Act on Financial Undertakings

No. 161 20 December 2002

Entered into force 1 January 2003. *EEA Agreement:* Annex IX Directives 85/611/EEC, 86/635/EEC, 93/22/EEC, 95/26/EC, 2000/12/EC and 2000/43/EC. *Amended by* Act No. 4/2004 (entered into force 6 Feb. *2004), Act No.* 129/2004 (entered into force 31 Dec. *2005), Act No.* 130/2004 (entered into force 1 Jan. 2005, for rules on jurisdictional limits see further Art. 21; EEA Agreement: Annex IX, Directives 2002/87/EC and 2001/24/EC), Act No. 67/2006 (entered into force 24 June 2006), Act No. 108/2006 (entered into force 1 Nov. 2006 in accordance with Advertisement C 1/2006) and Act No. 170/2006 (entered into force 1 Jan. *2007), Act No.* 55/2007 (entered into force 3 April 2007), Act No. 111/2007 (entered into force 1 Nov. 2007; *EEA Agreement:* Annex IX Directive 2004/39/EC, Act No. 144/2007 (entered into force 29 Dec. *2007), Act No.* 88/2008 (entered into force 1 Jan. 2009 with the exception of Temporary Provision VII, which entered into force on 21 June 2008), Act No. 96/2008 (entered into force 24 June 2008), Act No. 125/2008 (entered into force 7 Oct. *2008), Act No.* 129/2008 (entered into force 15 Nov. *2008), Act No.* 44/2009 (entered into force 22 April 2009), Act No. 61/2009 (entered into force 31 May 2009), Act No. 74/2009 (entered into force 14 July 2009), Act No. 76/2009 (entered into force 16 July 2009), Act No. 98/2009 (entered into force 1 Oct. 2009, with the exception of Articles 69 and 70, which took effect on 1 Jan. *2010), Act No.* 125/2009 (entered into force 30 Dec. *2009), Act No.* 65/2010 (entered into force 27 June 2010), Act No. 75/2010 (entered into force on 26 June 2010 with the exception of the second paragraph) and Act No. Art. 8 and Articles 10 and 13, which took effect on 1 January 2011, the third paragraph of Art. 39, which took effect on 1 July 2011, and the fourth paragraph of Art. 39, which took effect in accordance with the instructions in Point 5 of Temporary Provision II), Act No. 127/2010 (entered into force 12 Oct. *2010), Act No.* 132/2010 (entered into force 17 Nov. *2010), Act No.* 162/2010 (entered into force 1 Jan. *2011), Act No.* 32/2011 (entered into force 14 April 2011), Act No. 78/2011 (entered into force 29 June 2011), Act No. 119/2011 (entered into force 29 Sept. *2011), Act No.* 120/2011 (entered into force 1 Dec. 2011; *EEA Agreement:* Annex IX Directive 2007/64/EC), Act No. 126/2011 (entered into force 30 Sept. *2011), Act No.* 146/2011 (entered into force 26 Oct. *2011), Act No.* 72/2012 (entered into force on 4 July 2012 with the exception of Art. 7 which took effect on 15 July 2012), Act No. 77/2012 (entered into force 5 July 2012), Act No. 17/2013 (entered into force on 1 April 2013; *EEA Agreement*: Annex IX Directive 2009/110/EC) and Act No. 47/2013 (entered into force on 11 April 2013).

Any mention in this Act of the Minister or Ministry, without specifying or referring to the function, refers to the Minister of **Finance and Economic Affairs** or the **Ministry of Finance and Economic Affairs**, which administers this Act. Information on the functions of Ministries as provided for by a Presidential Ruling is available here.

Chapter I [Scope. Objectives. Definitions][1)]

[1)] *Act No. 75/2010, Art. 3.*

Art. 1 [The purpose of this Act is to ensure that financial undertakings are operated in a sound and normal manner in the interests of customers, shareholders, guarantee capital owners and the entire economy.][1)]

This Act shall apply to domestic financial undertakings and the activities of foreign financial undertakings in Iceland. ...[2)]

[1)] *Act No. 75/2010, Art. 1.* [2)] *Act No. 119/2011, Art. 1.*

[Art. 1 a *Definitions*

For the purposes of this Act the following meanings shall apply:

1. *Close links:* Close links are considered to exist when:

a. direct ownership ties or direct control over up to 20% of the shares or voting rights of an undertaking exist, or

b. there is control or collaboration between parties in the understanding of this Act.

2. *Group of connected clients:* A group of clients is considered connected if one or both of the following conditions is satisfied:

a. two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other(s), or

b. two or more natural or legal persons between whom there is no relationship of control as set out in subparagraph a, but who are to be regarded as constituting a single risk because they are so financially interconnected that, if one of them were to experience financial difficulties, in particular in connection with funding or repayment of debt, the other or all of the others would be liable to encounter [difficulties with funding or repayment of debt].[1)]

3. *Qualifying holding:* A direct or indirect holding in a company which represents 10% or more of its equity capital, guarantee capital or voting rights or other holding which enables the exercise of a significant influence over the management of the company concerned.

4. *Holding:* A direct or indirect right of ownership or, as the case may be, other form of right to dispose of a holding, e.g. voting rights.

5. *Concert:* Parties shall be considered to be acting in concert if they have concluded an agreement for one or several of them to obtain a qualifying holding in a company, whether this agreement is formal or informal, written or oral, or in any other form. Parties shall always be considered to be acting in concert when the following connections exist unless the opposite is demonstrated:

a. Married couples, registered or co-habiting partners, and children of married couples or registered or co-habiting partners. Parents and children are also regarded as parties acting in concert.

b. Connections between parties which directly or indirectly involve control by one party of the other, or if two or more companies are directly or indirectly under the control of the same party. Regard shall be had for connections between parties as referred to in subparagraphs a, c and d.

c. Companies in which a party directly or indirectly owns a significant holding, i.e. a party directly or indirectly owns at least 20% of the voting rights in the company in question. A company, its parent company, subsidiaries and associates are considered to be acting in concert. Regard shall be had for connections between parties as referred to in subparagraphs a, b and d.

d. Connections between a company and its directors and between a company and its managing director.

6. *Managing director:* The person whom the Board of Directors of a financial undertaking engages to direct its operations in accordance with the provisions of the Act on Public Limited Companies or this Act, regardless of his/her actual title.

7. *Member State:* A state which is party to the Agreement on a European Economic Area or the European Free Trade Association (EFTA) Treaty or the Faroe Islands.

8. *Key employee:* An individual in a management position, other than the managing director, who is authorised to take decisions which can affect the future development and performance of the undertaking.

9. *Control:* Links between a parent company and subsidiary, as defined in the Act on Annual Financial Statements, or a comparable relationship between a natural or legal person and a company.

[10. *Financial undertaking:* A commercial bank, savings bank, credit undertaking, electronic money undertaking, securities undertaking, securities broker or UCITS management company, which has been granted an operating licence as provided for in Art. 6, cf. Art. 4.

11. *Securitisation:* A business contract or system of arrangements where the credit risk connected to a specific claim or claims portfolio is divided into tranches in the following manner:

1. payments provided for under the business contract or system of arrangements are dependent upon the performance of the claim or claims portfolio, and

2. the priority of the tranches determines the distribution of loss for the duration of the business contract or system of arrangements.][1)]

[12. *Re-securitisation*: a securitisation where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation position.

13. *Re-securitisation position:* an exposure to a re-securitisation.][2)]][3)]

[1)] *Act No. 119/2011, Art. 2.* [2)] *Act No. 47/2013, Art. 1.* [3)] *Act No. 75/2010, Art. 2.*

Chapter II. Operating license

A. Granting of an operating license

Art. 2 *Licensing authority*

The Financial Supervisory Authority shall grant operating licenses as provided for in this Act. A financial undertaking may commence operation upon receiving an operating license from the Financial Supervisory Authority.

[The Financial Supervisory Authority shall consult with competent authorities in other Member States in assessing an application for an operating license from a financial undertaking which is:

a. a subsidiary of a financial undertaking or insurance company licensed to operate in another Member State,

b. a subsidiary of the parent company of a financial undertaking or insurance company licensed to operate in another Member State or

c. controlled by a party, either a natural person or legal entity, which has a dominant position in a financial undertaking or insurance company in another Member State.

Consultation as referred to in the second paragraph shall include information on the eligibility of shareholders and management, cf. Articles 42 and 52.

Consultation as referred to in the second paragraph shall furthermore apply to ongoing surveillance that conditions for operation are satisfied.

…[1)]][2)]

[1)] *Act No. 75/2010, Art. 4.* [2)] *Act No. 130/2004, Art. 1.*

Art. 3 *Activities subject to license*

The following activities shall be subject to operating licences as provided for in this Act:

1. Receipt of repayable funds from the public:

a. deposits,

b. debt instruments.

2. Granting of credit which is financed by repayable funds from the public.

3. Asset leasing, if such activity forms the principal activity of an undertaking. Asset leasing shall mean the leasing of movable assets or real estate where the lessor turns over to the lessee the leased property for the leasing fee agreed for a specified minimum rental period.

4. …[1)]

5. …[2)]

6. [Trade and services in financial instruments, as provided for in the Act on Securities Transactions:

a. reception and forwarding of clients' orders concerning one or more financial instruments;

b. order execution on behalf of clients;

c. asset management;

d. investment advice;

e. underwriting in connection with the issue and/or placing of financial instruments;

f. [co-ordinating placing of financial instruments without underwriting and admission of securities to trading on a regulated securities market.][3)]

g. operation of a multilateral trading facility (MTF).][4)]

7. Operation of Undertakings for Collective Investment in Transferable Securities (UCITS).

The provisions of Chapter IV shall apply to other authorised activities of financial undertakings.

[The following parties are not covered by the Act:

1. Central banks of Member States of the European Economic Area and other public institutions handling or dealing with sovereign credit matters.

2. Insurance companies

3. [UCITS, investment funds and pension funds, as well as the depositaries of such funds.][5)]

4. Attorneys and and certified public accountants, provided that incidental services are involved, made available as a normal part of more extensive activity in their field of operation.

5. Parties providing services for their parent company, subsidiary or other subsidiaries of their parent company.

6. Parties who only provide services in connection with management of employee investment funds.

7. Parties who do not pursue regulated activities as provided for in this Act as their main activity, assessed on a group basis, and who deal in financial instruments on own account or provide clients of their main activities services in commodity derivatives or derivative contracts as referred to in subparagraph d of Point 2 of the first paragraph of Art. 2 of the Act on Securities Transactions.

8. Parties who provide investment advice as part of a service not covered by this Act in other respects, provided that such advice is not remunerated specifically.

9. Parties whose main activity is dealing on own account in commodities or commodity derivatives, provided that they do not form part of a group whose main activity is subject to license under this Act.][4)]

[The Minister may set issue a Regulation with detailed provisions on exemptions as provided for in the third paragraph.][4)]

[1)] *Act No. 120/2011, Art. 81.* [2)] *Act No. 17/2013, Art. 47.* [3)] *Act No. 75/2010, Art. 5.* [4)] *Act No. 111/2007, Art. 1.* [5)] *Act No. 144/2007, Art. 1.*

Art. 4 *Types of operating licenses*

A financial undertaking may be granted a license to operate as:

1. a commercial bank, as provided for in Points 1-6 of the first paragraph of Art. 3. A commercial bank must, however, always have an operating license and provide services as referred to in Points 1 and 2 of the first paragraph of Art. 3;

2. [a savings bank as provided for in Points 1-6 of the first paragraph of Art. 3. A savings bank which operates in a delimited local operating district as referred to in the third paragraph of Art. 14 can obtain an operating license as provided for in Points 1, 2 and 5 of the first paragraph of Art. 3. A savings bank must, however, always have an operating license and provide services as referred to in Points 1 and 2 of the first paragraph of Art. 3;][1)]

3. a credit undertaking, as provided for in subparagraph b of Points 2-6 of the first paragraph of Art. 3; a credit undertaking must always have an operating license as provided for in subparagraph b of Point 1 and Point 2 of the first paragraph of Art. 3. A credit undertaking may call itself an investment bank;

4. …[2)]

5. a securities undertaking, as provided for in Point 6 of the first paragraph of Art. 3;

6. [a securities broker, as provided for in subparagraph a and/or subparagraph d of Point 6 of the first paragraph of Art. 3;][3)]

7. [a management company of a UCITS, as provided for in subparagraph c of Point 6 and Point 7 of the first paragraph of Art. 3.][4)]

A financial undertaking which has been licensed to operate as provided for in Points 1-4 of the first paragraph shall be considered a credit institution in the understanding of this Act.

[A financial undertaking which is not permitted to deal on own account may still invest in non-trading book financial instruments for the purpose of investing its own funds. The Financial Supervisory Authority may adopt detailed rules in accordance with this provision.][3)]

[1)]Act No. 47/2013, Art. 2. *[2)]Act No. 17/2013, Art. 47.* *[3)]Act No. 111/2007, Art. 2.* *[4)]Act No. 144/2007, Art. 2.*

Art. 5 *Application*

An application for an operating license must be made in writing and shall be accompanied by:

1. Information on the type of operating license applied for, cf. Art. 4, on activities subject to license, cf. the first paragraph of Art. 3, and other proposed activities, cf. Chapter IV.

2. The company's Articles of Association.

3. Information on the structure of the organisation, including information, for instance, on how the proposed activities are to be pursued.

4. Information on the internal organisation of the undertaking, including rules on supervision and work procedures.

5. A business plan and budget, indicating for instance the expected growth and composition of own funds.

6. Information on founders, shareholders or guarantee capital owners, cf. Chapter VI.

7. Information on the Board of Directors, managing director and other managers.

8. Auditor's confirmation that share capital or guarantee capital has been paid up.

9. Information on close links between the undertaking and individuals or legal entities, cf. Art. 18.

10. Other relevant information as determined by the Financial Supervisory Authority.

Art. 6. *Granting of an operating license*

A decision by the Financial Supervisory Authority on the granting of an operating licence must be notified to the applicant in writing as promptly as possible and no later than three months after receipt of a complete application. The Financial Supervisory Authority must notify an applicant when an application is considered to be satisfactory.

The operating license must state what types of authorisation it covers, cf. Art. 4, what activities subject to license may be pursued based upon it, and what other activities are to be pursued as provided for in Chapter IV. [An operating license may not be granted which applies only to ancillary services as referred to in Art. 25. A financial undertaking, intending to expand its activities so as to include other activities referred to in Chapter IV which are not covered by its operating license, must apply to the Financial Supervisory Authority for a license to pursue those services.][1)]

A financial undertaking may not commence activities until its share capital or guarantee capital has been paid up in full in cash.

The Financial Supervisory Authority must publish notifications of licenses granted to financial undertakings in the Legal Gazette (Icel. *Lögbirtingarblaðið*).

[1)] *Act No. 111/2007, Art. 3.*

Art. 7 *Refusal of an operating license*

If an application does not fulfil the requirements of this Act, in the estimation of the Financial Supervisory Authority, the Authority shall refuse to grant an operating license.

If the Financial Supervisory Authority refuses an application, grounds must be given and the applicant informed thereof within three months of receipt of a complete application. A refusal must, however, always be received by the applicant within 12 months from the receipt of an application.

Art. 8 *Register of financial undertakings*

The Financial Supervisory Authority shall keep a register of financial undertakings and their branches, including all the principal details of the undertakings concerned. [The Financial Supervisory Authority shall be notified, in advance as applicable, of any changes in previously submitted information, including information concerning the Board of Directors or managing director, any increase or decrease in the number of branches, and if the financial undertaking no longer fulfils the requirements for granting an operating license.][1)]

[1)] *Act No. 111/2007, Art. 4.*

B. Withdrawal of an operating license

Art. 9 *Grounds for withdrawal*

The Financial Supervisory Authority may withdraw a financial undertaking's operating license in full or in part if:

1. the undertaking has obtained the operating license based on incorrect information or by other improper means;

2. the undertaking does not satisfy the provisions of this Act concerning initial capital, share capital, own funds or number of guarantee capital owners;

3. the undertaking does not make use of its operating license within 12 months of its granting, expressly relinquishes the license or ceases operations for a continuous period of over six months;

4. the undertaking's shareholders, directors and management do not satisfy the eligibility requirements laid down in Articles 42 and 52;

5. there are close links between a financial undertaking and individuals or legal entities as referred to in Art. 18;

6. [measures taken on the basis of provisions concerning the intervention of the Financial Supervisory Authority with regard to assets, rights and obligations of a financial undertaking, as provided for in Art. 100 a, have not proven successful or a ruling has been issued for the company's winding-up, as provided for in Chapter XII];[1)]

7. the undertaking in other respects seriously or repeatedly violates this Act, rules, Articles of Association or regulations adopted by virtue of them.

Before a withdrawal is effected as referred to in the first paragraph, the undertaking shall be granted a suitable time limit to rectify the situation, if such is possible in the estimation of the Financial Supervisory Authority.

[Notwithstanding the withdrawal of an operating license, as provided for in Point 6 of the first paragraph [a provisional Board of Directors, Winding-up Board overseeing the winding-up proceedings of a financial undertaking or an administrator of the insolvent estate of a financial undertaking][2)] may, with the approval and under the supervision of the Financial Supervisory Authority, continue to pursue certain activities subject to license insofar as this is necessary for the administration of the estate and disposition of its interests.][3)]

The Financial Supervisory Authority may prohibit a financial undertaking from pursuing certain activities for which it is authorised in accordance with Chapter IV. The provisions of the first and second paragraphs shall apply to such a prohibition.

[1)] *Act No. 125/2008, Art. 3.* [2)] *Act No. 44/2009, Art. 1.* [3)] *Act No. 129/2008, Art. 1.*

Art. 10 *Notification of withdrawal of license and winding-up of a financial undertaking*

Withdrawal of a financial undertaking's operating license shall be notified to its Board of Directors and grounds provided in writing. The Financial Supervisory Authority shall publish the notification in the Legal Gazette (Icel. *Lögbirtingarblaðið*) and advertise it in the media. If the financial undertaking operates branches or provides services in another state such notification must be sent to the competent supervisory authorities in that state.

If the operating license of a financial undertaking is withdrawn, the undertaking must be wound up; the provisions of Chapter XII shall apply to the winding-up.

[Article 10 a *Restrictions on the activities of a financial undertaking*

The Financial Supervisory Authority may restrict the activities of individual establishments of financial undertakings if it sees specific reason to do so. In addition, the Authority may set special conditions for the continued operation of individual establishments of a financial undertaking. Furthermore, the Financial Supervisory Authority may restrict temporarily the activities that a financial undertaking may pursue, in part or in full, whether the activity is subject to license or not, if the Authority sees specific reason to do so.

Before imposing restrictions, as provided for in the first paragraph, the financial undertaking concerned shall be given the opportunity to rectify the situation, if this is possible in the estimation of the Financial Supervisory Authority. Grounds must be given in writing for decisions by the Financial Supervisory Authority pursuant to this Article. If the financial undertaking provides services in another Member State, a notification of the substance of the decision and reasoning shall be sent to the competent regulatory authority in that state.][1)]

[1)] *Act No. 75/2010, Art. 6.*

Chapter III. Establishment and activities

Art. 11 *Residence requirements of founders*

Only individuals and legal entities resident in Iceland can be founders of financial undertakings.

[Nationals and legal entities of other states in the European Economic Area and member states of the European Free Trade Association, as well as nationals and legal persons in the Faroe Islands, are exempt from the residence requirements in the first paragraph.][1)] [The Minister][2)] may grant nationals of other states the same exemption.

[1)] *Act No. 108/2006, Art. 75.* [2)] *Act No. 126/2011, Art. 355.*

Art. 12 *Names*

Only financial undertakings may use in their firm name or as clarification of their activities the words "bank", "commercial bank", “investment bank”, “savings bank”, ... [1] “securities undertaking”, “securities broker” or “management company of a UCITS”, either alone or linked to other words, in accordance with their operating license.

If there is a danger of confusion of the names of a foreign and a domestic financial undertaking operating in Iceland, the Financial Supervisory Authority may demand that one of the undertakings be identified specifically.

A financial undertaking may not identify its activities in such manner as might indicate that this could be the Central Bank of Iceland.

[1] *Act No. 17/2013, Art. 47.*

Art. 13 *Legal form*

A financial undertaking must operate as a public limited company. The provisions of Chapter VIII shall apply to the legal form of savings banks.

Art. 14 *[Share capital and initial capital*

When an operating license is granted, the minimum paid-up initial capital of a financial undertaking shall be as specified in the second to eighth paragraphs. Initial capital as referred to in the first sentence shall include paid-up share capital, paid-up guarantee capital of a savings bank and cash funds.

[The share capital of a commercial bank and a credit undertaking and the guarantee capital or share capital of a savings bank must amount to a minimum of 5 million euros (EUR).

The guarantee capital or share capital of a savings bank operating in a delimited local operating district, licensed to operate as referred to in Points 1 and 2 of the first paragraph of Art. 3][1] and holding authorisations as provided for in Points 1-6, 10, 13 and 14 of the first paragraph of Art. 20, must amount to a minimum of EUR 1 million. The Financial Supervisory Authority shall determine what comprises a delimited local operating district.][2]

. . .[1]

The share capital of a securities undertaking must amount to a minimum of EUR 730,000.

The share capital of a securities undertaking which is not licensed to trade on own account or to underwrite financial instruments, and is licensed to pursue at least one of the activities in subparagraphs a to c of this paragraph as well as to provide custody for clients' funds or financial instruments, must amount to a minimum of EUR 125,000:

a. receipt and transmission of client orders concerning one or more financial instruments,

b. execution of orders on behalf of clients or

c. asset management.

The share capital of a securities broker must amount to a minimum of EUR 50,000.

The share capital of the management company of a UCITS must amount to a minimum of EUR 125,000. The share capital shall be increased by an amount corresponding to 0.02% of the assets of UCITS and other funds for collective investment operated by the management company which exceed EUR 250 million. Share capital as referred to in the first and second sentences, however, need not exceed EUR 10 million. The assets of a management company as referred to in this paragraph shall include assets of UCITS and other funds for collective investment.

If share capital or guarantee capital as referred to in the second to eighth paragraphs is denominated in Icelandic *krónur* (ISK), the reference exchange rate shall be the current official quoted exchange rate (buying rate).

Should a financial undertaking request a new operating license, the book value of equity rather than its share capital or guarantee capital shall not amount to less than that provided for in the second to eighth paragraphs.

The capital base of a financial undertaking as provided for in Articles 84 and 85 may never amount to less than that provided for in the second to eighth paragraphs.

The Financial Supervisory Authority may adopt detailed rules in accordance with this Article.][3)]

[1)] *Act No. 17/2013, Art. 47.* [2)] *Act No. 77/2012, Art. 2.* [3)] *Act No. 75/2010, Art. 7.*

Art. 15 *Head offices*

A financial undertaking which has been licensed to operate as provided for in Art. 6 must have its headquarters in Iceland.

Art. 16 *Audit section*

[A financial undertaking must have an audit section to handle internal audit. The internal audit section shall operate independently of other departments in the financial undertaking's organisation; it is part of its organisational structure and an aspect of its internal system of controls. Employees of the internal audit section must jointly possess sufficient experience and expertise to handle the section's tasks and the number of employees shall reflect the size and activities of the financial undertaking. Employees of the internal audit section may not be shareholders of the financial undertaking concerned. More details of the activities of internal audit sections may be laid down in a Regulation.

The Board of Directors of a financial undertaking shall engage the director of the undertaking's audit section, who shall be responsible for internal audit on its behalf. He/She must have special expertise in the field of internal audit, have completed a university degree relevant to the work and possess sufficient experience to carry out the task. The director may not have been declared bankrupt or been sentenced for any criminal action under the Penal Code, the Competition Act, the Acts on Public Limited Companies and Private Limited Companies, the Accounting Act, the Act on Annual Financial Statements, the Act on Bankruptcy etc. and provisions of the Act on Withholding Public Levies at Source, as well as special legislation applicable to parties subject to official supervision of financial activities. The Financial Supervisory Authority may at any time examine especially the eligibility of an internal audit section director if it sees reason to do so.

Internal audit shall report regularly to the Board of Directors and Audit Committee on its activities. Any comments considered important by the director of internal audit must be addressed at meetings of the Board of Directors and recorded in the minutes. The director of the internal audit section is entitled to attend Board meetings where his/her comments are to be dealt with.

Internal audit must report on its conclusions to the Financial Supervisory Authority no less frequently than once each year. In addition, internal audit shall notify the Financial Supervisory Authority especially and without delay of any comments made and sent to the Board of Directors.

The Financial Supervisory Authority may, having regard to the nature and scope of operations of individual financial undertakings, grant an exemption from the operation of such an internal audit section, or individual aspects of its activities, and set special conditions for undertakings receiving such exemptions.][1)]

[1)] *Act No. 75/2010, Art. 8.*

Art. 17 *Risk management system*

[A financial undertaking must at all times have in place a secure risk management system for all its activities. Financial undertakings shall have in place adequate and documented internal processes to assess the necessary size, composition and internal distribution of the capital base in light of the risks entailed by the business activity at any time. The internal processes shall be reviewed regularly for the purpose of ensuring that they are adequate in the light of the nature, scope and diversity of the business activity.

[A financial undertaking is required to conduct regular stress tests and document their underlying assumptions and outcomes. The outcomes of stress tests shall be included on the agenda of the next meeting of the Board of Directors after the outcomes are available.

The Financial Supervisory Authority may adopt rules on the conduct of risk management, the positions of persons responsible for risk management in the financial undertaking's organisational

chart and systems for monitoring of risk factors in the activities of financial undertakings and financial conglomerates.]1)]2)

1) Act No. 75/2010, Art. 9. 2) Act No. 170/2006, Art. 2.

[Art. 17 a *Updated register of obligations*

A financial undertaking shall maintain a special list of all parties using its credit services. Credit as referred to in this Article includes direct lending to the party in question, purchases of bonds issued by the party, purchases of the portfolio of another lender containing a claim against the party and any other services which may be equated with credit, provided that the gross debt owed by the party to the financial undertaking amounts to a minimum of ISK 300 million.

The financial undertaking shall send the Financial Supervisory Authority an updated list as of the end of each month. The list shall be itemised by the name and Reg./Id. No. of the borrower. Furthermore, a similar list shall be submitted of parties with close links and groups of connected clients, to the extent that such parties are not included in the above-mentioned list. In other respects, provisions of this Act and of the Act on Official Supervision of Financial Activities shall apply to the handling of information contained in this list.

The Financial Supervisory Authority may adopt detailed rules on the contents of the list.]1)

1) Act No. 75/2010, Art. 10.

[Art. 17 b *Borrowers' information disclosure obligations*

Should the Financial Supervisory Authority be of the opinion that the borrowing of a single party included in the register of obligations referred to in Art. 17 a, which is not subject to official supervision of financial activities, could have a systemic impact the Authority may require information from the party in question concerning its obligations. Obligations as referred to in this Article include direct borrowings, drawn lines of credit, issues of debt instruments by the party, purchases of debt insurance or payment insurance for borrowings, call and put options and any other credit provision, on and off the balance sheet, that the party in question has used and may be equated with credit services or guarantees.

Should a party refuse to provide the Financial Supervisory Authority with information as referred to in the first paragraph the Authority may instruct regulated entities not to provide further credit to the party in question. The same shall apply if the party's information disclosure is unsatisfactory. Grounds must be given in writing for decisions by the Financial Supervisory Authority pursuant to this Article.]1)

1) Act No. 75/2010, Art. 10.

Art. 18 *Close links*

An operating license shall not be granted if the close links of a financial undertaking [cf. Point 1 of Art. 1 a][1] with individuals or legal entities impede supervision of the undertaking by the Financial Supervisory Authority. The same applies if Acts or Regulations which apply to such connected parties impede supervision.

…[1]

[1] Act No. 75/2010, Art. 11.

Art. 19 *Good business practices and customs*

[A financial undertaking shall operate in accordance with proper and sound business practices and customs on the financial market.

The Financial Supervisory Authority shall adopt rules[1] as to what are considered proper and sound business practices as referred to in this Act.

Financial undertakings are required to observe recognised guidelines on corporate governance. To this end they shall, among other things, publish an annual statement concerning their corporate governance in a special chapter of their annual financial statements or annual report, provide an account of corporate governance on the undertaking's website and publish on the same site a statement on their corporate governance.

[A financial undertaking shall specify on its website the names and proportional holdings of all parties owning more than 1% of share capital or guarantee capital in the undertaking at any given time. Financial undertakings have four days to update their website after ownership of holdings changes. If a legal entity owns more than 1% of share capital or guarantee capital the person or persons who are beneficial owners of the legal entity in question must also be disclosed. Beneficial owner as referred to in this provision means a person or persons whose direct or indirect holding in the company amounts to 10% or more of its share capital, guarantee capital or voting rights, or other involvement which enables that person or those persons to have a significant impact on the management of the company in question.[2]][3]

[1] Rules 670/2013. [2] Act No. 47/2013, Art. 3. [3] Act No. 75/2010, Art. 12.

[Art. 19 a *Complaints Committee*

Financial undertakings shall make available information on the complaint and redress procedures of their clients if disputes arise between a client and a financial undertaking, including on referral to the Complaints Committee on Transactions with Financial Undertakings.

Financial undertakings must be party to the Complaints Committee on Transactions with Financial Undertakings. The Complaints Committee on Transactions with Financial Firms functions in accordance with an agreement between [the Minister][1], the Consumers' Association and the Icelandic Financial Services Association, and its own Articles of Association. The

chairman of the Committee must satisfy the requirements made of a District Court judge. The Committee shall issue reasoned rulings, which cannot be appealed to administrative authorities, although the parties to a case may refer their dispute to the courts through the usual procedure. The Minister shall see to the publication of the Committee's Articles of Association in Section B of the Official Journal of Iceland (Icel. *Stjórnartíðindi*).[2)]

[1)] *Act No. 126/2011, Art. 355.* [2)] *Act No. 75/2010, Art. 13.*

[Art. 19 b *Information on clients*

Financial undertakings shall establish rules on handling of information on individual clients. These shall state what employees shall have access to information for their work, how information is to be communicated to internal audit, supervisory authorities and the police, and how supervision of the implementation of the rules to be arranged. The rules shall be accessible to clients.][1)]

[1)] *Act No. 75/2010, Art. 14.*

Chapter IV Authorised activities

A. Commercial banks, savings banks and credit undertakings

Art. 20 *Authorised activities of commercial banks, savings banks and credit undertakings*

The activities of commercial banks and savings banks may include the following:

1. Acceptance of deposits and other repayable funds from the public.

2. Lending activities, including:

a. consumer credit,

b. long-term mortgages,

c. factoring and purchase of debt instruments and

d. commercial credit.

3. Financial leasing.

[4. The provision of payment services as provided for in the Act on Payment Services.

5. Issuing and administering payment documents such as travellers' cheques and bills of exchange.][1)]

6. Providing guarantees and commitments.

7. Trading for own account or for account of customers in:

a. money market instruments (cheques, bills, other comparable payment instruments etc.),

b. foreign exchange,

c. forward contracts and swaps (options),

d. exchange rate and interest rate instruments and

e. transferable securities.

8. [Participation in placing securities, services related to such offerings and admission of securities to trading in a regulated securities market.][2)]

9. Providing advice to undertakings on capital structure, strategy and related issues, and advice as well as services related to mergers and acquisitions.

10. Money brokering.

11. Securities portfolio management and advice.

12. Safekeeping and administration of securities.

13. Credit reference (credit rating) services.

14. Rental of safety deposit boxes.

[Activities of savings banks operating in local, delimited operating districts as referred to in the third paragraph of Art. 14 may include Points 1, 2, 4-6, 10, 13 and 14 of the first paragraph.][3)]

The activities of credit undertakings may include Points 1-14 of the first paragraph with the exception that credit undertakings may not accept deposits.

Commercial banks, savings banks [which fulfil the provisions of the second paragraph of Art. 14][4)] and credit undertakings are authorised to trade in securities as provided for in Art. 25.

1)Act No. 120/2011, Art. 81. *2)Act No. 75/2010, Art. 15.* *3)Act No. 47/2013, Art. 4.* *4)Act No. 77/2012, Art. 3.*

Art. 21 *Other services and ancillary activities*

Commercial banks, savings banks and credit undertakings may pursue other activities naturally linked to their authorised activities as provided for in Art. 20.

In addition to services as provided for in Art. 20, commercial banks, savings banks and credit undertakings may pursue ancillary activities, provided this is a normal extension of the undertaking's financial services. The provisions of the first sentence of this paragraph shall also

apply when a financial undertaking has a holding in or participates in other business activities. Notification must be sent to the Financial Supervisory Authority of any intention to pursue the activities provided for in this Article. Such notification must be accompanied by information on the proposed activities deemed satisfactory by the Financial Supervisory Authority. If the Financial Supervisory Authority raises no objection to the proposed activity within one month of receiving satisfactory notification, this shall be interpreted as authorisation for commencing the activities. The Financial Supervisory Authority may require that a separate company pursue these activities, in which case it must notify the party concerned of its decision within the time limit specified above. Failure to send a notification in accordance with this paragraph may result in the Financial Supervisory Authority prohibiting the activities or requiring that the activities be pursued by a separate company.

Commercial banks, savings banks and credit undertakings may, pursuant to special agreement upon receiving the authorisation of the Financial Supervisory Authority, undertake to provide postal services on behalf of a party authorised to provide such services. [They are furthermore permitted to provide services as agents for other entities, such as insurance companies, pension funds and other financial undertakings, provided that the Financial Supervisory Authority does not consider such activities to prejudice their ability to provide services pursuant to their operating licenses or prejudice its own ability to regulate the activities. The Financial Supervisory Authority shall be notified in advance of the intentions of the entity in question so that its assessment will be available before provision of the services commences.][1)]

[1)] *Act No. 76/2009, Art. 1.*

Art. 22 *Temporary activities and takeover of assets*

Commercial banks, savings banks and credit undertakings may only pursue activities other than those listed in this Chapter on a temporary basis and for the purpose of completing transactions or restructuring clients' operations. [A notification, together with the grounds, in this regard must be sent to the Financial Supervisory Authority. If a commercial bank, savings bank or credit institution, or their subsidiary, has had to take measures as referred to in the first sentence and taken over at least a 40% holding in a client, the provisions of Chapters VII and VIII of the Act on Securities Transactions, No. 108/2007, shall apply to the client as applicable. The Financial Supervisory Authority may grant an exemption from the provisions of the third sentence, provided that financial restructuring is completed within six months from the time that the commercial bank, savings bank or credit undertaking, or their subsidiary, commenced the operation. The Financial Supervisory Authority shall assess whether the financial conditions in the first sentence are met, and reorganisation shall be completed before twelve months have passed from the time that operations referred to in the first sentence began. The Financial Supervisory Authority may extend the time limit referred to in the fifth sentence; an application for such must explain what circumstances prevent a sale.][1)]

Commercial banks, savings banks and credit undertakings may acquire without limits assets to secure enforcement of claims. The assets must be sold as promptly as is feasible.

[1)] *Act No. 75/2010, Art. 16.*

Art. 23 *Authorisation for insurance activities*

Commercial banks, savings banks [which fulfil the provisions of the second paragraph of Art. 14][1)] and credit undertakings may operate an insurance company as a separate company.

[1)] *Act No. 77/2012, Art. 4.*

B. Other financial undertakings

Art. 24 ...[1)]

[1)] *Act No. 17/2013, Art. 47.*

Art. 25 *Authorised activities of securities undertakings*

[Activities of a securities undertaking may include the following aspects in connection with trading in financial instruments:

1. Services:

a. Reception and transmission of client orders concerning one or more financial instruments.

b. Order execution on behalf of clients.

c. Trading in financial instruments on own account.

d. Asset management.

e. Investment advice.

f. Underwriting in connection with the issue and/or placing of financial instruments.

g. [Co-ordinating offerings of financial instruments without underwriting and admission of securities to trading on a regulated securities market.][1)]

h. Operation of a multilateral trading facility (MTF).

2. Ancillary services:

a. Safekeeping and administration of one or more financial instruments for the account of clients, including custodianship of financial instruments and related services, such as cash/collateral management.

b. Granting of credits, guarantees or loans to an investor, enabling him/her to carry out transactions with one or more financial instruments if the securities undertaking granting the credit or loan handles the transaction.

c. Providing advice to undertakings on capital structure, strategy and related issues, and advice as well as services related to mergers and acquisitions.

d. Services in connection with underwriting.

e. Foreign-exchange services where these form a part of the provision of investment services.

f. Investment research and financial analysis or other forms of general recommendations relating to transactions in financial instruments.

g. Services related to the underlying assets of derivative contracts as provided for in subparagraphs e and h of Point 2 of the first paragraph of Art. 2 of the Act on Securities Transactions where these are connected to services provided as referred to in Points 1 and 2.

A securities undertaking covered by [the sixth paragraph of Art. 14][2)] authorised to execute orders concerning financial instruments on behalf of clients may preserve such financial instruments on its own account if the following conditions are met:

a. Such positions in financial instruments can only be the result of a situation where it was not possible to carry out a client's orders precisely.

b. The total market value of financial instruments as referred to in this paragraph may not exceed 15% of the share capital of the securities undertaking.

c. The provisions of Chapter IV C and Chapter X are satisfied.

d. The measures in question must be temporary and restricted to the time limits necessary to execute the orders.][3)]

1) *Act No. 75/2010, Art. 17.* *2)* *Act No. 17/2013, Art. 47.* *3)* *Act No. 111/2007, Art. 6.*

Art. 26 *Authorised activities of a securities broker*

[The activities of a securities broker shall include acting as an intermediary in buying and selling financial instruments and/or providing investment advice on securities trading in return for remuneration. A securities broker is not authorised to trade on own account and may only accept clients' funds or securities in its activities for a limited period, provided that this is necessary to conclude transactions where the undertaking has served as an intermediary.][1)]

…[1)]

Securities brokers must provide insurance against losses they may cause their clients through their activities. Detailed provisions on the amount of insurance and minimum conditions in other respects shall be laid down in a regulation.[2)]

[1)] *Act No. 111/2007, Art. 7.* [2)] *Reg. 320/2013.*

Art. 27 *Authorised activities of a management company*

The authorised activities of a management company shall always include the operation of UCITS and other funds for collective investment. A management company may also pursue the following activities:

1. Asset management.

2. Investment advice.

3. Custody and management of financial instruments in collective investment.

A management company authorised to manage assets must seek a client's approval before investing in UCITS and other funds for collective investment.

A management company may not acquire securities with voting rights which will enable it to significantly influence the management of the securities issuer.

C. Holdings in enterprises and large exposures

Art. 28 *Maximum qualifying holdings*

A financial undertaking may not own qualifying holdings in individual undertakings which are not financial undertakings or undertakings connected with the financial sector, amounting to more than 15% of the [capital base][1)] of the financial undertaking concerned, before regard is had for deductions provided for in the fifth paragraph of Art. 85. Undertakings connected with the financial sector refers to undertakings which are not credit institutions and whose activities are in particular acquiring holdings or any of the activities referred to in Points 2 to 12 of the first paragraph of Art. 20.

Total qualifying holdings as referred to in the first paragraph may not amount to over 60% of the [capital base][1)] of a financial undertaking, before regard is had for deductions provided for in the fifth paragraph of Art. 85. The total book value of holdings acquired by a financial undertaking may not exceed 100% of its [capital base].[1)] Holdings to be deducted when calculating the [capital base][1)], and holdings in undertakings forming a group, shall not be included in the calculation of the ratios referred to in the first paragraph and the first and second sentence of this paragraph. [A temporary holding of a financial undertaking, excluding trading book holdings, in a company in connection with financial restructuring aimed at protecting the

claims of the financial undertakings shall be excluded in the calculations referred to in the first paragraph and the first and second sentence of this paragraph.][1)]

Holdings of financial undertakings may exceed the ratios laid down in the first paragraph or the first sentence of the second paragraph, provided the excess amount is deducted when calculating the [capital base][1)] of the undertaking concerned. If holdings concurrently exceed the ratios referred to in the first paragraph and the first sentence of the second paragraph, the greater of the excess amounts shall be deducted in calculating the [capital base][1)] of the undertaking concerned.

Financial undertakings must provide the Financial Supervisory Authority with an itemised statement of holdings in other financial undertakings which they have acquired or accepted as collateral …[2)]

In calculating the ratios referred to in the first and second paragraphs ...[3)] regard shall be had for forward contracts and other derivative contracts which a financial undertaking has concluded for its own shares. The Financial Supervisory Authority may adopt detailed rules on this point.

…[1)]

[1)] *Act No. 170/2006, Art. 3.* [2)] *Act No. 76/2009, Art. 2.* [3)] *Act No. 75/2010, Art. 18.*

Art. 29 *Own shares*

[The aggregate holdings of a financial undertaking and its subsidiaries may not amount to over 10% of the nominal price of the paid-up share capital or guarantee capital of the undertaking. Should an undertaking acquire more of the share capital or guarantee capital in connection with concluding a transaction, cf. Art. 22, the Financial Supervisory Authority shall be notified without delay. The Financial Supervisory Authority may grant a time limit of up to three months to reduce the holdings to within the limits prescribed by law. The provisions of Chapter VIII of the Act on Public Limited Companies shall apply in other respects on the authorisations of financial undertakings to acquire own shares.

In calculations as referred to in the first sentence of the first paragraph regard shall be had for forward contracts and other derivative contracts which a financial undertaking has concluded for its own shares.][1)]

[1)] *Act No. 75/2010, Art. 19.*

[Art. 29 a *Lending*

A financial undertaking or its subsidiaries may not grant loans secured by a mortgage on shares or guarantee capital certificates issued by the undertaking. The same applies to other contracts where the underlying exposure is to own shares. The Financial Supervisory Authority

may issue rules excepting specific contracts from the prohibition of the second sentence, provided that they do not increase the financial undertaking's credit risk.

A financial undertaking may not grant a director, managing director, key employee or party who owns a qualifying holding in it, or party with close links to the afore-mentioned, loans or other credit considered an exposure except against secure collateral. The amount of exposures as referred to in the first sentence may not exceed 1% of the capital base, but may amount, however, to up to ISK 100 million.

The Financial Supervisory Authority shall adopt rules[1)] on the calculation of the amounts of exposures as referred to in the second paragraph and what is considered secure collateral.

The Financial Supervisory Authority shall adopt rules on how loans secured by shares or guarantee capital certificates of another financial undertaking should be included in calculations of the risk and capital base and the assessment of capital requirements to ensure that the lending does not create a systemic risk in the financial system. The rules should also cover the procedures for assessing loans secured by a mortgage on asset portfolios, such as custody accounts and UCITS, which include shares or guarantee capital certificates, whether they are issued by the financial undertaking itself or other financial undertakings, so that such procedures comply with the provisions of the first paragraph and the first sentence of this paragraph.

The provisions of the first and second paragraph shall apply to lending of subsidiaries as applicable.][2)]

[1)]Reg. 162/2011. [2)]Act No. 75/2010, Art. 20.

[Art. 29 b *Transfer of credit risk*

In calculating its capital requirements, a commercial bank, credit institution, savings bank or electronic money undertaking, which is neither the originator, sponsor nor original lender, shall not bear credit risk in the form of securitisation, unless the securitisation satisfies rules set by the Financial Supervisory Authority.

In calculating its capital requirements, an originator, sponsor or original lender may not exclude securitisation which has been sold to other parties, unless the originator, sponsor or original lender retains a certain portion of the risk in accordance with rules of the Financial Supervisory Authority.][1)]

[1)]Act No. 119/2011, Art. 3.

[Art. 29 c *Information disclosure regarding securitisation*

An originator or sponsor shall disclose to investors its commitment with regard to securitisation as referred to in Art. 29 b. It must ensure that possible future investors have access to all relevant information concerning the quality and default status of the underlying assets, cash

flows and collateral, as well as information considered necessary for the purpose of carrying out comprehensive and sound stress tests on cash flows and the value of the collateral underlying the assets. For this purpose suitable information shall be given as of the date of the securitisation, and later if appropriate given the nature of the securitisation.][1)]

[1)] *Act No. 119/2011, Art. 3.*

[Art. 29 d *Rules of the Financial Supervisory Authority on securitisation*

The Financial Supervisory Authority shall adopt detailed rules on securitisation, including rules on implementation of Articles 29 b and 29 c, among other things stating how high a proportion of the risk the originator, sponsor or original lender shall retain and on response to a protracted liquidity shortage on the financial market.

Should the rules of the Financial Supervisory Authority be violated, the Financial Supervisory Authority shall demand at least a 250% increase of the risk weighting in calculating capital requirements. If the violation is insignificant, in the estimation of the Financial Supervisory Authority, increased capital requirements may be waived.][1)]

[1)] *Act No. 119/2011, Art. 3.*