Article 19

[...]

- 1) Article 8 of Act 20/1996

CHAPTER VII

*Miscellaneous Provisions*

Article [20]

Credit institutions operating at the time that this Act takes effect with own funds lower than the share capital prescribed in Article 5 may continue their operations provided that their own funds do not drop below the level to which they amounted when this Act took effect. If own funds drop below the aforementioned limit, the Bank Inspectorate may grant the institution concerned a reasonable period in which to rectify the situation. If the institution does not meet the own funds requirement at the end of the period, its operating licence shall be revoked in accordance with the provisions of Chapter II, cf. Chapter XIII of the Act on Commercial Banks and Savings Banks.

If new parties take over the operations of a credit institution operating under paragraph 1, the institution's own funds shall reach the minimum level specified in Article 5, paragraph 1 or 2, within three months of the takeover.

Article [21]

Notwithstanding the provisions of Article 2, the State Housing Fund and the Workers' Building Fund shall not be subject to this Act.

Article [22]

The Minister of Commerce shall be responsible for the implementation of this Act. He may issue further provisions concerning its implementation by means of a regulation.

Article [23]

The cost of publishing announcements under this Act shall be borne by the credit institution concerned.

Article [24]

Infringements of this Act shall be punished by fines or custody unless more severe penalties are prescribed in other statutes.

Article [25]

This Act comes into force immediately. At the same time, the following acts and statutory provisions cease to apply:

1. The Leasing Act, No. 19 of 1989.
  2. Article 1, paragraph 2, Article 2, paragraph 2, Article 3, paragraph 2 and Articles 4 - 9 of the Commercial Loan Fund Act, No. 48 of 1966.
  3. Article 1, paragraph 2, Article 2, paragraph 2, Article 3, paragraph 2 and Articles 4 - 9 of the Co-Operative Societies' Loan Fund Act, No. 45 of 1972.
- 1) Article 8 of Act 20/1996

**Interim Provisions**

**I.**

Credit institutions which are covered by the definition of this Act and are in operation at the time it comes into force shall have brought their activities into line with the provisions of the Act not later than 1 January 1995. Until such adjustment has taken place, they may not offer their services or open branches in other countries within the European Economic Area.

Notwithstanding the provisions of paragraph 1, it shall not be obligatory to change the type of corporation of a credit institution operating when this Act comes into force to a limited liability company. A credit institution in operation which is changed into a limited liability company and has been taxed in accordance with the Act on the Tax Liabilities of Deposit Institutions shall continue to be taxed in this manner.

[Authorization for activities under Article 8 of this Act is additional to authorization under sector specific Acts on operating credit institutions.]1)

1) Article 10 of Act 20/1996

**II.**

Until 31 December 1995, and including that day, the provisions of this Act regarding Management and Activities, cf. Chapter III, shall not apply to the Industrial Development Fund in any respect which conflicts with the agreement between the governments of Denmark, Finland, Iceland, Norway and Sweden on the establishment of a Nordic industrial development fund made in Reykjavík on 12 December 1969 and the provisions of the Act No. 9 of 1970 ratifying that agreement. Until that time, the fund may not open a branch or offer its services in other countries within the European Economic Area.

**III.**

Subordinated loans which are taken by a credit institution before the date of entry into force of this Act and which are to be paid by instalments are exempt from the provision of Article 54, paragraph 4, subparagraph 1, third sentence, of the Commercial Banks and Savings Banks Act on repayment of subordinated loans considered as Own Funds Part B.]1)

1) Interim provisions Act 20/1996

Done in Reykjavík, 27 December 1993.

Vigdís Finnbogadóttir  
(L.S.)

\_\_\_\_\_  
Sighvatur Björgvinsson

**Act**  
**on Securities Transactions**  
**No. 13 of 28 March 1996**

THE PRESIDENT OF ICELAND

*makes known:* The Althingi has passed the present Act and I have ratified it with my approval:

CHAPTER I  
**General Provisions**

Article 1

This Act applies to securities transactions, as defined in Article 2, conducted by undertakings engaged in securities services according to an operating licence by the Minister of Commerce.

This Act, except the provisions of Chapter IV on the treatment of confidential information, does not apply to:

1. Insurance undertakings or firms carrying on the reinsurance and retrocession activities according to law.
2. Legal persons which provide services exclusively for their parent undertakings, for their subsidiaries or for other subsidiaries of their parent undertakings.
3. The services of barristers or solicitors and certified public accountants that, under the provisions of this Act, constitute securities transactions, provided that these services are rendered a normal part of more comprehensive proceedings in their field of business.
4. Legal persons only engaged in providing services covered by this Act in connection with the management of employees' investment funds.
5. The central banks of states within the European Economic Area, other domestic institutions under their auspices engaged in similar operations and other public institutions handling or participating in states' lending affairs.
6. Legal persons, covered by legal provisions or ethics domestically, which may not hold clients' funds or securities and which for that reason may not at any time place themselves in debit with their clients, may not provide any investment service except the reception and transmission of orders in transferable securities and units in collective investment undertakings and which in the course of providing that service may transmit orders only to:
  - a. undertakings engaged in securities services authorized under the provisions of this Act;
  - b. credit institutions authorized under the provisions of the Act on Commercial Banks and Savings Banks or the Act on Credit Institutions other than Commercial Banks and Savings Banks;
  - c. branch offices of undertakings engaged in securities services or credit institutions holding operating licences in a state outside the European Economic Area which are subject to and follow prudential rules considered by the competent authorities at least as strict as the prudential rules under this Act, the Act on Commercial Banks and Savings Banks or the Act on Credit Institutions other than Commercial Banks and Savings Banks;
  - d. collective investment undertakings authorized under the laws of a state within the European Economic Area to market units to the public and to the managers of such undertakings;
  - e. investment companies with fixed capital which issue securities registered or freely traded on another regulated securities market within the European Economic Area.
7. UCITS and other undertakings coming under the provisions of the Act on Undertakings for Collective Investment in Transferable Securities (UCITS).

8. Persons whose main business is trading in commodities amongst themselves or with producers or professional users of such products and who provide investment services only to such producers and professional users to the extent necessary for their main business.
9. Undertakings that provide investment services consisting exclusively in dealing for their own account in financial-futures or options markets or which deal for the accounts of other members of those markets or make prices for them and which are guaranteed by clearing members of the same markets. Responsibility for ensuring the performance of contracts entered into by such firms must be assumed by clearing members of the same markets.
10. Advisors on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings.

## Article 2

For the purposes of this Act:

1. *Securities transactions*: Operations under the provisions of Article 8 and 9 carried out by undertakings engaged in securities services which are authorized to do so by the Minister of Commerce.
2. *Undertakings engaged in securities services*:
  - a. A securities company authorized by the Minister of Commerce to carry out the operations pursuant to Article 8, and those authorized to carry out such operations in Iceland according to law or international agreements of which Iceland is a member.
  - b. A securities brokerage authorized by the Minister of Commerce to carry out the operations pursuant to Article 9, and those who are authorized to carry out such operations in Iceland according to law or international agreements of which Iceland is a member. The provisions of Chapter III shall apply to securities brokerage as applicable.
3. *Securities*:
  - a. Any transferable claim for payment in cash or cash equivalents, and any transferable document conveying title to property other than real estate or particular chattels.
  - b. A conditional document entitling payment of cash on the basis of a specified security or securities, as defined under subparagraph a.
4. *Offer to the general public*: The issue of a series of analogous securities which are offered for sale to the public for the first time with a general and public announcement or with another form of advertisement comparable to a public announcement, provided that securities of the same class are not registered on an official securities exchange.
5. *Fixed operating costs*: Operating expenses excluding financial expenses and irregular expenses.
6. *Custodianship*: A service provided for a fee, under the terms of a particular agreement, involving the receipt of funds for investment in securities or other valuables for the customer's own account.
7. *Host member state*: A state within the European Economic Area where a domestic undertaking engaged in securities services has a branch or provides services.
8. *Home member state*:
  - a. A state within the European Economic Area where a legal person authorized to engage in securities transactions in Iceland has a registered office, or if it has no registered office under its national law, the state in which its head office is situated.
  - b. A state within the European Economic Area where an official securities exchange has a registered office or, if it has no registered office under its national law, the state in which its head office is situated.
9. *Close links*: Relations between two or more legal persons which are directly or indirectly linked by participation amounting to at least 20% of the capital or the voting rights of an undertaking. Close links also constitute the above parties, or their subsidiaries, having by means of agreements, control relationship to a firm or similar internal relations of one or more legal or natural persons to a firm.

10. *Organized securities exchange:*
  - a. The Iceland Stock Exchange and analogous securities exchanges within the European Economic Area.
  - b. Other securities exchanges within the European Economic Area where securities are freely traded, are open to the public, operate regularly and are recognized in a manner deemed valid by the Bank Inspectorate of the Central Bank of Iceland.
  - c. Stock Exchanges, according to subparagraphs a and b, located in states outside the European Economic Area recognized in a manner deemed valid by the Bank Inspectorate.
11. *Underwriting:* An agreement between an undertaking engaged in securities services pursuant to Article 8, and issuer or owner of securities in which the undertaking engages to buy a specific share or all of the securities in a given issue within a specified period of time and at a negotiated price decided prior to that agreement.
12. *Trading book:* Securities which come into the possession of an undertaking engaged in securities services or which are held for resale and/or which are taken on by the undertaking with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or from other price or interest-rate variations. Furthermore, a trading book consists of positions in financial instruments arising from matched principal broking, or financial-futures to which an undertaking engaged in securities services is party in order to hedge other elements of the trading book. A trading book also consists of exposures due to the unsettled transactions and free deliveries and derivative instruments traded on securities exchanges and over-the-counter (OTC) markets as well as exposures in connection with the liabilities of an undertaking engaged in securities services due to securities transactions included in the trading book.
13. *Securities company:* An undertaking engaged in securities services, as defined under paragraph 2, subparagraph a.
14. *Securities brokerage:* An undertaking engaged in securities services, as defined under paragraph 2, subparagraph b.
15. *Market maker:* An undertaking engaged in securities services, as defined in Article 8, or other party authorized according to law and has formally undertaken with a public announcement to buy and sell specific shares for its own account in order to promote the development of a market price for them.
16. *Qualifying holding:* Any direct or indirect holding in an undertaking engaged in securities services which represents 10% or more of the own funds or of the voting rights or which makes it possible to exercise a significant influence over the management of the undertaking in which that holding subsists.

## CHAPTER II

### *Operating Licences for Securities Transactions*

#### Article 3

Undertakings engaged in securities services are not allowed to commence operations unless they fulfill the requirements of this Act and have been granted an operating licence from the Minister of Commerce. The conditions for obtaining the licence are the following:

1. The undertaking is a limited-liability company. However, a securities brokerage, as defined under Article 9, can be operated as a private limited-liability company. In case of a securities company engaged in operations as defined under Article 8, the paid-in share capital shall amount to at least ISK 65 million. In case of a securities brokerage engaged in operations as defined under Article 9, the paid-in share capital shall amount to at least ISK 4.5 million, cf. however Article 9, paragraph 2. The amounts shall be indexed to the European Currency Unit (ECU) with a base reference of its registered exchange rate of the day of entry into force of this Act. An undertaking engaged in securities services is not allowed to commence operations unless the share capital is fully paid in cash.
2. The undertaking's head office is in Iceland.



3. The board of directors of a securities company shall be comprised of at least three members, but at least two members in the event of a securities brokerage. They must be resident in Iceland, be of legal age, have unblemished reputation, be competent to manage their own finances and may not, during the last five years, have in connection with running a business been convicted for a legally punishable action under the General Penal Code or the Acts on Limited-liability Companies, Private Limited-liability Companies, Bookkeeping, Annual Accounts, Bankruptcy or Public Levies. Nationals of the Member States of the Agreement on the European Economic Area are exempted from the residence requirement provided that the nationals concerned are residing in a Member State of the EEA. The Minister may grant the same exemption to nationals of other states.
4. The executive director of the undertaking shall fulfill the conditions of subparagraph 3, sentences 2 - 3 and shall have attended a study course in securities brokerage and passed an examination or completed an equivalent study according to requirements specified in a Regulation issued by the Minister.
5. Audit of the undertaking's accounts shall be performed by the certified public accountant or an auditing firm.
6. The undertaking shall lodge surety to cover losses it might cause to its clients through its operations. Further provisions regarding the amount of such surety and minimum requirements in that respect shall be specified in a Regulation.

Along with the requirements specified in subparagraph 1, the Minister is authorized to refuse an application for operating licence if a board member or an executive director have shown behaviour which gives reason for construing that they would take unfair advantage of their position or if share ownership of shareholders in an undertaking engaged in securities services, as defined under Article 2, is considered incompatible with the operations of the undertaking. The same applies if the Bank Inspectorate deems that close links between an undertaking engaged in securities services and natural or legal persons could hinder it in its regular supervision activities and if law and regulations applicable to such parties hinder normal supervision.

#### Article 4

The application for an operating licence shall be made in writing. It shall be accompanied by:

1. The undertaking's articles of association.
2. A programme of operations setting out, inter alia, the types of business envisaged pursuant to Article 8 and 9 and the organizational structure of the undertaking concerned.
3. Information on the founders, shareholders, natural or legal persons that have qualifying holdings and of the amounts of those holdings.
4. A confirmation of the amount of paid-in share capital.
5. Other information that the Minister determines.

Before a decision is taken to grant or refuse a licence, the application shall be referred to the Bank Inspectorate of the Central Bank of Iceland. If an undertaking engaged in securities services is a subsidiary of another such undertaking or a credit institution which has been granted a licence in another member state of the European Economic Area, subsidiary of a parent undertaking of such undertakings or under the management of the same natural or legal person that manages such undertakings, the competent authorities of the state concerned shall also be consulted.

A licence, which only concerns services, as defined under Article 8, subparagraph 2, may not be granted.

#### Article 5

The Minister's decision on an application for an operating licence shall be notified to the applicant in writing as soon as possible and no later than three months after the Minister's receipt of a complete application.

The Minister's refusal of an application shall be supported by arguments in writing.

#### Article 6

An undertaking engaged in securities services may begin operation as soon as it has been granted an operating licence by the Minister. In case of a securities company the licence shall state the services, as defined under Article 8, that its operating licence covers.

If a licence holder does not commence operations within 12 months from the notification of an operating licence the licence is suspended. Furthermore, the operating licence is suspended if an undertaking engaged in securities services has not provided the services, which it has been granted under the provisions of this Act, for a continuous period of six months.

### CHAPTER III

#### ***Rights and Obligations of Undertakings Engaged in Securities Services***

#### Article 7

Undertakings engaged in securities services are obliged to and have the exclusive authorization and duty, unless otherwise determined by law, to use in their title or a description of its activities the term "securities company" or "securities brokerage", by themselves or a part of a phrase, cf. however Article 45.

#### Article 8

A securities company may engage in the following operations in connection with securities transactions:

1. *Services:*
  - a. Reception and transmission of orders from customers in relation to one or more securities and the execution of such orders for account of third parties.
  - b. Dealing in securities for own account.
  - c. Managing portfolios of investments in accordance with mandates given by investors on a client-by-client basis, where such portfolios include one or more securities instruments.
  - d. Underwriting in respect of issues of securities or the placing of such issues on the market.
2. *Non-core services:*
  - a. Safekeeping and administration in relation to one or more securities.
  - b. Safe custody services.
  - c. Granting credits, guarantees or loans to an investor to allow him to carry out a transaction in one or more securities, where a securities company granting the credit or loan is involved in the transaction.
  - d. Advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings.
  - e. Services related to underwriting.
  - f. Investment advice concerning one or more securities.
  - g. Foreign-exchange services where these are connected with the provision of investment services.
  - h. Education on and promotion of securities transactions.

#### Article 9

A securities brokerage is only permitted to act as an intermediary for a fee in buying and selling of securities and provision of expert counsel relating to securities transactions. A securities brokerage is only permitted to receive funds or securities in its operations from their customers for a short period of time, provided that this is essential to complete the transaction in which the undertaking has acted as an intermediary.

A securities brokerage may engage in securities transactions for its own account, provided that the paid-in share capital amounts to at least ISK 10 million and this is specified in the operating licence. The total market value of the securities that a securities brokerage is permitted to preserve for own account is subject to a ceiling of 15% of the undertaking's initial capital but regarding the authorizations of securities brokerages, in accordance with the provisions of this paragraph, for instance within what time limits such transactions are permitted, further provisions shall be specified in a regulation upon receipt of an opinion from the Bank Inspectorate of the Central Bank of Iceland.

#### Article 10

Undertakings engaged in securities services are prohibited from engaging in other activities than those stated in Article 8 or 9. Other parties are prohibited from engaging in activities as referred to in Article 8, subparagraph 1 and Article 9, unless otherwise determined by law, cf. however Article 43.

#### Article 11

Undertakings engaged in securities services may operate branch offices, provided that the person responsible for their day-to-day management meets the conditions stated in Article 3, paragraph 1, subparagraph 4. The Bank Inspectorate shall be notified in advance of the establishment of a branch.

#### Article 12

Shareholders of an undertaking engaged in securities services who possess or propose to acquire a qualifying holding in the undertaking concerned must inform the Bank Inspectorate in advance and state the size of their intended holding. They shall likewise inform the Bank Inspectorate if they propose to increase their qualifying holding so that the capital that they hold, or the proportion of the voting rights, would reach 20, 33, or 50% or so that the undertaking concerned would become the subsidiary of the undertaking engaged in securities services.

The Minister may, upon receipt of a recommendation by the Bank Inspectorate, refuse a shareholder to acquire a holding or voting rights, as referred to in paragraph 1, if the Minister is not satisfied as to the suitability of the person concerned as to sound and prudent management of an undertaking engaged in securities services. Refusal by the Minister, supported by arguments, shall be received by the undertaking within one month from the date of the Bank Inspectorate's receipt of the notification in accordance with paragraph 1.

In case of an increase in holdings, according to paragraph 1, the Minister may fix a deadline for its implementation, provided that an increase has not been refused.

If a shareholder, who has a qualifying holding in an undertaking engaged in securities services, proposes to reduce his holding he shall inform the Bank Inspectorate in advance and state the size of his intended holding. If the capital falls below 20, 33 or 50% or so that the undertaking engaged in securities services would cease to be his subsidiary, cf. paragraph 1, he shall also inform about this.

If an undertaking engaged in securities services becomes aware of any acquisitions or disposals of holdings in the undertaking concerned that cause holdings to exceed or fall below any of the thresholds referred to in paragraph 1 and 4, the Bank Inspectorate shall be informed without delay. At least once a year the Bank Inspectorate shall also be informed of the names of shareholders possessing qualifying holdings in an undertaking engaged in securities services and the sizes of each of these holdings.

#### Article 13

The Minister may, upon receipt of a recommendation by the Bank Inspectorate, require that, where the influence exercised by a shareholder possessing such large holdings in an undertaking engaged in securities services referred to in Article 12, paragraph 1 is likely to be prejudicial to the sound and prudent management of an undertaking, decide to suspend the exercise of the voting rights attached to the shares or put to the undertaking to take appropriate measures to put an end to that situation.

The Minister may, upon receipt of a recommendation by the Bank Inspectorate, decide that voting rights attaching to holdings in an undertaking engaged in securities services, which have not been notified in advance, pursuant to Article 12, paragraph 1, will be suspended. If the Minister does not refuse the shareholder concerned to acquire shares or to increase his holdings, voting rights will be reattached to shares. The Minister's decision that holdings do not carry voting rights shall be notified to the register of shares of the undertaking concerned. Furthermore, the register of shares of an undertaking engaged in securities services shall be notified if the voting rights of shares will be active again.

If the Minister has decided, pursuant to paragraph 1 or 2, that shares do not carry voting rights, such shares shall be annulled when calculating the number of votes which has been attended for at general meetings.

#### Article 14

If an undertaking engaged in securities services, or its parent undertaking, holding an operating licence in another state within the European Economic Area, or a person controlling such an undertaking, comes into possession of a qualified holding in an undertaking engaged in securities services in Iceland this shall be notified to the Bank Inspectorate. If the above undertaking would become the subsidiary of the person concerned or come under his control, the assessment of the acquisition must be subject to prior consultation with the competent authorities of the home state of the person concerned.

The provisions of paragraph 1 also apply if the parties provided for there increase their qualified holding in an undertaking engaged in securities services so that the capital that they hold would reach 20, 33, or 50% or so that the undertaking would become their subsidiary.

#### Article 15

An undertaking engaged in securities services shall strive in its activities to exercise the fullest degree of impartiality towards customers and must consistently organize its activities in such a way as to ensure equal treatment of its customers as regards information, prices and other terms of securities transactions. Taking into account the respective customers' knowledge of the subject they shall be provided with detailed information on the various options available to them.

Advertisements and other promotional material by undertakings engaged in securities services must contain correct and precise information regarding its activities and services.

#### Article 16

An undertaking engaged in securities services shall notify its customers in advance of the fee it will charge for its services. Customers shall be notified of changes in the fee with sufficient notice.

Undertakings engaged in securities services shall have available at their place of business information on the rights of their customers in case of losses they might suffer due to business transactions under the auspices of the undertakings.

#### Article 17

An undertaking engaged in securities services undertaking to provide a service as authorized under the provisions of this Act, shall, as applicable, draw up a contract with the customer, stating among other things, the rights and obligations of the parties to that agreement.

#### Article 18

An undertaking engaged in securities services may not act as an intermediary in securities transactions if its employees know or have reason to assume that such transactions would be based on the information under the provisions of Article 26, paragraph 2, cf. however Article 27, paragraph 1, subparagraph 2 and Article 27, paragraph 2.

#### Article 19

An undertaking engaged in securities services shall keep its customers' funds clearly distinguished from its own assets. A customer's funds shall be kept in a separate account identified by name, and his securities physically safeguarded in a secure manner.

An undertaking engaged in securities services may convey securities in its customer's name provided it has been given a proxy in writing to do so. The endorsement of transfer must state that the securities are transferred in accordance with a proxy that is in its keeping, and the company must preserve such an authorization for as long as rights can be claimed on a security conveyed in this manner. The purchaser of the security must be provided with a copy of the proxy if demanded. However, a securities undertaking offering safekeeping under the provisions of Article 8, subparagraph 2, subparagraph a is authorized to preserve the endorsements in a special file while the securities are in its custodianship, provided that the endorsements are entered on the instrument when it leaves the custodianship of the undertaking. Undertakings intending to take advantage of this authorization must acquire the consent of the Bank Inspectorate for their arrangement of custodianship and the information system to be used.

A person who has given an undertaking engaged in securities services a proxy under the provisions of paragraph 2 cannot make a claim upon the transferee by invoking the company's lack of proxy, except in cases when it is patently insufficient.

A securities undertaking's endorsement under the provisions of paragraph 2 shall not be regarded as interrupting the order of endorsements even if the proxy is not attached to the security.

#### Article 20

Public issue of securities, other than Treasury bonds, securities bearing a Treasury guarantee of collection or Treasury bills, shall be conducted by securities undertakings acting as intermediaries pursuant to the provisions of Article 8, or other parties authorized to do so according to law. The Iceland Stock Exchange shall be given notification of the securities issue no later than one week before the commencement of sale, together with details of all the main features of the issue in accordance with rules laid down by the Exchange regarding the content of prospectuses and preparations for issues.

The Central Bank of Iceland may set further rules concerning the first day of sale for specific public issues with the aim of preventing fluctuations in market supply of new securities.

At the end of the sale or each quarter of the year, whichever is earlier, the securities undertaking or other party acting as an intermediary for a public issue shall notify the Iceland Stock Exchange of the total of securities subscribed to at par value and market value according to the best available information, and at the end of each year shall furthermore notify of the remaining securities that are unsold. The Stock Exchange shall publish regular information about securities pursuant to this Article.

#### Article 21

In conducting its own transactions involving securities entrusted to it for sale, and in the transactions of its owner, management, employees and their spouses, an undertaking engaged in securities services shall ensure that:

1. the interests of unrelated customers are safeguarded,
2. complete confidentiality prevails towards unrelated customers,
3. the transactions are recorded separately,
4. the undertaking's board of directors is provided with systematic information on the transactions and endorses them.

An undertaking engaged in securities services shall establish in-house operating procedures regarding transactions under the provisions of paragraph 1, which shall be approved by the Bank Inspectorate.

#### Article 22

Undertakings engaged in securities services may lend funds and provide guarantees for securities transactions which they are authorized to conduct under the provisions of this Act.

The total liabilities of undertakings engaged in securities services, cf. paragraph 1, shall be within the limits provided for in rules issued by the Minister, upon receipt of recommendations by the Bank Inspectorate on the maximum of loans and liabilities to particular customers or financially connected customers.

#### Article 23

An undertaking engaged in securities services may only be a partner or participant in other business activity if this is in normal connection with its own activities and does not affect its impartiality, cf. Article 15, paragraph 1.

#### Article 24

The executive director of an undertaking engaged in securities services may not be a member of the board of directors of business enterprises or take part in business operations in other respects except with the permission of its board of directors. Ownership of shares in an undertaking is considered to constitute participation in business operations except in the case of an insubstantial share having no direct effect on its management.

The authorization of other employees of the undertaking, as regards the matters covered in paragraph 1, depends upon the rules laid down by its board of directors and the Bank Inspectorate ratifies.

#### Article 25

Undertakings engaged in securities services shall be exempted from stamp duties on loans concluded by them.

### CHAPTER IV

#### *Treatment of Confidential Information*

#### Article 26

The provisions of this Chapter apply to securities registered on a regulated securities market.

Confidential information constitutes information regarding the issuer of securities, the securities themselves or other matters which have not been made public but are likely to affect the market price of the securities were they to be made public. Information is regarded as public when it has been disseminated on the securities market by general and recognized means. Notifications to the Iceland Stock Exchange are considered to be public on presentation there, cf. the Act on the Iceland Stock Exchange.

#### Article 27

A party in possession of or having access to confidential information under the provisions of Article 26, paragraph 2, through ownership, through membership in the board of directors, operations or supervisory activities on behalf of the issuer of securities, of through his or her work, position or duties, may not:

1. take advantage of such information, directly or indirectly, in order to acquire or dispose of securities for personal gain or that of other,
2. pass on such information to a third party except when doing so in the normal context of the work, position or duties of the provider of the information,

3. advise a third party on the basis of such information to acquire or dispose of securities or in any other respect encourage transactions with said securities.

The provisions of paragraph 1 do not refer to transactions by a sovereign state, its central bank or parties conducting transactions on their behalf, provided such transactions form part of the monetary issues, foreign-exchange issues or credit policy of the state concerned.

#### Article 28

Other parties than those referred to in Article 27, paragraph 1 who have acquired knowledge of confidential information may not take advantage of it in the manner described therein if they already know or should know the nature of that information.

#### Article 29

The provisions of Article 27 and Article 28 extend to natural and legal persons involved in a decision to conduct transactions for a legal person's account.

#### Article 30

Natural or legal persons may not participate in, promote or encourage transactions involving securities or other actions for the purpose of distorting the scope of particular securities transactions or have irregular or improper influence on the price formation in securities transactions.

#### Article 31

Issuers of securities shall lay down their own procedures with the aim of hindering the passing on of confidential information to other persons than those who need it for the purposes of their work.

Government authorities and other parties in regular receipt of confidential information in the course of their activities shall establish their own procedures in accordance with the provisions of paragraph 1.

### CHAPTER V

#### *Own Funds of Undertakings Engaged in Securities Services*

#### Article 32

The own funds of an undertaking engaged in securities services, as defined in paragraph 2, shall not at any time be less than 8% of risk-weighted base. The risk-weighted base shall be assessed according to total assets, off-balance sheet items, foreign-exchange risks and other market risks in accordance with further rules on the assessment of risk-weighted base for calculating the solvency ratio of undertakings engaged in securities services set by the Central Bank of Iceland. The capital requirement under the first sentence shall also apply to consolidated accounts, unless the Bank Inspectorate grant exemptions from that requirement.

For the purpose of calculating the solvency ratio under paragraph 1, own funds shall consist of three parts, Own Funds Part A, Own Funds Part B and Own Funds Part C and the deductible items pursuant to Article 33. The following restrictions shall apply to individual Own Funds Parts:

1. Own Funds Part A shall constitute at least half of own funds prior to the deduction pursuant to Article 33.
2. The maximum total amount of Own Funds Part B may be 50% of Own Funds Part A.
3. The maximum total amount of Own Funds Part C may be 50% of Own Funds Part A. Furthermore, the maximum total amount of Own Funds Part C may be 4.8% of the undertaking's calculated risk-weighted base due to items of the trading book subject to market risks and foreign-exchange risk.

Own Funds Part A shall consist of:

1. Paid-up share capital.
2. Reserve funds, share premium account and retained earnings, after deducting the loss for the year.
3. The revaluation account according to inflation accounting principles.
4. From Own Funds Part A shall be deducted the undertaking's own shares, goodwill and other intangible assets, and also any foreseeable tax charge not accounted for which reduces the ability of the undertaking to cover loss.

Own Funds Part B shall consist of:

1. A subordinated loan which an undertaking engaged in securities services takes against the issue of special debt instruments which state that the repayment period of the loan is not less than five years and that in the event of the bankruptcy of the undertaking concerned, or its dissolution, repayment may be obtained following all claims against the undertaking other than the repayment of share capital. When five years of the loan period remain, the amount of the loan shall be scaled down by 20% for each of these remaining five years at the end of each year. In case of a loan which is to be paid off in instalments over the loan period the remaining payments shall be scaled down in a similar manner.
2. The revaluation account, other than the one in Own Funds Part A.

Own Funds Part C shall consist of a short-term subordinated loan which an undertaking engaged in securities services takes against the issue of special debt instruments which state that the repayment period of the loan is not less than two years and that in the event of the bankruptcy of the undertaking concerned, or its dissolution, repayment may be obtained following all claims against the undertaking other than the repayment of share capital. Furthermore, provisions may be made that payments may neither be made nor interests paid on the loan if the solvency ratio of the undertaking concerned goes below 8% or if the repayment of capital or payment of interest rates results in the drop of the solvency ratio below 8%. The Bank Inspectorate shall be notified if such a payment results in the drop of the solvency ratio below 10%. In assessing Own Funds Part C the Bank Inspectorate may also authorize particular undertakings to take into account profit from trading book transactions, after deducting foreseeable charges or dividend and after deducting net losses on other operations, providing that these amounts are not included in Own Funds Part A.

The Bank Inspectorate may grant permission for the early repayment of subordinated loans, providing that the request is made at the initiative of the issuer and the capital position of the undertaking in question is not affected.

Notwithstanding the provisions of paragraph 1-5, the own funds of an undertaking engaged in securities services shall not at any time be less than 25% of last accounting year's fixed operating costs. The Bank Inspectorate may grant exemptions from this requirement if the operations of the undertaking have been changed fundamentally between years. During the first year of operations of an undertaking engaged in securities services its own funds shall not at any time be less than 25% of fixed operating costs according to the operating plan of the year of operations. If the Bank Inspectorate considers that the operating plan fails to present a fair idea of the intended operations it can require that the operating plan be altered.

An undertaking engaged in securities services shall at all times have at its disposal a secure internal control system to monitor risks, including interest-rate risks, regarding all their business. The Bank Inspectorate may lay down guideline rules on internal control systems in connection with risk-related factors in the operations of such undertakings.

The Minister may, having received the proposals of the Bank Inspectorate, determine in a regulation that items other than those listed in paragraphs 3 -5, are to be included in own funds of an undertaking engaged in securities services.



From own funds according to Article 32, paragraph 2, shall be deducted the book value of shareholdings of an undertaking engaged in securities services in companies and undertakings which may come into its possession according to an authorization in Article 23.

Furthermore, subordinated loans granted by an undertaking engaged in securities services to such companies or undertakings shall be deducted. The deduction shall be in accordance with the following provisions in subparagraphs 1-3:

1. Shareholdings in companies in which the shareholding of the undertaking engaged in securities services concerned amounts to more than 10% of the share capital of the companies in question. Furthermore, subordinated loans made to the same companies.
2. Shareholdings in companies which the undertaking engaged in securities services has acquired on a temporary basis in connection with the restructuring of the company shall not be deducted.
3. Shareholdings in companies in which the shareholdings of the undertaking engaged in securities services amounts to up to 10% of the share capital of the companies in question. The deduction shall be restricted to the total amount of the shareholdings and subordinated loans which is in excess of 10% of the own funds of the undertaking as calculated pursuant to Article 32, paragraph 2, prior to the deduction pursuant to this Article.

## CHAPTER VI

### *Annual Accounts and Auditing*

#### Article 34

The board of directors and manager of an undertaking engaged in securities services shall compile annual accounts for each accounting year in accordance with law and the articles of association. The annual accounts shall include a profit and loss account, a balance sheet, a fund flow statement and explanatory notes. In addition, a directors' report shall be prepared. The annual accounts and the directors' report shall form an entity. The accounting year of the undertakings shall be the calendar year.

The annual accounts shall be signed by the board of directors and the manager. A member of the board of directors or a manager who contests the annual accounts shall sign them with a reservation whose nature shall be explained.

The annual accounts shall be clearly presented and in accordance with the provisions of this Act and with rules issued on the basis of it and generally accepted accounting principles. The annual accounts shall present fairly the assets, liabilities, financial position and operating performance of the undertaking.

The directors' report shall contain a summary of the activities of the undertaking during the year, together with information on matters relevant to an assessment of its financial position and operating performance during the accounting year which are not presented elsewhere in the annual accounts.

The Bank Inspectorate of the Central Bank of Iceland may issue further rules regarding the preparation of annual accounts, in collaboration with the Icelandic Accountancy Council

#### Article 35

An auditor shall confirm the annual accounts with his signature and state the conclusions of the audit. He shall declare that the annual accounts have been audited and been prepared in accordance with law, regulations and the undertaking's articles of association. The auditor shall state his opinion of the annual accounts and describe his conclusions in other respects.

If an auditor is of the opinion that the annual accounts do not contain required information, he should so state in his audit report and provide additional information if possible. He shall point out in his audit report if the directors' report does not contain the information it should present or is not consistent with the annual accounts. In other respects, the auditor may include in his report such subparagraphs as he considers appropriate in the financial statements.

If an auditor reveals such flaws in the operation of an undertaking engaged in securities services that the annual accounts can not be signed or commented on, flaws in its internal control or other matters which may weaken the financial position of the undertaking in connection with continuing operations, and if the auditor has reason to believe that laws and regulations or rules applicable to the undertaking have been infringed, the auditor shall immediately inform its board and the Bank Inspectorate. This also applies to similar matters which an auditor of an undertaking engaged in securities services will come to knowledge of concerning undertakings closely linked to it. The provisions of this Article do not infringe the obligation not to divulge information, cf. Article 56 of this Act or the provisions of other laws.

#### Article 36

The audited annual accounts of an undertaking engaged in securities services, together with the directors' report, shall be sent to the Bank Inspectorate within ten days from its confirmation by the board of directors and manager and no later than three months from the end of the accounting year. The undertaking engaged in securities services is furthermore obliged to furnish the Central Bank of Iceland with any information necessary for the compilation of economic statistics, cf. the Central Bank Act. This information shall be readily available and as much in line with the information system of the undertaking concerned as possible.

#### Article 37

If the directors or managers of an undertaking engaged in securities services have reason to believe that its own funds are under the minimum stated in Article 32, they shall notify the Bank Inspectorate of this. The auditor of the undertaking concerned has a comparable obligation if he has reason to consider that its directors have not observed their duty according to the first sentence of this paragraph.

When the Bank Inspectorate receives a notification according to paragraph 1, or for some other reason has reason to believe that the own funds of an undertaking engaged in securities services are under the minimum stated in Article 32, it shall immediately require the board of directors of the undertaking to furnish it with a financial statement, which the board shall deliver within a reasonable period.

If, in a financial statement of the type mentioned in paragraph 2, it is revealed that the own funds of the undertaking do not meet the requirements of Article 32, the board of directors of the undertaking shall immediately call a meeting of shareholders to take a decision, and shall then submit to the Bank Inspectorate a report stating the measures they propose to take in response to this situation. The Bank Inspectorate shall immediately submit to the Minister the audited financial statements and the report of the directors of the undertaking, together with its comments.

When the Minister has received the materials referred to in paragraph 3, he may grant the undertaking concerned a period of up to six months in which to raise its own funds to the minimum specified in Article 32. If, in the Minister's opinion, there are strong reasons for doing so, he may extend this period by up to a further six months.

#### Article 38

The Bank Inspectorate may have a special audit carried out at an undertaking engaged in securities services and engage a State Authorized Public Accountant for this purpose. The Bank Inspectorate may require the undertaking concerned to bear the cost of such an audit.

### CHAPTER VII

#### *Activities of Domestic Undertakings Engaged in Securities Services Abroad*

#### Article 39

Undertakings engaged in securities services which have received operating licences from the Minister of Commerce under Article 3 and wish to operate branches in a another state within the

European Economic Area shall give notice of this to the Bank Inspectorate of the Central Bank of Iceland. The following information shall accompany the notice:

1. in what state it is proposed to establish a branch,
2. a description of the structure of the branch and its proposed activities,
3. the address of the branch,
4. the names of its managers.

No later than three months after the Bank Inspectorate has received the information listed in paragraph 1, it shall send a confirmation to the competent authorities in the host member state that the proposed activity is in conformity with the undertaking's operating licence. Furthermore, the Bank Inspectorate shall communicate to the competent authorities of the host member state details of any compensation scheme intended to protect the branch's customers. The undertaking concerned shall be informed that the information has been sent.

The Bank Inspectorate may reject a request to send information as per paragraph 2 if it considers there is reason to doubt that the managerial structure and financial position of the undertaking is sufficiently reliable to justify the establishment of a branch as provided for in paragraph 1. The undertaking shall be informed of the Bank Inspectorate's opinion as soon as possible, and no later than three months after the receipt of the information provided for in paragraph 1.

Undertakings engaged in securities services shall inform the Bank Inspectorate, and the competent authorities of the state in which they operate branches, of any changes which may occur in the information they have already given as provided for in paragraph 1, no later than one month before the proposed changes take effect.

#### Article 40

If an undertaking engaged in securities services intends to provide services, according to this Act, in another state within the European Economic Area without establishing a branch there, it shall notify the Bank Inspectorate of this. The notification shall specify what state is involved and what the proposed services are to consist of.

No later than one month after the Bank Inspectorate receives a notification as provided for in paragraph 1, it shall forward this information on to the competent authorities of the state concerned together with confirmation that the operating licence of the undertaking authorizes the activity proposed.

Any changes occurring in the information which has already been notified pursuant to this Article, shall be reported to the Bank Inspectorate and competent authorities of the state concerned no later than one month before the changes are to take effect.

#### Article 41

If an undertaking engaged in securities services intends to commence activity in a state outside the European Economic Area, advance notification of this shall be given to the Bank Inspectorate. In case of establishment of a branch, the notification shall be accompanied by information pursuant to Article 39, paragraph 1, subparagraph 1-4. In case of intended activities without establishing a branch, notification shall be accompanied by the information pursuant to Article 40, paragraph 1, shall be accompanied by a notification. Otherwise, procedure shall be in accordance with the provisions of Article 39, paragraph 2-4 or Article 40, paragraph 2-3, where appropriate.

The Bank Inspectorate may request further information pursuant to this Article.

#### Article 42

The Minister may set further rules on the activities of domestic undertakings engaged in securities services abroad.

CHAPTER VIII  
*Activities of Foreign Undertakings Engaged in  
Securities Services in Iceland*

Article 43

Foreign undertakings engaged in securities services established in and holding operating licences in states within the European Economic Area may establish branches in Iceland two months after the Bank Inspectorate of the Central Bank of Iceland receives notification to this effect from the competent authorities in the home state of the undertaking concerned. A branch may provide any of the services pursuant to this Act, provided that the undertakings are authorized to provide such services in their home states.

The Bank Inspectorate shall obtain the following information from the competent authorities in the home state of the foreign undertaking:

1. a description of its structure and proposed activities in Iceland,
2. confirmation that the proposed activities are permitted in the home state,
3. the address of the branch,
4. the names of managers,
5. details of any compensation scheme intended to protect the branch's customers.

If changes occur in information which has already been given in accordance with paragraph 2, the undertaking shall report them to the Bank Inspectorate no later than one month before the changes are to take effect.

The provisions of the Act on Limited-liability Companies concerning the branches of foreign limited-liability companies shall not apply to branches pursuant to paragraph 1.

Article 44

Foreign undertakings engaged in securities services established in and holding operating licences in states within the European Economic Area may, according to this Act, provide services in Iceland without establishing a branch, after the Bank Inspectorate receives notification to this effect from the competent authorities in the home state of the undertaking. However, authorization to provide services in Iceland according to this provision will never be more comprehensive than the operating authorization of an undertaking in its home state provides for.

The Minister of Commerce may set further rules on the activities of undertakings pursuant to paragraph 1.

Article 45

Foreign undertakings engaged in securities services may use the same name as is used in their home state. If there is a danger of confusion between the names of domestic and foreign undertakings engaged in securities services operating in Iceland, the Bank Inspectorate may request the names of the latter to be distinguished in a special way.

Article 46

The Minister may, having received a proposal from the Bank Inspectorate, authorize an undertaking engaged in securities services established in a state outside the European Economic Area to establish a branch in Iceland or provide services in Iceland without establishing a branch. A condition for such an authorization is that the undertaking holds a licence to engage in similar services in its home state as it intends to engage in Iceland, cf. Article 8 and 9, and that its home state operations are subject to supervision.

The Minister may set further rules on the activities of undertakings pursuant to paragraph 1.

## CHAPTER IX

### *Mergers of Undertakings Engaged in Securities Services*

#### Article 47

Procedure in mergers between undertakings engaged in securities services shall be subject to the provisions of the Acts on Limited-liability Companies or Private Limited-liability Companies as appropriate. Furthermore, the approval of the Minister shall be available after he has received the comments of the Bank Inspectorate.

If an undertaking engaged in securities services operates abroad, the competent authorities of the state concerned shall be notified about mergers.

#### Article 48

In special circumstances, after the approval of the Bank Inspectorate of the Central Bank of Iceland, in the event of the merger of two or more undertakings engaged in securities services, the own funds after the merger may be less than provided for in Article 3, paragraph 1, subparagraph 1. However, the own funds may not fall below the total amount at the time of the merger. If the own funds, however, fall below this amount the Bank Inspectorate may grant the undertaking concerned a reasonable period of postponement in which to rectify the situation. If the undertaking does not meet the own funds requirement at the end of the period, its operating licence shall be revoked in accordance with the provisions of Chapter XI and it shall be dissolved in accordance with the provisions of Chapter X.

## CHAPTER X

### *Dissolution of Undertakings Engaged in Securities Services*

#### Article 49

The dissolution of undertakings engaged in securities services depends upon the Insolvency Act, etc., and the Acts on Limited-liability Companies or Private Limited-liability Companies as applicable.

An undertaking engaged in securities services must be dissolved if the Minister refuses to grant the undertaking a period of postponement of the type referred to in Article 37, paragraph 4, or if a period granted under that provision has expired without the undertaking having managed to raise its own funds above the minimum level specified in Article 32.

When an undertaking engaged in securities services must be dissolved under paragraph 1, the Minister shall send the district court judge in the venue of the undertaking concerned a request that its estate be accepted for insolvency proceedings. When the district court judge has investigated whether the conditions for the request have been met, he shall deliver a ruling as to whether or not it will be granted.

If the request pursuant to paragraph 3 is accepted, the estate shall be managed according to the provisions of the Act on the Settlement of Estates at Death, etc., on the management of an estate at death where the inheritors are not liable for the settlement of the obligations of the deceased, except that the shareholders do not enjoy the status of inheritors in connection with such settlements until after it has been revealed, at the end of the time limit on the descriptions of requirements, that the assets of the estate suffice to pay the debts.

## CHAPTER XI

### *Revocation of Operating Licences*

#### Article 50

The Minister shall revoke the operating licences of an undertaking engaged in securities services after receiving the proposals of the Bank Inspectorate:

1. if the granting of operating licences has been based on wrong reports or information from the holder of the operating licence or it has otherwise been acquired unlawfully,
2. if the undertaking does not fulfill the requirements of Article 3, paragraph 1, subparagraph 1 regarding share capital or own funds or the requirements of Article 32, paragraph 1,

- provided that own funds have not been brought into line with the legal requirements within the period specified in Article 37, paragraph 4,
3. if the undertaking concerned seriously or repeatedly infringes this Act, rules, articles of association or regulations set in accordance with it,
  4. if circumstances are of the type described in Article 12, paragraph 2, concerning the competence of shareholders or in Article 3, paragraph 1, subparagraph 3 concerning the competence of the members of the board of directors,
  5. if the estate of the undertaking has been accepted for insolvency proceedings or the undertaking dissolved for other reasons,
  6. if the Bank Inspectorate considers that close links between an undertaking engaged in securities services and other natural or legal persons are liable to prevent it from effectively exercising its supervisory functions. The same applies if the law or regulations, applicable to those parties, prevent regular supervision. However, an operating licence will only be revoked after the Bank Inspectorate has made comments about it to the bank or savings bank concerned and given the undertaking the opportunity to clear up the matter.

Before a licence is revoked under paragraph 1, the undertaking concerned shall be granted a reasonable period of postponement in which to rectify the situation if this is possible.

#### Article 51

The Minister may, after receiving proposals from the Bank Inspectorate, suspend the licence of an undertaking engaged in securities services for the duration of an investigation into alleged infringement of the provisions of this Act, regulations, rules or articles of association. In such a case the Minister shall appoint a temporary supervisor for the undertaking who shall take measures aimed at guaranteeing the interests of customers.

#### Article 52

Revocation of the operating licence of an undertaking engaged in securities services shall be notified to the board of directors of the undertaking concerned and supported by arguments in writing. An announcement of the revocation shall be published in the Government Gazette and in the media. If the undertaking concerned has operated abroad, cf. the provisions of Chapter VII, the competent authorities in the state concerned shall be informed of the revocation.

If the Minister revokes the operating licence of an undertaking engaged in securities services, the undertaking shall be dissolved.

## CHAPTER XII

### *Supervision*

#### Article 53

The Bank Inspectorate of the Central Bank of Iceland shall supervise the activities of undertakings engaged in securities services in Iceland together with the activities of domestic undertakings engaged in securities services abroad, unless other provision is made in law or international agreements of which Iceland is a member. The Bank Inspectorate shall have access to all documents and information from these parties which it may consider necessary for the conduct of such supervision. In other respects this supervision shall be governed by the provisions of the Central Bank Act, as applicable. If the Bank Inspectorate considers that activities according to this Act are conducted without the required licences it shall have similar access to information and documents from the parties concerned.

If the Bank Inspectorate considers that the activities of an undertaking engaged in securities services infringe the provisions of this Act or regulations or rules issued in accordance with it, or are otherwise irregular, unhealthy, or unreliable, it may grant a suitable period of postponement in which to rectify the situation, except in the case of a serious violation.

If the Bank Inspectorate has reason to consider that the provisions of Chapter IV of this Act have been infringed, it may demand from natural and legal persons, including public institutions, any information and documents that it deems necessary in order to conduct an investigation.

#### Article 54

In conducting the supervision of the activities of foreign undertakings engaged in securities services in Iceland, the Bank Inspectorate may confer with the competent authorities in the home state of the undertaking concerned in accordance with law and the international agreements of which Iceland is a member.

### CHAPTER XIII

#### *Miscellaneous Provisions*

#### Article 55

The Bank Inspectorate of the Central Bank of Iceland shall keep a special register of the undertakings engaged in securities services which have acquired operating licences in Iceland, as well as foreign undertakings engaged in securities services operating or providing services in Iceland. This register shall contain the names of board members, managers and auditors of the undertakings. Furthermore, the register shall contain information on the nature of the operations of the undertaking concerned.

The Bank Inspectorate may provide for further information to be provided according to paragraph 1. The Bank Inspectorate shall be notified if changes occur in information which has already been provided.

#### Article 56

The owners, members of the board of directors, managers, auditors and other employees of undertakings engaged in securities services shall treat as confidential information all transactions in which they act as intermediaries, and all information concerning their customers' finances that they acquire in the course of their work and is confidential in accordance with the law or the nature of the matter, except when a judge rules that they must disclose such information to a court or the police, or that such information must be disclosed in accordance with the law. The obligation not to divulge information remains after the cessation of employment.

#### Article 57

The cost of publishing announcements under this Act shall be borne by the undertaking concerned.

#### Article 58

The Minister of Commerce shall be responsible for the implementation of this Act. He may issue further provisions concerning its implementation by means of a Regulation, e.g. on sanctions in the form of per-diem penalties.

### CHAPTER XIV

#### *Penalties*

#### Article 59

Violation of the provisions of this Act shall be punished by fines or imprisonment for a term of up to one year, if no greater penalties are stipulated for such infringements under the General Penal Code. In the event of violations on behalf of legal persons, the above-mentioned penalties may be imposed on their management, and furthermore the legal persons may be fined or their legal rights to operate withdrawn.

Violations of the provisions of Chapter IV are punishable by fines or imprisonment of up to two years. Furthermore, a court of law may rule that profits, direct or indirect, stemming from a violation of the provision, shall be confiscated.

Attempted violations of the provisions of this Act, or complicity in it, is liable to punishment under the terms of the General Penal Code.

## CHAPTER XV

### *Entry into Force and Replacement of Earlier Legislation*

#### Article 60

This Act enters into force immediately. At the same time, Act No. 9/1993, on Securities Transactions shall cease to apply.

### **Interim Provisions**

#### **I.**

Undertakings engaged in securities services which are operating pursuant to Act No. 9/1993 shall inform the Minister of Commerce immediately at the entry into force of this Act of the services, according to Article 8, they intend to provide.

#### **II.**

Natural persons which have been granted authorization by the Minister of Commerce to engage in securities brokerage, pursuant to Act No. 9/1993, and engage in activities in accordance with that licence, shall have adapted their operations to the provisions of this Act no later than 1 January 1997.

#### **III.**

Undertakings engaged in securities services which are operating shall have a time limit until 1 January 1997 to fulfill the requirements of Article 3, paragraph 1, subparagraph 1 regarding paid-up share capital. If new parties take over the operations of such an undertaking before 1 October 1996 it shall, however, have fulfilled the above requirements within three months of the takeover.

Done in Reykjavík, 28 March 1996.

Vigdís Finnbogadóttir  
(L.S.)

\_\_\_\_\_  
Finnur Ingólfsson.



**Act**  
**on Undertakings for Collective Investment**  
**in Transferable Securities, UCITS**  
**No. 10 of 5 March 1993**

THE PRESIDENT OF ICELAND

*makes known:* The Althingi has passed the present Act and I have ratified it with my approval:

CHAPTER I

*Scope*

Article 1

This Act shall apply to companies, hereafter named undertakings for collective investment in transferable securities, UCITS, whose sole aim is:

1. The receipt of funds from members of the public for collective investment in transferable securities on the basis of spreading risks in accordance with a prior stated investment policy; and
2. The issue of unit shares to those providing the company with funds for investment, and the redemption of such shares, from the company's assets, at the request of holders.

CHAPTER II

*Operating Licences and Registration of UCITS*

Article 2

Activities in accordance with the provisions of this Act shall only be undertaken by UCITS which fulfil its conditions and have been issued with operating licences by the Minister of Commerce.

The following conditions are made for issue of an operating licence:

1. The UCITS must be legally established, cf. Article 9.
2. The fund shall have assets at its disposal of a minimum of ISK 50 million, or a minimum of ISK 10 million shared among at least 50 parties in such a way that the share of each amounts to a minimum of ISK 10,000 and is designated to a named owner.
3. The fund's articles of association must meet the provisions of Article 8, paragraph 1.
4. The fund's depositary and management company must fulfil the conditions of Chapter V.
5. Audit of the fund shall be undertaken by a certified public accountant or an auditing firm.

Applications for operating licences shall be made in writing and accompanied by the UCITS's articles of association and such other information as the Minister may decide. Before a licence is issued, the case shall be referred to the Bank Inspectorate of the Central Bank of Iceland.

Article 3

Only UCITS holding completely valid operating licences may undertake activity in accordance with the provisions of Article 1. They are prohibited from undertaking any other activity.

UCITS have the exclusive authorization and duty, where practicable, to use the term "UCITS," alone or in a phrase, in their names or for the purpose of describing their activities.

UCITS under the provisions of this Act may not be converted into companies to which this Act does not extend.

#### Article 4

An application from a UCITS which does not fulfil the conditions of this Act for receiving an operating licence shall be refused.

The Minister may refuse to issue an operating licence to a UCITS if its members of the board of directors, or the managers of its management company or depositary, have:

1. been found guilty of a punishable offense that may be construed as creating a risk that they might take unfair advantage of their position,
2. shown behaviour which gives grounds for supposing that they will not handle their duties in a responsible manner.

No refusal shall be decided in accordance with the provisions of paragraph 2, without the case being referred to the Bank Inspectorate.

#### Article 5

Refusal by the Minister of a licence under the provisions of Article 8 shall be supported by arguments in writing which are sent to the applicant, in general no later than three months after the Minister's receipt of the complete application. However, the Minister's decision shall always be known within six months.

#### Article 6

The Minister shall announce the issue of the operating licence to a UCITS in the Government Gazette. This announcement shall state the name of the fund, the members of its board of directors and auditors, together with the name of its management company and depositary. Funds may not be accepted for investment in a UCITS before such an announcement has been published.

An operating licence expires if a fund has not commenced activity within twelve months of its issue.

#### Article 7

The Bank Inspectorate shall maintain a special registry of the UCITS which have been issued with operating licences, including the names of the members of their boards of directors and auditors, together with details of their management companies and depositaries.

The Bank Inspectorate may determine further the details to be supplied in accordance with the provisions of paragraph 1, and shall be notified immediately of any changes in previously notified information.

### CHAPTER III

#### *Articles of Association*

#### Article 8

The articles of association of a UCITS shall among other things include the following information:

1. The name, address and venue of the fund.
2. The name of the fund's depositary and provisions for changing it.
3. The structure of the fund's operations, either as a single entity or in separate divisions.
4. Provisions for calling an annual meeting and the matters it will deal with, including its right or lack of right to amend the articles of association and the procedure for doing so.
5. Holders of the right to attend the annual meeting and their voting rights.
6. The board of directors of the UCITS and its management company cf. Article 12.

7. Holders of the right to undertake obligations on the part of the fund and the holder of the voting rights accompanying securities which it owns.
8. The UCITS's investment policy.
9. The method of calculating the real value of each share in the fund
10. Procedures for redemption of unit shares.
11. Disposition of dividends and other profits yielded by the fund's securities.
12. Auditing and the financial year of the fund.
13. Provisions for merger of the fund with other funds, or for merger of divisions within it.
14. Procedures for winding up the fund.

Amendments to a UCITS's articles of association do not take effect until ratification has been made by the Bank Inspectorate. Ratification will be made if the amendments are in accordance with the law, providing that in other respects they are consistent with the interests of the owners of unit shares and that there are no other valid grounds for refusal. Amendments shall take effect no later than three months after their ratification, unless the Bank Inspectorate determines otherwise. Announcements of amendments shall be published in the Government Gazette.

A UCITS shall notify owners of unit shares of each amendment to its articles of association as well as advertise it publicly.

#### CHAPTER IV

##### *Board of Directors and Organization of UCITS*

###### Article 9

[A UCITS may only be established as a limited liability company.]1)

A UCITS may operate in separate divisions. In such a case, each division is responsible for its own obligations, although the divisions of a fund are collectively responsible for their joint costs.

1) Article 1 of Act 21/1996

###### Article 10

The annual meeting is the highest authority in the affairs of a UCITS. The board of directors is responsible for the fund's affairs between annual meetings.

The annual meeting shall be held in accordance with the provisions of the fund's articles of association. Announcement of the annual meeting shall be made at least ten days in advance and be accompanied by an agenda.

###### Article 11

The board of directors of a UCITS shall be elected at the annual meeting in accordance with the provisions of its articles of association and be comprised of at least three members. The board is responsible for generally supervising that its activities are consistent with the provisions of this Act, with Regulations issued in accordance with it and with the fund's articles of association, including the maintenance of adequate supervision of its accounts and disposal of its assets.

[The Members of the Board must be resident in Iceland. They shall be of legal age, have unblemished reputation, be competent to manage their own finances and may not, during the last five years, have in connection with running a business been convicted for a legally punishable action under the General Penal Code or the Acts on Limited-liability Companies, Private Limited-liability Companies, Bookkeeping, Annual Accounts, Bankruptcy or Public Levies. Nationals of the Member States of the Agreement on the European Economic Area are exempted from the residence requirement provided that the nationals concerned are residing in a Member State of the EEA. The Minister may grant the same exemption to nationals of other states.]1)

Board members must not at the same time be members of the board of the depositary or management company in accordance with the provisions of Chapter V.

1) Article 2 of Act 21/1996

## CHAPTER V

### *Management Companies and Depositories*

#### Article 12

Operation of a UCITS shall be entrusted to a separate management company, recognized by the Bank Inspectorate. [A management company may only be established as a limited liability company or a private limited liability company with legal residence in Iceland.]<sup>1)</sup> It shall operate independently and engage exclusively in the day-to-day operations of UCITS or other enterprises involved in collective investments in transferable securities which are not covered by the provisions of this Act. The management company must not at the same time be a depository as defined under the provisions of Article 14.

The management company must not acquire shares with voting rights on such a scale as to be able to exert a substantial effect on the management of the issuers of securities.

- 1) Article 3 of Act 21/1996

#### Article 13

[The person responsible for the day-to-day management of a management company shall fulfill the same conditions as the manager of an undertaking engaged in securities services in accordance with the Securities Transactions Act.]<sup>1)</sup> He may not be a member of the board of business enterprises unless consent is given by the Bank Inspectorate.

- 1) Article 4 of Act 21/1996

#### Article 14

Administration and safekeeping of the securities owned by a UCITS shall be entrusted to a depository which has been recognized by the Bank Inspectorate or by legal authorities in the country concerned. A UCITS's assets shall be kept separate from those of the depository. The depository shall:

1. ensure that the sale, issue, repurchase, redemption and cancellation of the unit shares in a UCITS are conducted in accordance with the law and the fund's articles of association,
2. ensure that the redemption value of the unit shares is calculated in accordance with the law and the fund's articles of association,
3. implement instructions from the fund's management company insofar as they are not in violation of the law and the fund's articles of association,
4. ensure that transactions involving the fund's assets are settled by payment within a normal period of time,
5. ensure that the revenues earned by the fund are disposed of in accordance with the law and the fund's articles of association.

Recognition as a depository may be granted to:

1. securities companies,
2. commercial banks and savings banks,
3. other credit institutions operating in accordance with the laws applying to them,
4. branch offices of analogous institutions operating in Iceland.

[A depository is liable to a management company and unit-holders for any loss suffered by them which may be attributed to the intent or negligence of the personnel of a depository in conducting its operations in accordance with the first paragraph. ]<sup>1)</sup>

- 1) Article 5 of Act 21/1996

#### Article 15

A UCITS must not change its management company or depository without the consent of the Bank Inspectorate.

## CHAPTER VI

### *Unit Shares*

#### Article 16

[Securities in the form of unit shares shall be issued to parties who commit funds to a UCITS for investment, if they so request.]1) Unit shares shall be designated to a named owner. All holders of unit shares in a UCITS or in a separate division within it shall have an equal claim to the income and assets of the fund or respective division in proportion to their share, and the unit share certificate is a confirmation of that claim to the securities owned by the fund.

[The unit shares in a UCITS are exempt from stamp duties.]2)

- 1) Article 6a of Act 21/1996
- 2) Article 6b of Act 21/1996

#### Article 17

The unit share certificate shall state, among other things, the following:

1. The name of the UCITS, its depository and management company.
2. The name and national identity number of the original owner, and the number of the certificate.
3. Procedures for redemption of the share and rules pertaining to payment of dividends.
4. The name and national identity number of transferees, if the certificate has been traded without being redeemed.

The unit share certificate shall be dated and signed by the board of the fund or an agent authorized to act on its behalf. The signature may be printed or presented in a comparable manner.

#### Article 18

The management company of a UCITS shall maintain a registry of all unit shares in the fund containing, among other things, the following information:

1. The name and national identity number of the owner.
2. The number of the unit share certificate and its date of sale.
3. The par value of the share.
4. The total number of certificates issued.

The management company of a UCITS shall be notified of changes in ownership of unit shares, which it shall enter, together with other information it receives concerning ownership of the certificates, into the registry, quoting the source.

If the owners of unit shares elect a representative to the board of a UCITS in accordance with its articles of association, a list shall be compiled of the names of holders of voting rights and their number of votes. Owners of unit shares are entitled to a copy of this list no later than three weeks before the fund's annual meeting.

#### Article 19

Unit shares in a UCITS shall only be sold for cash payment.

Unit shares shall be redeemed on the owner's demand as specified further in provisions in the fund's articles of association. A UCITS may nonetheless, in accordance with the provisions of its articles of association, suspend redemption of unit shares, provided this applies universally to all unit share certificates and their owners and is only done for exceptional reasons and is necessary to protect the interests of the unit share owners. Immediate notification of suspension of redemptions shall be made to the Bank Inspectorate and the supervisory bodies of other states within the European Economic Area where the fund's unit shares have been issued. The measure shall also be announced publicly.

The Bank Inspectorate can demand that redemption be suspended if this is necessary to protect the interests of the owners of unit share certificates or the general public.

The redemption value of unit shares in a fund is the market value of its total assets less any debts at the time of redemption, such as debts outstanding with credit institutions unpaid administrative and management costs, collection costs and payable or estimated taxes.

The redemption value of unit shares in a fund shall be calculated daily and announced publicly at least twice each month. At its discretion, the Bank Inspectorate may decide that the redemption value shall be announced more frequently.

The Minister may issue a Regulation stipulating further rules on calculation of the redemption value of unit shares.

## CHAPTER VII *Investment Policy*

### Article 20

[A UCITS or individual divisions within it may only invest in:

1. Transferable securities that have been registered on an regulated securities market as defined in the Securities Transactions Act.
2. Recent issues of transferable securities, provided that their terms of issue include an undertaking to apply for registration of the securities on an regulated securities market in accordance with the provisions of subparagraph 1. Registration of such securities in accordance with these provisions shall be made no later than one year from their date of issue. ]1)

The provisions of paragraph 1 notwithstanding, a UCITS or division within it may invest as much as the equivalent of 10% of its assets in other securities than those specified above.

The Bank Inspectorate is authorized to issue rules allowing UCITS to invest up to 10% of their assets in debt instruments that are considered equivalent to transferable securities liquid, and whose monetary value can be determined at any time.

A UCITS's total investment in accordance with the provisions of paragraph 2 and paragraph 3 must never exceed 10% of its assets.

UCITS are prohibited from investing in precious metals or in claims to them.

[A UCITS may not sell securities which it does not own at their date of sale.]2)

- 1) Article 7a of Act 21/1996
- 2) Article 7b of Act 21/1996

### Article 21

A maximum of 10% of the assets of a UCITS or an individual division within it may be invested in securities issued by a single issuer, cf. however Article 22 and Article 23. The combined total of respective investments in excess of 5% of its assets, which a fund or individual division within it makes in securities issued by single issuers, may not exceed 40% of its assets.

The provisions of paragraph 1 notwithstanding, a UCITS or a division within it may invest up to 35% of its assets in securities issued or guaranteed by one or more states within the European Economic Area or their local authorities, by international organizations of which one or more such states are members, or by states outside the European Economic Area.

The provisions of paragraph 1 notwithstanding, the Bank Inspectorate may authorize a UCITS to invest up to 25% of its assets in debt instruments issued by a single credit institution within the European Economic Area. The combined total of respective investments in excess of 5% of its assets, which a fund or individual division within it makes in such debt instruments, may not exceed 80% of its assets.

Securities referred to under the provisions of paragraph 2 and paragraph 3 shall be excluded from calculations of the total investment for the purposes of subparagraph 2 of paragraph 1.

The provisions of paragraph 1-3 notwithstanding, the total investment by a UCITS in securities issued by the same body must never exceed 35% of its assets.

#### Article 22

The Bank Inspectorate may authorize a UCITS or an individual division within it to invest up to 100% of its assets in transferable securities in accordance with the provisions of Article 21, paragraph 2, if it considers this compatible with the interests of the unit share owners.

Investments by a UCITS or an individual division within it in accordance with the provisions of paragraph 1 shall be spread across at least six different issues of securities, of which none may be of greater value than the equivalent of 30% of the fund's or division's assets.

The Bank Inspectorate may issue further rules on investment in accordance with these provisions.

#### Article 23

[A UCITS or individual divisions within it may not invest in unit shares of UCITS other than those which comply with the provisions of this Act. However, the investment of a UCITS in other UCITS must not exceed 5% of its assets or the assets of individual divisions within it.]1)

The provisions of paragraph 1 notwithstanding, no UCITS may invest in the unit shares of another fund which has the same board of directors or management company or is closely connected to it in other respects. Such an investment may nonetheless be authorized under rules issued by the Bank Inspectorate.

The management company may not charge fees or payment of costs in transactions with unit shares in a fund in cases where part of the fund's assets are invested in unit shares in another UCITS operated by the same management company or another company with which it is linked by a common board of directors or by control, or through substantial direct or indirect ownership.

1) Article 8 of Act 21/1996

#### Article 24

A UCITS may own a maximum of

1. 10% of the non-voting shares in an individual limited liability company,
2. 10% of debt securities from individual issuers of transferable securities,
3. 10% of unit shares in individual UCITS which fulfil the conditions of this Act.

Rules issued by the Bank Inspectorate may exempt from the provisions of paragraph

1. issued or guaranteed by one or more states within the European Economic Area or their local authorities,
2. issued or guaranteed by states outside the European Economic Area,
3. issued by international organizations of which one or more states within the European Economic Area are members.

#### Article 25

Immediate action shall be taken if investment by a UCITS exceeds the permissible limits in accordance with the provisions of this Act, and it shall normally be brought within the legal limit within six months. In specific cases, however, the Bank Inspectorate may recommend a longer period of adjustment provided that it clearly serves the interests of unit share owners.

#### Article 26

[A UCITS may not invest in real estate or chattel.]1)

The provisions of paragraph 1 notwithstanding, UCITS have unrestricted authorization to take over property in order to secure settlement of claims. Such property shall be sold as soon as is considered favourable and no later than eighteen months from the date of acquisition. Further deferral of sale is authorized in cases where it clearly serves the interests of the fund but shall be

notified to the Bank Inspectorate, which may order the sale to be made within an appropriate period.

1) Article 9 of Act 21/1996

#### Article 27

[The only case where a UCITS may borrow funds is short-term credit in order to meet redemption of unit shares. Such credit must not exceed the equivalent of 10% of the assets of the UCITS or its individual divisions.]1)

UCITS are prohibited from providing credit or issuing guarantees to other parties.

1) Article 10a of Act 21/1996; and in addition paragraph 2 deleted,  
cf. Article 10b of Act 21 /1996

#### Article 28

In transactions by the owners, management and employees of UCITS, depositaries and management companies, and by their spouses, care shall be taken to ensure that:

1. The transactions are recorded separately.
2. The companies' boards of directors are provided with systematic information on the transactions and endorse them.

These companies shall establish in-house operating procedures regarding transactions under the provisions of paragraph 1, which shall be approved by the Bank Inspectorate.

### CHAPTER VIII

#### *Annual Financial Statements and Auditing*

#### Article 29

The boards of directors of a UCITS and its management company shall compile financial statements for each accounting year in accordance with the law and their articles of association. The statements shall consist of income statement, balance sheet and explanatory notes. An annual report shall also be prepared. The financial statements and annual report shall form a single entity. The accounting year of UCITS is the calendar year.

The financial statements and annual report shall be confirmed with the signature of the boards of directors of the fund and its management company. A member of the board of directors who contests the financial statements shall sign them with a reservation whose nature shall be accounted for in the annual report.

The financial statements shall be clearly presented and in accordance with the law and with rules issued on the basis of them.

The financial statements shall present fairly the assets, liabilities, financial position and operating performance of the UCITS.

The annual report shall contain a summary of the activities of the respective fund during the year, together with information on matters relevant to an assessment of its financial position and operating performance during the accounting year which are not presented elsewhere in the financial statements.

The Bank Inspectorate may issue further rules regarding the preparation of annual financial statements.

#### Article 30

Audits shall be performed by a certified public accountant or an auditing firm. An auditor may not be a member of board of directors of the fund or management company, or be an employee of or work for either of them for any other purpose than auditing.



An auditor shall be given access to all property, books, source documents and other records of a UCITS, and its board and employees shall furthermore provide him with all information which is requested and can be provided.

The provisions of paragraph 2 extend to information and documents of a management company and depositary which are necessary for the audit of the UCITS.

#### Article 31

The auditor shall confirm the annual financial statements with his signature and state the conclusions of the audit. He shall declare that the financial statements have been audited and been prepared in accordance with the law, regulations and articles of association. The auditor shall state his opinion of the financial statements and describe his conclusions in other respects.

If an auditor is of the opinion that the financial statements do not contain required information, he should so state in his audit report and provide additional information if possible. He shall point out in his audit report if the annual report does not contain the information it should present or is not consistent with the financial statements. In other respects the auditor may include in his report such subparagraphs as he considers appropriate in the financial statements.

[If an auditor reveals such flaws in the operation of a UCITS that the financial statements can not be signed or the audit report must contain qualifications, flaws in its internal control system or other matters which may weaken the financial position of the UCITS in connection with continuing operations, and if an auditor has reason to believe that laws and regulations or rules applicable to the UCITS have been infringed, the auditor shall immediately inform its Board and the Bank Inspectorate. This also applies to similar matters which an auditor of a UCITS will come to knowledge of concerning undertakings closely linked to it. The provisions of this Article do not infringe the obligation not to divulge information in accordance with the provisions of other laws.]1)

The provisions of paragraph 3 extend to the auditors of the management company and depositary as applicable.

1) Article 11 of Act 21/1996

#### Article 32

The audited financial statements and annual report of the fund shall be sent to the Bank Inspectorate within ten days from its confirmation by the board and no later than three months from the end of the accounting year. The statements shall be accompanied by a report by a certified public accountant including details of the method used for calculating the fund's assets in the form of securities. The highlights of the financial statements shall be made public in a standardized format determined by the Bank Inspectorate. Such financial highlights shall be presented in a form accessible to the general public and be readily available at the place of operation of the fund and management company.

A quarterly interim financial statement, in a format determined by the Bank Inspectorate, shall also be sent to it and be readily available at the place of operation of the fund and management company.

In addition to the annual financial statements of the UCITS as stated above, the audited financial statements and annual report of the depositary and management company shall be sent to the Bank Inspectorate no later than three months from the end of the accounting year. These companies are furthermore obliged to furnish the Central Bank with any information necessary for the compilation of economic statistics, cf. the provisions of the Central Bank Act.

### CHAPTER IX

#### *Supervision*

#### Article 33

The Bank Inspectorate of the Central Bank of Iceland shall supervise that the activities of UCITS, management companies and depositaries are in accordance with the provisions of this Act

and Regulations and rules issued in accordance with it. The Bank Inspectorate shall have access to all documents and information from the parties governed by this Act, which it may consider necessary for the conduct of such supervision. This supervision shall be governed by the provisions of the Central Bank Act and the Act on Securities Transactions, as applicable.

If the Bank Inspectorate considers that the activities of a UCITS, depositary or management company infringe the provisions of this Act or Regulations or rules issued on the basis of it, or are in any other respect irregular, unhealthy or unreliable, it may grant a suitable period for rectifying the matter, except in the case of a serious violation.

## CHAPTER X

### ***Revocation of Licences***

#### Article 34

The Minister is obliged to revoke a UCITS's operating licence if it

1. No longer meets the conditions of this Act for holding a licence,
2. Undergoes liquidation proceedings or its activity is wound up.

#### Article 35

On recommendation by the Bank Inspectorate, the Minister may revoke the licence of a UCITS in the event of repeated or serious violation of the provisions of this Act, or of Regulations or rules issued in accordance with it, by the fund, management company or depositary, or in the events of their activities being in any other respect irregular, unhealthy or unreliable and of failure to meet the demands made by the Bank Inspectorate in accordance with the provisions of Article 33, paragraph 2.

The Minister may suspend the operating licence of a UCITS for the duration of an investigation into its alleged infringement of the provisions of this Act. In such a case, the Minister shall appoint a temporary supervisor who shall take measures aimed at securing the interests of the fund's customers.

#### Article 36

Revocation of the operating licence of a UCITS shall be supported by arguments in writing which are notified to the party concerned. Furthermore, the revocation shall be announced in the Government Gazette and in the media.

If the Minister permanently revokes the operating licence of a UCITS, he shall appoint a committee of three members to manage the winding-up of the fund or the transfer of its activities to another UCITS.

## CHAPTER XI

### ***Miscellaneous Provisions***

#### Article 37

A UCITS intending to market its unit shares or open a branch office in another state within the European Economic Area shall notify the Bank Inspectorate and the supervisory body in the state in which such activity is planned.

A licence authorizing activity of the type covered by this Act and issued by the competent authorities of another state within the European Economic Area is also valid in Iceland. The activities of such licence holders in Iceland shall be governed by further rules issued by the Minister.

The validity of licences authorizing activity of the type covered by this Act and issued by the competent authorities of another state outside the European Economic Area, and the activities of such licence holders in Iceland, shall be governed by rules issued by the Minister.

[Article 38

A management company shall publish a prospectus for each UCITS which it manages in accordance with this Act. The prospectus shall include the necessary information for the customer to be able to evaluate the benefits of investment in the unit shares in a UCITS.

The Bank Inspectorate shall lay down rules with further provisions on the prospectus' of UCITS in accordance with the first paragraph.] 1)

1) Article 12 of Act 21/1996

[Article 39 ] 1)

Management and employees of UCITS, management companies and depositaries shall treat as confidential information all transactions in which they act as intermediaries, and all information concerning their customers' financial position that they acquire in the course of their work and is confidential in accordance with the law or the nature of the matter, except when a court of law rules that they must disclose such information to a court or the police, or that such information must be disclosed in accordance with the law. The obligation not to divulge information remains after the cessation of employment.

1) Article 12 of Act 21/1996

[Article 40]1)

The cost of publishing announcements in accordance with the provisions of this Act shall be met by the UCITS concerned.

1) Article 12 of Act 21/1996

[Article 41]1)

The Minister of Commerce is responsible for the implementation of the provisions of this Act and may issue a Regulation describing their further implementation.

1) Article 12 of Act 21/1996

CHAPTER XII

***Penalties for Violation***

[Article 42]1)

Violation of the provisions of this Act shall be punished by fines or custody for a term of up to one year, if no greater penalties are stipulated for such infringements under the General Penal Code. In the event of violations on behalf of legal persons, the above-mentioned penalties may be imposed on their management, and furthermore the legal persons may be fined or their legal rights to operate withdrawn.

Attempted violation of the provisions of this Act, or complicity in it, is liable to punishment under the terms of the General Penal Code.

1) Article 12 of Act 21/1996

CHAPTER XIII

***Entry into Force***

[Article 43]

This Act enters into force on July 1, 1993. At the same time Act No. 20/1989 on Securities Transactions and UCITS shall cease to apply.

1) Article 12 of Act 21/1996

**Interim Provisions**

UCITS which are operating on the entry into force of this Act shall have made their activities consistent with its provisions no later than one year thence.

Securities companies which operate UCITS on the entry into force of this Act, and undertake activities covered by its provisions, may continue such activities for a maximum of one year thence. The Minister may grant a further extension, although never by more than six months.

Done in Reykjavík, 5 March 1993.

Vigdís Finnbogadóttir  
(L.S.)

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Jón Sigurðsson

**Act**  
**on the Iceland Stock Exchange**  
**No. 11 of 5 March 1993**

THE PRESIDENT OF ICELAND

*makes known:* The Althingi has passed the present Act and I have ratified it with my approval:

CHAPTER I  
*Establishment and Objectives*

Article 1

The Iceland Stock Exchange is a self-owned institution holding the sole right to engage in stock exchange activities in this country. The Stock Exchange may not engage in other activities, cf., however, the provision contained in Article 20.

Stock exchange activities refer to the regular bringing together of sale and purchase offers for securities for official trading and price-registration. The securities shall be from specific issues which the Board of Directors of the Stock Exchange have formally adopted to a special list whereby the issuing parties undertake *inter alia* to abide by a specific obligation to disclose information.

The Stock Exchange will take over all rights, assets, liabilities and obligations of the Icelandic Stock Exchange which operates in accordance with Rules No. 26/1992.

The Stock Exchange is obligated and alone authorized to use in its firm or for further explanation of its activities the words "stock exchange" independently or in context with other words, unless otherwise decided by Law.

The domicile and venue of the Stock Exchange are in Reykjavík.

Article 2

The objectives of the Stock Exchanges are as follows:

1. To be a forum for trading in bonds, share certificates and other securities and to operate for that purpose an organized [trading, settlement and information system]<sup>1)</sup>, cf. Chapter VI.
2. To impose professional, financial and moral requirements upon Members of the Exchange, cf. Chapter IV.
3. [To lay down rules on the settlement of trades, taking account of the financial status of the Members of the Exchange.]<sup>2)</sup>
4. To assess the possibility of listing securities, cf. Chapter V.
5. To register the price of securities and other information as may be deemed necessary.
6. To undertake supervision of the implementation of the rules of the Stock Exchange. For that purpose the Exchange shall co-operate with the Bank Inspectorate of the Central Bank of Iceland in the fields in which the Bank Inspectorate has a supervisory role in accordance with Laws, cf. the provisions of Chapter VIII.
7. [To further the development and efficiency of the securities market.]<sup>3)</sup>

1) Article 1a of Act 22/1996

2) Article 1b of Act 22/1996

3) Article 1c of Act 22/1996

## CHAPTER II

### ***Board of Directors and Meetings of Members of the Exchange***

#### Article 3

The Board of Directors of the Stock Exchange consists of seven persons. They shall be selected for a term of two years at a time before the end of [April].1) The Central Bank will nominate the Chairman of the Board of Directors. Other Members of the Exchange nominate two persons. One of them is Vice-Chairman of the Board. The issuers of listed shares on the Exchange nominate two persons. The Trade Union Pension Funds Federation - S.A.L. and The Federation of Pension Funds jointly nominate one person and the Minister of Commerce nominates one person to represent smaller investors. An equal number of alternates shall be selected in the same manner.

[The Members of the board must be resident in Iceland, be of legal age, have unblemished reputation and be competent to manage their own finances. They must not, during the last five years, have in connection with running a business been convicted for a legally punishable action under the General Penal Code or the Acts on Limited-liability Companies, Private Limited-liability Companies, Bookkeeping, Annual Accounts, Bankruptcy or Public Levies.]2)

In case the Board of Directors remain incomplete in accordance with paragraph 1 to the effect that the Stock Exchange has not received nomination by a party concerned in a formal manner before the end of [April]3) the Minister of Commerce will appoint the Directors wanting without nomination.

- 1) Article 2a of Act 22/1996
- 2) Article 2b of Act 22/1996
- 3) Article 2c of Act 22/1996

#### Article 4

The Board of Directors of the Stock Exchange will hold meetings as often as is deemed necessary and at any time when a Board-member so requests. The Board shall keep a Record of Minutes. The plurality of votes will decide issues at Board meetings. In case of even votes the Chairman's vote will be decisive. The Board of Directors shall publish their decisions in a reliable and clear manner.

Rules laid down by the Board of Directors shall be published in the "Legal Gazette".

#### Article 5

The Annual General Meeting of the Stock Exchange shall be held before the [end of April]1) each year. At the Annual General Meeting audited annual accounts and the Board's annual report shall be submitted, cf. Article 16 and 17.

In addition to Directors, their alternates and the Directing Manager, representatives from all Members of the Exchange are entitled to attend the Annual General Meeting, cf. Chapter IV.

When they consider there to be occasion therefore the Board of Directors may call all Members of the Exchange to a meeting, cf. Chapter IV. Each Member of the Exchange not having a representative on the Board of Directors is entitled to one representative at such meetings. The Board are in duty bound to call a meeting if a third of the Members of the Exchange so request.

- 1) Article 3 of Act 22/1996

## CHAPTER III

### ***Directing Manager***

#### Article 6

The Board of Directors of the Stock Exchange shall engage its Directing Manager. The Board shall decide upon the wages and other terms of the Directing Manager and shall lay down a letter of instructions for him. The Directing Manager shall undertake the daily operations of the Exchange. The Directing Manager shall be resident in this Country. He shall be of unblemished reputation, never having been deprived of the administration of his estate and he shall in the assessments of the Board of Directors have extensive experience for the position.

The Directing Manager and other staff are not permitted to be members of the boards of establishment and business concerns outside of the Stock Exchange or to participate in business operations in other respects without the permission of the Board of Directors. Shareholding in a concern is deemed to constitute participation in business operations, unless there be a case of a negligible share which will not be decisive in connection with its administration and will first and foremost be considered to be investment of savings. The Bank Inspectorate will decide upon disputes in individual instances. Under special circumstances the Bank Inspectorate may grant the party concerned respite for up to three months in order to meet the conditions of the present paragraph.

#### Article 7

The Directing Manager shall attend Board meetings and participate in debates, unless the Board make an alternative decision. He shall give the Board regular reports on the activities and daily operations of the Stock Exchange.

### CHAPTER IV

#### *Members of the Exchange*

#### Article 8

Those who are entitled to submit offers and transact business in securities at the Stock Exchange are named Members of the Exchange. The following may become Members:

1. The Central Bank of Iceland.
2. Securities houses, [securities brokerages which may to engage in securities transactions for their own account],<sup>1)</sup> commercial banks, savings banks and other credit institutions as well as other legal persons who are authorized to engage in securities trading in accordance with Laws.
3. Foreign legal persons who are authorized to engage in securities trading in this Country, [provided that they have similar access to a regulated securities market in their home state.]<sup>2)</sup>

Members of the Exchange alone are entitled to submit offers and deal in securities at the Stock Exchange.

[The Board of Directors of the Stock Exchange lays down further rules relating to membership of the Iceland Stock Exchange.]<sup>3)</sup>

- 1) Article 4a of Act 22/1996
- 2) Article 4b of Act 22/1996
- 3) Article 4c of Act 22/1996

#### Article 9

Applications for membership from others than the Central Bank, which is automatically a Member without application, shall be sent to the Board of Directors of the Stock Exchange. The Board shall investigate whether an applicant meets the conditions for membership in accordance with Article 8. In addition thereto applicants shall fulfill the following conditions:

- [1. They shall meet the own funds requirements in accordance with the laws to which they are subject.]<sup>1)</sup>
  - [2. They shall have sufficient experience in securities trading.]<sup>1)</sup>
  - [3. They shall have signed a declaration on their word of honour to discharge their duties to the best of their conscience and in every respect in conformity with the laws and rules in force.]<sup>1)</sup>
- 1) Article 5 of Act 22/1996

#### Article 10

In case the Board of Directors of the Stock Exchange considers a Member of the Exchange to have shown conduct in his work which is incompatible with the interests of his customers or the Exchange the Member concerned shall, upon the invitation of the Board, give it an appropriate account of his case. In this respect a Member shall reply and attend to the Board's enquiries and calls without undue delay. The Board may admonish individual Members, but shall deprive a Member of the Board. The Board shall release a Member from the encumbrances of the Exchange as and when he is deprived of membership. In case a Member does not in part or in full meet conditions for membership of the Exchange the Board shall deprive him of membership and release him from the encumbrances of the Exchange.

## CHAPTER V

### *Listing of Securities*

#### Article 11

Members of the Exchange apply for listing of securities in the trading system of the Stock Exchange. Listing is subject to the approval of the Board of the Exchange which shall lay down further rules relating to securities which are taken for listing. These shall i.a. contain the following items:

1. That the size of the securities in each issue and the distribution thereof be such that the securities may be considered marketable.
2. That information be published upon listing and thereafter on each issue of securities and its issuer concerning assessment of the value of the securities in accordance with rules laid down by the Board.
3. That a Member be notified about the Board's decision relating to an application for registration generally no later than two months after the receipt of a completed application. The Board's decision shall, however, at all times be available within six months.

The Board will arrange for the preparation of the requisite information relating to listed securities to which the general public has access.

#### Article 12

The Board is in duty bound to delete from the list securities which it considers to be short of meeting the conditions of the present Act and rules laid down by the Board. The Board is also authorized to cancel temporarily the listing of individual issues of securities if there is deemed to be reason therefore.

The issuer of listed securities or a Member acting for and on his behalf may request in writing that these be deleted from the list of the Stock Exchange. The Board of the Exchange shall accede thereto following a study of the premises for such a request.

The Minister may temporarily suspend all trading on the Stock Exchange when special circumstances so require. He shall, if at all possible, consult the Board of the Exchange prior to such a decision being made.

## CHAPTER VI

### *The Trading, Settlement and Information System*

#### Article 13

The Board of the Stock Exchange shall lay down rules relating to an organized [trading, settlement and information system.]<sup>1)</sup> Therein shall be contained stipulations as to in which manner offers are submitted and also concerning the assembly and dissemination of information concerning trading in listed securities, irrespective of whether the trading occurs within or outside the trading system.

- 1) Article 6 of Act 22/1996

#### Article 14



Members of the Exchange shall settle transactions directly between themselves in accordance with rules laid down by the Board. Members are responsible for their trading in listed securities.

Members of the Exchange shall give the Board of the Stock Exchange an account of the remuneration they charge for undertaking the purchase or sale of listed securities.

#### Article 15

A Member of the Exchange is authorized to transact business in listed securities without offering these in the Stock Exchange's trading system, provided that he gives both buyers and sellers an account of the fact. A Member of the Exchange shall send information about such transactions to the Exchange in the manner prescribed by the rules laid down under Article 13.

### CHAPTER VII

#### *Annual Accounts and Auditing*

#### Article 16

The Board of Directors and the Directing Manager of the Stock Exchange shall prepare annual accounts for each fiscal year in conformity with the provisions of Laws and rules. The annual accounts shall consist of a Profit and Loss Account, Balance Sheet and Explanatory Notes. An annual report shall furthermore be prepared. The annual account and the annual report form an entity. The fiscal year of the Exchange is the calendar year.

The annual accounts and the annual report shall be signed by the Board of Directors and the Directing Manager. In case a Director or the Directing Manager submit objections to the annual accounts he shall sign with reservation and give an account of the nature of the reservation in the annual report.

The annual accounts shall give a clear picture of the assets, liabilities, financial status and result of operations of the Stock Exchange.

The annual report shall give a survey of the activities of the Stock Exchange during the year as well as information about items of importance for the assessment of its financial status and the result of operations during the fiscal year which is not revealed elsewhere in the annual accounts. The annual report shall also grant information about the average number of staff during the fiscal year, the total amount of wages, remuneration or other payments to the staff, Board of Directors and Directing Manager and others in the service of the Exchange.

#### Article 17

The annual accounts of the Stock Exchange shall be audited by a state authorized public accountant or an auditing firm. The auditor of the Exchange may not have a seat on the Board of Directors, be an employee or work for the Exchange in another capacity than auditing.

It is obligatory to grant the auditor access to all assets, books and accompanying documents and other documentation of the Stock Exchange and its Board of Directors and staff shall also grant him all information which is required and can be furnished.

The auditor shall endorse the annual accounts and explain the findings of the audit. He shall give a declaration to the effect that the annual accounts have been audited and that these have been prepared in conformity with the provisions of Laws and rules. The auditor shall express his opinion of the annual accounts and will explain the conclusions in other respects.

Audited annual accounts and the annual report shall be sent to the Bank Inspectorate of the Central Bank of Iceland within three months as of the completion of the fiscal year.

[The audited annual accounts shall be published in the B-division of the Government Gazette.]<sup>1)</sup>

1) Article 7 of Act 22/1996

### CHAPTER VIII

## ***Supervision***

### Article 18

The Bank Inspectorate of the Central Bank of Iceland supervises that the activities of the Stock Exchange are in conformity with the present Act and rules or Regulations laid down in accordance therewith. The Bank Inspectorate is authorized to gain access to all documentation and information relating to the activities of the Exchange and Members of the Exchange which it deems necessary on account of the supervision. The supervision is subject, as far as may be applicable, to the Act respecting the Central Bank of Iceland as well as Laws respecting transactions in securities.

The provision of paragraph 1 notwithstanding the Board of Directors of the Stock Exchange shall supervise that trading in securities is in conformity with the present Act and rules and Regulations laid down in accordance therewith. The Board of the Exchange is authorized to gain access to all documentation and information relating to the activities of Members of the Exchange and parties issuing listed securities which it considers necessary on account of its supervisory task. In case the Board or the staff of the Exchange notice violations thereof having been committed the Board shall forthwith resort to appropriate measures and also notify the Bank Inspectorate.

The Board of Directors and staff of the Stock Exchange shall forthwith notify the Bank Inspectorate if they do in the course of their work notice activities which may be assumed to be in conflict with Laws, Regulations or rules and which do not come under the provisions of paragraph 2, provided that the activities under reference be apt to damage the interests of the Stock Exchange.

The provision of paragraph 2 does not abridge the right of the Bank Inspectorate to undertake supervision or action toward those to whom the present Act applies if the Bank Inspectorate deems this necessary.

## CHAPTER IX

### ***Miscellaneous Provisions***

#### Article 19

Costs of the operation of the Stock Exchange will be paid out of its revenue in accordance with a schedule of charges laid down by the Board of Directors of the Exchange.

#### Article 20

The Board of Directors of the Stock Exchange may decide to participate in the establishment and operation of a securities centre and payment clearing system for securities.

#### Article 21

The Stock Exchange is not permitted to grant credit or undertake a guarantee for a third party. Furthermore the Exchange is not permitted to be in any way responsible as a part-owner or participant in the operation of other establishments, companies or concerns, cf., however, the provision of Article 20.

#### Article 22

Members of the Board of Directors and other employees of the Stock Exchange are subject to confidentiality concerning all that which relates to the status of those trading on the Exchange, its affairs and other items about which they obtain knowledge in the course of their work and which shall be kept secret in accordance with Laws or the nature of the case, unless a Judge decree that it be obligatory to grant information before a Court of Law or the police or that it be obligatory to grant information in accordance with Laws. Confidentiality is maintained although employment ceases.

The provision of paragraph 1 notwithstanding the Stock Exchange is authorized to co-operate with foreign stock exchanges or lawful authorities abroad and furnish these with information subject to the condition that the named foreign parties meet requirements concerning corresponding confidentiality in their home country. Information which the Stock Exchange grants to the aforementioned alien parties and which is marked as being confidential or which is that according to the nature of the case shall be treated as stated in paragraph 1.

## CHAPTER X

### *Penalties*

#### Article 23

Violations of the present Act are subject to fines or imprisonment for up to a year, unless heavier penalty applies according to the Penal Code. In case a violation is committed for the benefit of a legal person it is permissible to apply the aforementioned penalties to the administration of that legal person and it is also permissible to make the legal person subject to fine or deprivation of professional rights.

Attempted violations and participation in violations of the present Act are subject to penalties as stated in the General Penal Code.

## CHAPTER XI

### *Entry into Force etc.*

#### Article 24

The Minister of Commerce deals with the implementation of the present Act. After having obtained proposals from the Board of Directors of the Iceland Stock Exchange may lay down further provisions relating to the implementation thereof.

#### Article 25

The present Act enters into force on 1 July 1993. At the same time Rules relating to the Icelandic Securities Exchange No. 26/ 1992 are repealed.

## **Interim Provisions**

### **I.**

The provision of Article 3 paragraph 1 notwithstanding the Board of Directors of the Stock Exchange at the time of the entry into force of the present Act will sit until the end of February 1994.

### **II.**

Securities listed on the Iceland Stock Exchange at the time of the entry into force of the present Act shall retain the registration without application therefore being lodged anew in accordance with the provisions of the Act.

### **III .**

Members of the Iceland Stock Exchange at the time of the entry into force of the present Act shall continue as such without having to apply for membership in accordance with Article 9 of the Act, provided that they meet the conditions of Chapter IV of the Act respecting membership of the Exchange.

**[IV.]**

Following the entry into force of this Act the Minister of Commerce shall appoint a Committee to work on the general revision of the Icelandic Stock Exchange Act with the main objective of abolishing, before the end of 1997, the sole right of the Iceland Stock Exchange to engage in stock exchange activities.]1)

1) Interim Provisions Act 22/1996

Done in Reykjavík, 5 March 1993.

Vigdís Finnbogadóttir  
(L.S.)

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Jón Sigurðsson.

**Appendix**  
**An extract of**  
**ANNEX IX to the EEA Agreement**  
**FINANCIAL SERVICES**

**List provided for in Article 36(2)**

**(As updated on 1 August 1996)**

## INTRODUCTION

When the acts referred to in this Annex contain notions or refer to procedures which are specific to the Community legal order, such as:

- preambles;
- the addressees of the Community acts;
- references to territories or languages of the EC;
- references to rights and obligations of EC Member States, their public entities, undertakings or individuals in relation to each other; and
- references to information and notification procedures;

Protocol 1 on horizontal adaptations shall apply, unless otherwise provided for in this Annex.

## SECTORAL ADAPTATIONS

Regarding exchange of information between the competent authorities of EC Member States envisaged in the acts included in this Annex, paragraph 7 of Protocol 1 shall apply for the purposes of this Agreement.

## ACTS REFERRED TO

### I. Insurance

[...]

- This part of Annex IX to the EEA Agreement is excluded for the purposes  
of this edition of the Icelandic Legislation -

## II. Banks and other credit institutions

### (i) Coordination of legislation on establishment and freedom to provide services

14. **373 L 0183:** Council Directive 73/183/EEC of 28 June 1973 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of self-employed activities of banks and other financial institutions. (OJ No L 194, 16.7.1973, p. 1) as amended by OJ No L 320, 21.11.1973, p. 26 and OJ No L 17, 22.1.1974, p. 22).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

- (a) Articles 1, 2, 3 and 6 of the Directive shall not apply;
- (b) in Articles 5(1) and 5(3) of the Directive, the words 'in Article 2' shall be replaced by 'in Annex II, except category 4'.
15. **377 L 0780:** First Council Directive 77/780/EEC of 12 December 1977 on the coordination of the laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of credit institutions (OJ No L 322, 17.12.1977, p. 30), as amended by:

- **386 L 0524:** Council Directive 86/524/EEC of 27 October 1986 amending Directive 77/780/EEC in respect of the list of permanent exclusions of certain credit institutions (OJ No L 309, 4.11.1986, p. 15),
  - **389 L 0646:** Second Council Directive 89/646/EEC of 15 December 1989 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of credit institutions and amending Directive 77/780/EEC (OJ No L 386, 30.12.1989, p. 1),
- <sup>{21}</sup> **395 L 0026:** European Parliament and Council Directive 95/26/EC of 29 June 1995 (OJ No L 168, 18.7.1995, p. 7).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

- (a) Articles 2(5) and 2(6), 3(3)(b) to (d), 9(2), 9(3) and 10 of the Directive shall not apply;
- (b) the following shall be added to Article 2(2):
- '- in Austria, enterprises recognized as building associations for the public benefit;

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<sup>21</sup> Indent added by Decision No 2/96 (OJ No L 90, 11.4.1996, p.39 and EEA Supplement No 16, 11.4.1996, p. 4.) e.i.f. pending

- in Iceland "Byggingarsjóðir ríkisins";
- in Liechtenstein, the "Liechtensteinische Landesbank";
- in Sweden, the "Svenska skeppshypotekskassan".;

(c) Iceland shall implement the provisions of the Directive by 1 January 1995.

16. **389 L 0646:** Second Council Directive 89/646/EEC of 15 December 1989 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of credit institutions and amending Directive 77/780/EEC (OJ No L 386, 30.12.1989, p. 1), as amended by:

-<sup>{22}</sup> } **395 L 0026:** European Parliament and Council Directive 95/26/EC of 29 June 1995 (OJ No L 168, 18.7.1995, p. 7).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

(a) as regards relations with third-country credit institutions described in Articles 8 and 9 of the Directive, the following shall apply:

1. With a view to achieving a maximum degree of convergence in the application of a third-country regime for credit institutions, the Contracting Parties shall exchange information as described in Articles 9(1) and 9(5) and consultations shall be held regarding matters referred to in Articles 9(2), 9(3) and 9(4), within the framework of the EEA Joint Committee and according to specific procedures to be agreed by the Contracting Parties.
2. Authorizations granted by the competent authorities of a Contracting Party to credit institutions being direct or indirect subsidiaries of parent undertakings governed by the laws of a third country, shall have validity in accordance with the provisions of this Directive throughout the territory of all Contracting Parties. However,
  - (a) when a third country imposes quantitative restrictions on the establishment of credit institutions of an EFTA State, or imposes restrictions on such credit institutions that it does not impose on Community credit institutions, authorizations granted by competent authorities within the Community to credit institutions being direct or indirect subsidiaries of parent undertakings governed by the laws of that third country shall have validity only in the Community, except where an EFTA State decides otherwise for its own jurisdiction;

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<sup>22</sup> Indent and words "as amended by:" above, added by Decision No 2/96 (OJ No L 90, 11.4.1996, p. 39 and EEA Supplement No 16, 11.4.1996, p. 4) e.i.f. pending.

- (b) where the Community has decided that decisions regarding authorizations of credit institutions being direct or indirect subsidiaries of parent undertakings governed by the laws of a third country shall be limited or suspended, authorizations granted by a competent authority of an EFTA State to such credit institutions shall have validity only in its jurisdiction, except where another Contracting Party decides otherwise for its own jurisdiction;
  - (c) the limitations or suspensions referred to in subparagraphs (a) and (b) may not apply to credit institutions or their subsidiaries already authorized in the territory of a Contracting Party.
3. Whenever the Community negotiates with a third country on the basis of Articles 9(3) and 9(4), in order to obtain national treatment and effective market access for its credit institutions, it shall endeavour to obtain equal treatment for the credit institutions of the EFTA States;
- (b) in Article 10(2), the words "when the Directive is implemented" shall be replaced by "when the EEA Agreement enters into force", and the words "the date of the notification of this Directive " shall be replaced by "the date of signature of the EEA Agreement";
  - (c) Iceland shall implement the provisions of the Directive by 1 January 1995. During the transition period it shall recognize, in accordance with the provisions of the Directive, authorizations granted to credit institutions by the competent authorities of the other Contracting Parties. Authorizations granted to credit institutions by the competent Icelandic authorities shall not have EEA-wide validity before the full application of the Directive.

*(ii) Prudential requirements and regulations*

17. **389 L 0299:** Council Directive 89/299/EEC of 17 April 1989 on the own funds of credit institutions (OJ No L 124, 5.5.1989, p. 16), as amended by:

-<sup>{23}</sup> } **391 L 0633:** Council Directive 91/633/EEC of 3 December 1991 (OJ No L 339, 11.12.1991, p. 33).

-<sup>{24}</sup> } **392 L 0016:** Council Directive 92/16/EEC of 16 March 1992 (OJ No L 75, 21.3.1992, p. 48).

<sup>{25}</sup> }The provisions of the Directive shall, for the purpose of the present Agreement, be read with the following adaptation:

Article 4a of Directive 89/299/EEC shall apply to Norway.

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<sup>23</sup> Indent and words "as amended by", above added by Decision No 7/94.

<sup>24</sup> Indent added by Decision No 7/94.

<sup>25</sup> Adaptation added by Decision No 7/94.



18. **389 L 0647:** Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions (OJ No L 386, 30.12.1989, p. 14), as amended by:

-<sup>{26}</sup> } **394 L 0007:** Commission Directive 94/7/EC of 15 March 1994 adapting Council Directive 89/647/EEC on a solvency ratio for credit institutions as regards the technical definition of "multilateral development banks" (OJ No L 89, 6.4.1994, p. 17),

-<sup>{27}</sup> } **395 L 0015:** Commission Directive 95/15/EC of 31 May 1995 (OJ No L 125, 8.6.1995, p. 23),

-<sup>{28}</sup> } **395 L 0067:** Commission Directive 95/67/EC of 15 December 1995 (OJ No L 314, 28.12.1995, p. 72).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

(a) loans fully and completely secured by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, shall be given the same weighting as the one applied to mortgages on residential property in accordance with the rules set out in Article 6(1)(c)(1) of the Directive;

(b) Article 11(4) shall also apply to Austria and Iceland;

(c) Austria and Finland shall before 1 January 1993 establish a system for identification of those credit institutions that are unable to meet the requirement of Article 10(1) of the Directive. For each of those credit institutions, the competent authority shall take the appropriate measures to ensure that the 8% solvency ratio is met as quickly as possible and no later than 1 January 1995. Until the credit institutions in question reach the 8% solvency ratio, the competent authorities in Austria and Finland will, in relation to Article 19(3) of Council Directive 89/646/EEC, regard the financial situation of such credit institutions as inadequate.

19. **391 L 0031:** Commission Directive 91/31/EEC of 19 December 1990 adapting the technical definition of "multilateral development banks" in Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions (OJ No L 17, 23.1.1991, p. 20).

19a.<sup>{29}</sup> } **394 L 0019:** Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes (OJ No L 135, 31.5.1994, p. 5).

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<sup>26</sup> Indent and words "as amended by," above, added by Decision No 17/94 (OJ No L 325, 17.12.1994, p. 69 and EEA Supplement No 50, 17.12.1994, p. 50), e.i.f. 1.2.1995.

<sup>27</sup> Indent added by Decision No 69/95 (OJ No L 57, 7.3.1996, p. 35 and EEA Supplement No 11, 7.3.1996, p. 6) e.i.f. 1.1.1996.

<sup>28</sup> Indent added by Decision No 30/96 (OJ No L 186, 25.7.1996, p. 83 and EEA Supplement No 32, 25.7.1996, p. 87) e.i.f. 1.5.1996.

*(iii) Supervision and accounts*

- 20.<sup>{30}</sup> } **392 L 0030:** Council Directive 92/30/EEC of 6 April 1992 on the supervision of credit institutions on a consolidated basis (OJ No L 110, 28.4.1992, p. 52).

The provisions of the Directive shall, for the purposes of the present Agreement, be read with the following adaptations:

- (a) whenever a Contracting Party has decided to initiate negotiations as referred to in Article 8 of the Directive, it shall inform the EEA Joint committee thereof. The contracting Parties shall consult within the framework of the EEA Joint committee on what course to take, whenever this is of mutual interest;
- (b) Liechtenstein,<sup>{31}</sup> } Norway and Sweden may apply their national accounting standards and the scope of consolidation until the end of the transition periods granted to them in the adaptation to Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions.

21. **386 L 0635:** Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (OJ No L 372, 31.12.1986, p. 1).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

Austria, Norway and Sweden shall implement the provisions of the Directive by 1 January 1995, and Liechtenstein [ ]<sup>{32}</sup> } by 1 January 1997<sup>{33}</sup> }. During the transition periods, there shall be mutual recognition of the annual accounts published by the credit institutions of the Contracting Parties relative to branches.

22. **389 L 0117:** Council Directive 89/117/EEC of 13 February 1989 on the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State regarding the publication of annual accounting documents (OJ No L 44, 16.2.1989, p. 40).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

Article 3 shall not apply.

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<sup>29</sup> Point inserted by Decision No 18/94 (OJ No L 325, 17.12.1994, p. 70 and EEA Supplement No 50, 17.12.1994, p. 52) e.i.f. 1.7.1995.

<sup>30</sup> This point introduced by Decision No 7/94, replaces former point 20.

<sup>31</sup> Words "Liechtenstein," introduced by EEA Council Decision No 1/95.

<sup>32</sup> Words " and Switzerland" deleted by the Adjusting Protocol.

<sup>33</sup> This date, introduced by EEA Council Decision No 1/95, replaces former date.

23. **391 L 0308:** Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of money laundering.(OJ No L 166, 28.6.1991, p. 77).

Modalities for association of EFTA States in accordance with Article 101 of the Agreement:

an expert from each EFTA State may participate in the tasks of the Contact Committee on money laundering which are described in Article 13(1)(a) and 13(1)(b). With regard to the involvement of experts from the EFTA States in the tasks described in Article 13(1)(c) and 13(1)(d), the relevant provisions of the Agreement shall apply.

The EC Commission shall, in due time, inform the participants about the date of the meeting of the Committee and transmit the relevant documentation.

- 23a.<sup>{34}</sup> **392 L 0121:** Council Directive 92/121/EEC of 21 December 1992 on the monitoring and control of large exposures of credit institutions (OJ No L 29, 5.2.1993, p. 1).

The provisions of the Directive shall, for the purposes of the present Agreement, be read with the following adaptations:

- (a) Austria, Norway and Sweden shall implement the provisions of the Directive by 1 January 1995;
- (b) loans secured to the satisfaction of the competent authorities by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act 1991 or subsequent equivalent legislation, shall be treated in the same way as the ones secured by mortgages on residential property in accordance with the rules set out in Article 4(7)(p) and 6(9) of the Directive;
- (c) in Article 6(1), the words "when this Directive is published in the *Official Journal of the European Communities*" shall read "on the date of publication in the *Official Journal of the European Communities* of the Decision by the EEA Joint Committee to include this Directive in the EEA Agreement";
- (d) in Article 6(3), the words "on the date of the publication of this Directive in the *Official Journal of the European Communities*" shall read "on the date of publication in the *Official Journal of the European Communities* of the Decision by the EEA Joint Committee to include this Directive in the EEA Agreement".

### III. Stock exchange and securities

#### (i) Stock exchange listing and transactions

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<sup>34</sup> Point inserted by Decision No 7/94.

24. **79 L 0279:** Council Directive 79/279/EEC of 5 March 1979 coordinating the conditions for admission of security to official stock exchange listing (OJ No L 66, 16.3.1979, p. 21), as amended by:

- **88 L 0627:** Council Directive 88/627/EEC of 12 December 1988 on the information to be published when a major holding in a listed company is acquired or disposed of (OJ No L 348, 17.12.1988, p. 62).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

Iceland [ ]<sup>35</sup> } shall implement the provisions of the Directive by 1 January 1995. During the transition period, this country<sup>36</sup> } shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive.

25. **380 L 0390:** Council Directive 80/390/EEC of 17 March 1980 coordinating the requirements for the drawing up, scrutiny and distribution of the listing particulars to be published for the admission of securities to official stock exchange listing (OJ No L 100, 17.4.1980, p. 1), as amended by:

- **387 L 0345:** Council Directive 87/345/EEC of 22 June 1987, (OJ No L 185, 4.7.1987, p. 81),
- **390 L 0211:** Council Directive 90/211/EEC of 23 April 1990 amending Directive 80/390/EEC in respect of mutual recognition of public-offer prospectuses as stock exchange listing particulars (OJ No L 112, 3.5.1990, p. 24),
- <sup>37</sup> } **394 L 0018:** Directive 94/18/EC of the European Parliament and of the Council of 30 May 1994 (OJ No L 135, 31.5.1994, p. 1).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

- (a) Article 25a of the Directive, introduced by Directive 87/345/EEC, shall not apply;
- (b) Iceland [ ]<sup>38</sup> } shall implement the provisions of the Directive by 1 January 1995. During the transition period, this country<sup>39</sup> } shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive.

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<sup>35</sup> Words “and Switzerland” deleted by the Adjusting Protocol.

<sup>36</sup> Words “this country”, introduced by the Adjusting Protocol, replace the words “these countries”.

<sup>37</sup> Indent added by Decision No 19/94 (OJ No L 325, 17.12.1994, p. 71 and EEA Supplement No 50, 17.12.1994) e.i.f. 1.2.1995.

<sup>38</sup> Words “and Switzerland” deleted by the Adjusting Protocol.

<sup>39</sup> Words “this country”, introduced by the Adjusting Protocol, replace words “these countries”.

26. **382 L 0121:** Council Directive 82/121/EEC of 15 February 1982 on information to be published on a regular basis by companies the shares of which have been admitted to official stock exchange listing (OJ No L 48, 20.2.1982, p. 26).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

Iceland [ ]<sup>40</sup> } shall implement the provisions of the Directive by 1 January 1995. During the transition period, this country<sup>41</sup> } shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive.

27. **388 L 0627:** Council Directive 88/627/EEC of 12 December 1988 on the information to be published when a major holding in a listed company is acquired or disposed of (OJ No L 348, 17.12.1988, p. 62).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

Iceland [ ]<sup>42</sup> [ ]<sup>43</sup> } shall implement the provisions of the Directive by 1 January 1995. During the transition period, these countries shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive. Liechtenstein shall implement the provisions of the Directive by 1 January 1996<sup>44</sup> }.

28. **389 L 0298:** Council Directive 89/298/EEC of 17 April 1989 coordinating the requirements for the drawing-up, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public (OJ No L 124, 5.5.1989, p. 8).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

(a) the provisions of Article 24 of the Directive shall not apply;

(b) Iceland [ ]<sup>45</sup> [ ]<sup>46</sup> } shall implement the provisions of the Directive by 1 January 1995. During the transition period, these countries shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive. Liechtenstein shall implement the provisions of the Directive by 1 January 1996<sup>47</sup> }.

29. **389 L 0592:** Council Directive 89/592/EEC of 13 November 1989 coordinating regulations on insider dealing (OJ No L 334, 18.11.1989, p. 30).

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<sup>40</sup> Words “and Switzerland” deleted by the Adjusting Protocol.

<sup>41</sup> Words “this country”, introduced by the Adjusting Protocol, replace words “these countries”.

<sup>42</sup> Word “,Switzerland” deleted by the Adjusting Protocol.

<sup>43</sup> Words “and Liechtenstein” deleted by EEA Council Decision No 1/95.

<sup>44</sup> Sentence inserted by EEA Council Decision No 1/95.

<sup>45</sup> Word “,Switzerland” deleted by the Adjusting Protocol.

<sup>46</sup> Words “and Liechtenstein” deleted by EEA Council Decision No 1/95.

<sup>47</sup> Sentence inserted by EEA Council Decision No 1/95.

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptations:

- (a) Austria, Iceland [ ]<sup>48</sup> [ ]<sup>49</sup> shall implement the provisions of the Directive by 1 January 1995. During the transition period, these countries shall provide for exchange of information with the competent authorities of the other Contracting Parties relative to the issues regulated by the Directive. Liechtenstein shall implement the provisions of the Directive by 1 January 1996<sup>50</sup> .;
- (b) Article 11 shall not apply.

(ii) *Undertakings for Collective Investment in Transferable Securities (UCITS)*

30. **385 L 0611:** Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ No L 375, 31.12.1985, p. 3), as amended by:

- **388 L 0220:** Council Directive 88/220/EEC of 22 March 1988 amending, as far as concerns the investment policy of certain UCITS, Directive 85/611/EEC (OJ No L 100, 19.4.1988, p. 31),

-<sup>51</sup> **395 L 0026:** European Parliament and Council Directive 95/26/EC of 29 June 1995 (OJ No L 168, 18.7.1995, p. 7).

The provisions of the Directive shall, for the purposes of the Agreement, be read with the following adaptation:

in Article 57(2), the words "on the date of implementation of the Directive" shall be replaced by "on the date of entry into force of the EEA Agreement".

(iii) *Investment services* <sup>52</sup> }

30a. **393 L 0006:** Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions (OJ No L 141, 11.6.1993, p. 1).

The provisions of the Directive shall, for the purposes of the present Agreement, be read with the following adaptation:

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<sup>48</sup> Word “,Switzerland” deleted by the Adjusting Protocol.

<sup>49</sup> Words “and Liechtenstein” deleted by EEA Council Decision No 1/95.

<sup>50</sup> Sentence inserted by EEA Council Decision No 1/95.

<sup>51</sup> Indent added by Decision No 2/96 (OJ No L 90, 11.4.1996, p. 39 and EEA Supplement No 16, 11.4.1996, p. 4) e.i.f. pending.

<sup>52</sup> Heading and points 30a. and 30b. inserted by Decision No 7/94.

in Article 3(5), the words "the date of notification of this Directive" shall read "the date of entry into force of the decision by the EEA Joint Committee to include this Directive in the EEA Agreement".

30b. **393 L 0022:** Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field (OJ No L 141, 11.6.1993, p. 27), as amended by:

-<sup>{53}</sup> } **395 L 0026:** European Parliament and Council Directive 95/26/EC of 29 June 1995 (OJ No L 168, 18.7.1995, p. 7).

The provisions of the Directive shall, for the purposes of the present Agreement, be read with the following adaptation:

as regards relations with third-country investment firms described in Article 7 of the Directive, the following shall apply:

1. with a view to achieving a maximum degree of convergence in the application of a third-country regime for investment firms, the Contracting Parties shall exchange information as described in Articles 7(2) and 7(6) and consultations shall be held regarding matters referred to in Articles 7(3), 7(4) and 7(5), within the framework of the EEA Joint Committee and according to specific procedures to be agreed by the Contracting Parties;
2. authorizations granted by the competent authorities of a Contracting Party to investment firms being direct or indirect subsidiaries of parent undertakings governed by the laws of a third country shall have validity in accordance with the provisions of this Directive throughout the territory of all Contracting Parties. However,
  - (a) when a third country imposes quantitative restrictions on the establishment of investment firms of an EFTA State or imposes restrictions on such investment firms that it does not impose on Community investment firms, authorizations granted by competent authorities within the Community to investment firms being direct or indirect subsidiaries of parent undertakings governed by the laws of that third country shall have validity only in the Community, except where an EFTA State decides otherwise for its own jurisdiction;
  - (b) where the Community has decided that decisions regarding authorizations of investment firms being direct or indirect subsidiaries of parent undertakings governed by the law of a third country shall be limited or suspended, any authorization granted by a competent authority of an EFTA State to such investment firms shall have validity only in its own jurisdiction, except where another Contracting Party decides otherwise for its own jurisdiction;
  - (c) the limitations or suspensions referred to in subparagraphs (a) and (b) may not apply to investment firms or their subsidiaries already authorized in the territory of a Contracting Party;

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<sup>53</sup> Indent and words “, as amended by:” above, added by Decision No 2/96 (OJ No L 90, 11.4.1996, p. 39 and EEA Supplement No 16, 11.4.1996, p. 4), e.i.f. pending.

3. whenever the Community negotiates with a third country on the basis of Articles 7(4) and 7(5), in order to obtain national treatment and effective market access for its investment firms, it shall endeavour to obtain equal treatment for the investment firms of the EFTA States.

## ACTS OF WHICH THE CONTRACTING PARTIES SHALL TAKE NOTE

The Contracting Parties take note of the contents of the following acts:

31. **374 X 0165:** Commission Recommendation 74/165/EEC of 6 February 1974 to the Member States concerning the application of the Council Directive of 24 April 1972. (OJ No L 87, 30.3.1974, p. 12).
32. **381 X 0076:** Commission Recommendation 81/76/EEC of 8 January 1981 on the accelerated settlement of claims under insurance against civil liability in respect of the use of motor vehicles (OJ No L 57, 4.3.1981, p. 27).
33. **385 X 0612:** Council Recommendation 85/612/EEC of 20 December 1985 concerning the second subparagraph of Article 25(1) of Council Directive 85/611/EEC (OJ No L 375, 31.12.1985, p. 19).
34. **387 X 0062:** Commission Recommendation 87/62/EEC of 22 December 1986 on monitoring and controlling large exposures of credit institutions (OJ No L 33, 4.2.1987, p.10).
35. **387 X 0063:** Commission Recommendation 87/63/EEC of 22 December 1986 concerning the introduction of deposit-guarantee schemes in the Community (OJ No L 33, 4.2.1987, p. 16).
36. **390 X 0109:** Commission Recommendation 90/109/EEC of 14 February 1990 on the transparency of banking conditions relating to cross-border financial transactions in the EEC (OJ No L 67, 15.3.1990, p. 39).
- 37.<sup>{54}</sup> **392 X 0048:** Commission Recommendation 92/48/EEC of 18 December 1991 on insurance intermediaries (OJ No L 19, 28.1.1992, p. 32).

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<sup>54</sup> Point inserted by Decision No 7/94.