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The original Icelandic text, as published in the Law Gazette (Stjórnartíðindi), is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.

Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment funds

2011 No. 128, 27 September

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Any mention in this Act of a Minister or Ministry, without specifying or referring to the function, refers to the Minister of **Industries and Innovation** or the **Ministry of Industries and Innovation**, which administers this Act. Information on the functions of Ministries as provided for by a Presidential Ruling is available [here](#).

CHAPTER I. General provisions

Art. 1

Scope

This Act applies to the activities and operations of undertakings for collective investment in transferable securities (UCITS), investment funds and professional investment funds.

The authorised activities of UCITS and investment funds are limited to accepting financial assets from members of the public for collective investment in financial instruments and other liquid assets on the principle of spreading risk, in accordance with a pre-determined investment strategy.

Accepting funds from the public for collective investment in financial instruments and other liquid assets on the principle of spreading risk, in accordance with a pre-determined investment strategy, may only be carried out by UCITS and investment funds.

Art. 2

Definitions

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

1. *UCITS*: A fund issuing unit share certificates which can be redeemed at the request of their owners. The fund has been approved by the Financial Supervisory Authority and authorised for marketing in the European Economic Area.
2. *Investment fund*: A fund issuing unit share certificates which has been approved by the Financial Supervisory Authority. The fund is not authorised for marketing in the European Economic Area.
3. *Professional investment fund*: A fund for collective investment which is only open to professional investors.

4. *Management company*: A financial undertaking which has been licensed to operate as provided for in Point 7 of the first paragraph of Art. 4 of the Act on Financial Undertakings and manages funds for collective investment as referred to in Chapters II-IV of this Act.
5. *Depositary*: A financial undertaking as referred to in the Act on Financial Undertakings which fulfils the requirements of Chapter II C of this Act.
6. *Financial instrument*: A financial instrument as defined in the Act on Securities Transactions.
7. *Money market instruments*: Those classes of liquid instruments normally dealt in on a short-term market (money market), such as Treasury and municipal bills, certificates of deposit and commercial paper with the exception of payment instruments. Their maturity or yield adjustment period may not exceed 397 days.
8. *Unit share certificates*: A financial instrument which confirms the claim of all parties with holdings in a fund for collective investment, or individual investment compartments thereof, to the fund's securities assets. Owners of unit share certificates (units) enjoy equal rights to the income and assets of the fund or compartment concerned in proportion to their share of the total number of units issued.
9. *Professional investors*: An professional investor as defined in the Act on Securities Transactions.
10. *General public*: Those persons not considered professional investors as defined in the Act on Securities Transactions.
11. *Cash*: Liquid assets which the fund can use without prior notice for investment. These are not considered deposits and are not part of the fund's investment strategy.
12. *Deposits*: Investment where the duration and interest have been negotiated specifically. Deposits are part of the investment strategy of a UCITS.
13. *Marketing*: An offer or encouragement, through advertising or other promotion, for purchase of units or shares in UCITS or other funds for collective investment.
14. *Authorisation*: Authorisation of a UCITS or investment fund refers to authorisation granted by the Financial Supervisory Authority to a management company to operate a UCITS or investment fund.
- [15. *Merger*: An operation whereby:
 - a. one or more UCITS (the merging UCITS) or individual investment compartments of a merging UCITS, if it has compartments, as referred to in Art. 12, is wound up without liquidation and all the assets and obligations of the merging UCITS are transferred to another existing UCITS (the receiving UCITS), or individual compartments of the receiving UCITS if it has compartments, as referred to in Art. 12, in exchange for the issue of units to holders of units of the merging UCITS and, if applicable, a cash payment not exceeding 10% of the value of those units;
 - b. two or more UCITS (the merging UCITS), or individual compartments of the merging UCITS, if they have divisions as referred to in Art. 12, are wound-up without liquidation and all the assets and obligations of the merging UCITS are transferred to a UCITS (the receiving UCITS), which they establish or to individual compartments of the receiving UCITS, if it has compartments as referred to in Art. 12, in exchange for the issue of units to holders of units of the merging UCITS and, if applicable, a cash payment not exceeding 10% of the net asset value of those units;
 - c. one or more UCITS (the merging UCITS) or individual compartments of a merging UCITS, if it has compartments, as referred to in Art. 12, continue to operate but transfer their net assets to another compartment of the same UCITS

or to another UCITS which is established or individual compartments of it if it has investment compartments as referred to in Art. 12.

16. *Domestic merger*: A merger of UCITS established and authorised in Iceland which have not marketed their units in another state of the European Economic Area.
17. *Cross-border merger*: A merger of UCITS where:
 - a. at least two of the UCITS are established and authorised in different Member States;
 - b. UCITS established and authorised in the same Member State merge to form a new UCITS established and authorised in another Member State;
 - c. UCITS established and authorised in Iceland, at least one of which has marketed its units in another state of the European Economic Area, merge.
18. *Feeder UCITS*: A UCITS, or individual compartments of a UCITS if it has investment compartments as referred to in Art. 12, which has been authorised to invest at least 85% of its assets in units of a master UCITS, or individual compartments of the master UCITS if it has investment compartments as referred to in Art. 12, notwithstanding the first paragraph of Art. 39.
19. *Master UCITS*: A UCITS, or individual compartments of a UCITS if it has investment compartments as referred to in Art. 12, which fulfils the following conditions:
 - a. has at least one feeder UCITS among its unit holders,
 - b. is not itself a feeder UCITS, and
 - c. does not hold units of a feeder UCITS.]¹⁾

¹⁾Act No. 12/2013, Art. 1.

Art. 3

Authorisation to commence activities. Register of UCITS

The Financial Supervisory Authority shall grant UCITS authorisation to operate as provided for in Chapter II and investment funds authorisation as provided for in Chapter III. The Financial Supervisory Authority shall decide whether activities are covered by this Act.

The Financial Supervisory Authority shall keep a register of UCITS, investment funds and professional investment funds, including all the principal details of the funds concerned. [The register of UCITS, investment funds and professional investment funds shall be publicly disclosed.]¹⁾ Changes to information previously registered must be notified to the Financial Supervisory Authority in advance.

¹⁾Act No. 12/2013, Art. 2.

Chapter II. UCITS

A. Authorisation and revocation of authorisation

Art. 4

Granting of authorisation

The Financial Supervisory Authority shall authorise UCITS. UCITS can only be authorised if their management company and depositary fulfil the requirements of the Act on Financial Undertakings.

[UCITS can be authorised by the Financial Supervisory Authority to commence activities if their management companies are established and licensed to operate in another state of the European Economic Area and if they fulfil in other respects rules adopted within the European Economic Area on undertakings for collective investment in transferable securities. The Minister shall issue a Regulation on the implementation of this Article, including on application by a management company established and licensed to operate in another state of the European Economic Area for authorisation of a UCITS in Iceland.]¹⁾

UCITS may commence activities upon receiving authorisation from the Financial Supervisory Authority. A UCITS may not operate without the authorisation of the Financial Supervisory Authority.

UCITS may not be converted to other types of funds for collective investment.

¹⁾Act No. 12/2013, Art. 3.

Art. 5

Application for authorisation

An application from a management company for authorisation of a UCITS must be made in writing and include the rules of the fund, as referred to in Art. 11, a prospectus and [key investor information]¹⁾ as provided for in Art. 51, information on the management of the UCITS and other relevant information. The Financial Supervisory Authority may adopt detailed rules on information disclosure as provided for in this Article.

¹⁾Act No. 12/2013, Art. 4.

Art. 6

Granting of authorisation

A decision by the Financial Supervisory Authority on the granting of authorisation must be notified to the applicant in writing as promptly as possible and no later than two months after a complete application was received. The Financial Supervisory Authority must inform an applicant without delay, and no later than one month after receiving the application, when an application is considered satisfactory.

The Financial Supervisory Authority shall publish announcements on the authorisation of UCITS.

Art. 7

Refusal of authorisation

If an application does not satisfy the requirements of this Act, in the estimation of the Financial Supervisory Authority, it shall refuse authorisation.

Grounds must be given for a refusal of authorisation and the applicant informed within two months of receipt of a complete application.

Art. 8

Revocation of authorisation

The Financial Supervisory Authority may revoke the authorisation of a UCITS:

1. if the management company has seriously or repeatedly violated this Act, Regulations or rules adopted in accordance with it or its Articles of Association;
2. if it no longer fulfils the requirements for authorisation in the estimation of the Financial Supervisory Authority;
3. if the management company has not utilised its authorisation to operate a UCITS within 12 months of the granting of the authorisation or has expressly relinquished its authorisation, or if the activities of the UCITS have ceased for a period of over six consecutive months;
4. if the fund does not have at its disposal at least ISK 50 million three months after marketing began or at least ISK 10 million divided between at least 50 parties, so that the share of each of them is at least ISK 10,000;
5. if the fund drops at any point in time below the size limits of Point 4.

Before authorisation is revoked, as referred to in Point 2 of the first paragraph, a suitable time limit for rectification shall be granted if possible.

Art. 9

Notification of revocation

Revocation of the authorisation of a UCITS shall be notified to the Board of Directors of the management company and grounds provided in writing. The Financial Supervisory Authority shall publish the notification in the Legal Gazette (I. *Lögbirtingarblaðið*) and advertise it in the media. If a management company markets the UCITS in another Member State, the Financial Supervisory Authority shall notify the competent supervisory authorities in the state concerned of the revocation.

B. Establishment and activities

Art. 10

Name

Only UCITS may use in their name or in explanations of their activities the word “UCITS” (I. *verðbréfasjóður*).

Art. 11

Rules

The management company shall adopt rules for the UCITS. These shall include at least the following points:

1. Name of the fund.
2. Whether the fund operates as a single unit or in separate investment compartments.
3. The fund's investment strategy.
4. What undertaking is the fund's depositary and provisions as to how the depositary can be changed.
5. The management company's fee.
6. Authorisation for marketing of the UCITS in Iceland and other states of the European Economic Area.
7. Issuance and redemption of units.
8. How dividends or other profit on the fund's securities are to be disposed of.
9. How the net asset value of each share is to be calculated.
10. How the merger of the fund with other UCITS or the merger of compartments of the same fund are to be effected.
11. How a UCITS or investment compartment is to be wound up.
12. The Minister may, in a Regulation, provide in more detail for limitations on the investment strategy of UCITS and information disclosure to customers in connection with investments.
13. Amendments to the rules of a UCITS shall not take effect until authorised by the Financial Supervisory Authority. The Financial Supervisory Authority may postpone their taking effect for up to three months from authorisation if warranted. The Financial Supervisory Authority shall give notice of any change in the Legal Gazette.
14. The management company must inform unit holders of a UCITS of any amendments to the fund's rules. The Financial Supervisory Authority may grant an exemption from this provision, which must be made in writing.

Art. 12

Investment compartments

A UCITS may be operated in separate investment compartments. Each compartment shall be financially separate under the management company. Each compartment shall be responsible for its own obligations. All compartments of a UCITS, however, shall be responsible for their joint expenses.

The management company shall not be liable for the obligations of individual UCITS or their compartments and only the assets of each fund or compartment shall be available to satisfy the obligations of each of them. This provision shall not set aside the liability of the management company for damages.

Art. 13

Creation of fund assets

Assets are created in a UCITS through an agreement between the management company and a client who entrusts the former to invest its funds in a specific UCITS under its direction. The fund is created with the delivery of the client's assets in return for units and it is subsequently comprised of those assets formed through the disposition of these funds for collective investment.

Art. 14

Eligibility

The managing director of the management company and fund managers must have passed an examination in securities trading, cf. Art. 53 of the Act on Financial Undertakings.

In other respects the eligibility of managers and fund managers of UCITS shall be governed by the Act on Financial Undertakings.

A financial undertaking must notify the Financial Supervisory Authority of the composition of and subsequent changes to the fund managers and senior management; such notifications must be accompanied by adequate information to enable an assessment as to whether the requirements of the first and second paragraphs are satisfied.

Art. 15

Separation of management and depositary and independence

A management company may not at the same time be a depositary. The majority of directors of the management company of a UCITS must be independent of the parent company and depositary.

Management companies shall be independent of the parent company and depositary in their work and shall always be guided by the interests of unit holders.

A director of a management company may not be a director or key employee of a parent company or depositary.

Art. 16

Right to judicial redress

A management company may bring a court action in its own name on behalf of individual unit holders for invalidation of unit share certificates.

The management company is responsible for the operations of UCITS and investment compartments and shall represent them.

Art. 17

Operations of UCITS

The operations of UCITS involve, for instance, the following tasks:

1. Investment in accordance with an investment strategy.
2. Administration:
 - a. accounting and legal services;
 - b. services to clients;
 - c. valuation of securities and other assets;
 - d. internal checks and controls;

- e. maintaining and updating a register of unit holders;
 - f. calculation of net asset value;
 - g. issue and redemption of units;
 - h. clearing and settlement;
 - i. safekeeping of units and transaction data.
3. Risk management.
 4. Marketing.

Art. 18

Outsourcing of the management company's tasks

A management company may only entrust to other parties those tasks referred to in Art. 17 after obtaining the approval of the Financial Supervisory Authority. A management company may not, however, outsource all the tasks referred to in Art. 17. ...¹⁾ The management company must ensure that a service provider has the qualifications, capacity and all authorisations required by law to perform the outsourced tasks reliably and professionally. Tasks as referred to in Point 1 of Art. 17 cannot be entrusted to a depositary or other company if its interests could conflict with the interests of the management company or unit holders.

The responsibility of the management company towards unit holders remains unchanged even if it entrusts another undertaking with part of its tasks as referred to in Art. 17.

The Financial Supervisory Authority may adopt detailed rules on outsourcing of tasks by management companies.

¹⁾Act No. 12/2013, Art. 5.

Art. 19

Good business practices and customs

A management company shall operate a UCITS in accordance with good business practices and customs, having regard for the credibility of the market and the interests of unit holders.

C. Depositary

Art. 20

Activities of the depositary

Handling and safe-keeping of the assets of a UCITS shall be entrusted to a depositary which has been approved by the Financial Supervisory Authority. The assets of the UCITS must be kept separate from the assets of the depositary. A depositary shall:

1. ensure that the sale, issue, repurchase, redemption and cancellation of units complies with the law and the rules of the party concerned;
2. ensure that the net asset value of units is calculated in accordance with the law and the rules of the party concerned;
3. carry out the instructions of the management company, unless they conflict with the law and the Articles of Association of the party concerned;
4. ensure that in transactions with the assets of a UCITS any consideration is remitted to it within normal time limits;
5. ensure that the revenue of a UCITS is disposed of in accordance with law and the rules of the fund.

Art. 21

Approved parties

Commercial banks, savings banks, credit institutions, securities undertakings and branches of comparable foreign undertakings operating in Iceland may obtain approval as depositaries.

No change in depositary may be effected without the consent of the Financial Supervisory Authority.

Art. 22

Liability

A depositary shall be liable to the management company and unit holders for any loss suffered by them which can be attributed to the intent or negligence of the depositary's employees in performing its tasks as referred to in Art. 20.

A depositary may entrust another undertaking, which is eligible for approval as referred to in Art. 21, or which is licensed to operate as a financial undertaking and is subject to supervision comparable to that of companies as referred to in Art. 21, with the safe-keeping of the securities of a UCITS in full or in part. If a depositary entrusts another undertaking with the safe-keeping of the securities of a UCITS, this shall have no effect on the depositary's liability towards the management company and unit holders referred to in the first paragraph.

D. Unit share certificates (Units)

Art. 23

Issue of units

The management company issues certificates of ownership rights to the UCITS in the form of units, cf. however, the third paragraph.

All parties with a holding in a UCITS or individual investment compartment of it shall have an equal claim to the income and assets of the fund, or the compartment in question, in proportion to their holding, with the units serving as confirmation of a claim to a share of ownership.

The management company is not obliged to issue actual unit share certificates unless their owners so request, provided they can obtain at all times confirmation of their share by other means.

If units are issued as de-materialised securities in a securities depository, the issue shall be governed by the Act on Electronic Registration of Securities.

Units must be registered by name or in a nominee account, cf. the Act on Securities Transactions.

Units are exempt from payment of stamp duty.

Art. 24

Information in unit share certificates

A unit share certificate must include at least the following details, cf. however, the fourth and fifth paragraph of Art. 23

1. Name of the UCITS, depositary and management company.
2. Name and Id. No. of the initial owner of the unit share certificate.
3. How the unit share certificate was redeemed and what rules apply concerning dividends.
4. The name and Id. No. of the transferee, if the certificate has been bought and sold without redemption.

Unit share certificates shall be dated and signed by the Board of Directors of the management company. Signatures may be printed or presented in another similar manner.

Art. 25

Register of units

The management company shall maintain a register of holders of fund units. The register shall include at least the following details:

1. Name and Id. No. of owner.
2. Date of sale of the unit.
3. Nominal value of the unit.
4. Total number of units outstanding.

Change of ownership of units must be notified to the management company. Such notifications, together with other information received concerning ownership of units, shall be entered into the register, together with the source of the notification, cf. however, the fourth paragraph of Art. 23.

If a unit is registered in a nominee account, the financial undertaking concerned shall provide the management company with information on the name and Id. No. of the beneficial owners, the nominal value of the units and their purchase date at any time at the request of the management company, however, no less frequently than monthly.

Art. 26

Cash payment

Units in a UCITS shall only be sold for cash payment of the purchase price.

E. Redemption

Art. 27

Redemption obligation

Units shall be redeemed at the owners' request in accordance with the rules of the UCITS.

Notwithstanding the first paragraph, a management company may, in accordance with provisions in the rules of the UCITS, suspend redemption of units. The suspension must be general and apply to all units and can only be applied if exceptional circumstances so warrant and if required by the common interests of unit holders. Suspension of redemption shall not last longer than necessary and shall be notified immediately to the Financial Supervisory Authority and to unit holders; it shall take effect upon the sending of notification. Furthermore, suspension shall be advertised publicly.

The Financial Supervisory Authority may demand that redemption of units be suspended if required in the interests of unit holders or the general public.

When the suspension of redemption concludes, notification shall be given of the opening of the UCITS in the same manner as provided for in the second paragraph. If suspension lasts for more than four continuous weeks, notification of the opening of the UCITS shall be sent in a letter to unit holders or by other comparable means as promptly as possible.

Supervisory authorities in other states of the European Economic Area, where units of the UCITS have been placed on the market, shall be notified of suspension of redemption as provided for in the provisions of this Article.

Art. 28

Calculation of net asset value

The net asset value of the units of a UCITS is the market value of the total assets of the investment fund less any liabilities of the fund at the time of redemption, such as debts owed to deposit institutions, unpaid administrative and management costs, collection costs and accrued or imputed public levies, divided by the total number of issued and unredeemed units.

The Minister may, in a Regulation, set detailed rules on calculation of the net asset value of units of a UCITS and assessment of the market value of assets.

Art. 29

Advertisement of net asset value

The net asset value of units in UCITS shall be calculated daily and advertised publicly not less frequently than twice monthly. The Financial Supervisory Authority may decide that public advertisement of net asset value shall take place more frequently if deemed necessary.

F. Investment authorisations

Art. 30

Financial instruments and deposits

Investment authorisations referred to in this Chapter shall apply to a UCITS or, if it has investment compartments as referred to in Art. 12, to its individual compartments. A UCITS may only invest in the following:

1. Transferable securities and money market instruments fulfilling the following conditions:
 - a. have been listed or admitted to trading on a regulated securities market as defined by the Stock Exchange Act;
 - b. are traded on another market in the European Economic Area which is open to the public, operates regularly and is recognised in a manner considered valid by the Financial Supervisory Authority; and/or
 - c. have been listed or admitted to trading on a regulated securities market in a state outside the European Economic Area or are traded on another market in a state outside the European Economic Area which is open to the public, operates regularly, is subject to official supervision and is recognised in a manner considered valid by the Financial Supervisory Authority.
2. Recently issued transferable securities, provided that their terms of issue include an undertaking for admission to official listing on a regulated securities market as referred to in Point 1. The listing of securities referred to in this provision must take place within 180 days of their issue.
3. Units of UCITS. Investment is also authorised in units of other funds for collective investment provided they demonstrate satisfactorily in the estimation of the Financial Supervisory Authority that they are subject to supervision comparable to that of UCITS, that co-operation between the Financial Supervisory Authority and competent authorities in the home state of the UCITS is ensured in a satisfactory manner, that protection for unit holders is ensured comparable to that of UCITS, in particular concerning right of redemption, depositary, lending, borrowing and uncovered sales (short-selling), and that an annual report is published and interim results are published at least at six-month intervals. Investment may not be made in UCITS or other funds for collective investment which invest, according to their fund rules, more than 10% of their assets in units of UCITS or units or shares of other funds for collective investment.
4. Deposits with financial undertakings established in a state of the European Economic Area. However, a UCITS may invest in deposits with financial undertakings established outside the European Economic Area if it demonstrates satisfactorily in the estimation of the Financial Supervisory Authority that the financial undertakings are subject to comparable rules on risk and supervision as apply within the European Economic Area. Deposits as referred to in this Point

must be repayable on depositor demand and have a maximum locked-in period of 12 months.

5. Derivatives listed on a regulated securities market as referred to in Point 1. The underlying reference of derivatives eligible for investment pursuant to this Article shall be securities indices, interest rates, foreign currency exchange rates or currencies in which the UCITS may invest in accordance with the fund's rules.
6. Derivatives not listed on regulated securities markets (OTC derivatives). The underlying reference of derivatives eligible for investment pursuant to this Article shall be securities indices, interest rates, foreign currency exchange rates or currencies in which the UCITS may invest in accordance with the fund's rules. The counterparties of a UCITS in such derivatives transactions must be subject to supervision deemed acceptable by the Financial Supervisory Authority. The value of such derivatives must be subject to reliable daily valuation. It must be ensured that such contracts can be closed on the same day at real value at any time.
7. Money market instruments which are traded outside regulated securities markets.

Art. 31

Other assets

Notwithstanding the provisions of Art. 30, a UCITS may invest the equivalent of up to 10% of its assets in unlisted transferable securities and money market instruments.

A UCITS may not hold more than 10% of its assets in cash or liquid assets at any given time unless this is to the advantage of unit holders. Such assets may not, however, be part of the fund's investment strategy.

A UCITS may request authorisation from the Financial Supervisory Authority to hold more than 10% in cash or liquid assets.

Art. 32

Takeovers of assets and commodities

A UCITS may acquire without limits assets to secure enforcement of claims. The assets must be disposed of as soon as considered favourable and no later than within nine months of their acquisition. The Financial Supervisory Authority may grant a longer time limit if this is in the interests of unit holders.

A UCITS may not invest in commodities or depository receipts representing them.

Art. 33

Supervision of risk

Management companies must have at their disposal a supervisory system enabling them to monitor, analyse and manage the risk of individual assets and the asset portfolio of UCITS at any time. The Financial Supervisory Authority may adopt detailed rules on such supervisory systems.

Art. 34

Derivative transactions

A UCITS must always have sufficient assets of suitable value to offset maximum losses on a derivative. Such assessment must be based on the value of underlying assets, counterparty risk, external financial market circumstances and the time required to enforce or sell the derivative contract in question.

A UCITS may conclude derivative transactions provided that the aggregate exposure to the derivatives and the underlying assets is within the limits laid down in Art. 35. The supervisory system provided for in Art. 33 must be able to assess satisfactorily the value of OTC derivatives.

UCITS must regularly provide the Financial Supervisory Authority with an account of their derivative transactions in such format as the Authority decides.

Derivative transactions may not result in the UCITS deviating from its investment strategy as laid out in the fund's rules and prospectus.

If a security or money market instrument has an embedded derivative, the derivative shall be taken into account when complying with the requirements of this Article.

Art. 35

Maximum investments in transferable securities and deposits of the same issuer

A UCITS may not invest:

1. more than 10% of its assets in securities and money market instruments of the same issuer, or

2. more than 20% of its assets in deposits with the same financial undertaking.

Counterparty risk arising from OTC derivative transactions may not exceed:

1. 10% of the fund's total assets, when the counterparty is a financial undertaking within the European Economic Area or a financial undertaking outside this area subject to supervision approved by the Financial Supervisory Authority;
2. 5% of its assets when the counterparty is not a financial undertaking as referred to in Point 1, but is subject to supervision approved by the Financial Supervisory Authority.

If a UCITS invests more than 5% of its assets in securities issued by a single issuer, the total value of these investments shall not exceed 40% of the fund's assets. Calculations of this total shall not take into consideration deposits with a financial undertaking or OTC derivatives where the counterparty is a financial undertaking subject to supervision approved by the Financial Supervisory Authority.

Notwithstanding the provisions of the first and second paragraphs, the total investment in transactions with the same party in securities, money market instruments, deposits and OTC derivatives may not exceed 20% of the fund's assets.

Notwithstanding the provisions of Point 1 of the first paragraph, a UCITS may invest up to 35% of its assets in securities and money market instruments issued or guaranteed by one or more states of the European Economic Area or municipalities of these states, or by international institutions to which one or more of these states belong, or by states outside the European Economic Area. Investment in a single securities issue may never amount to more than the equivalent of 30% of a fund's assets. Securities referred to in this paragraph shall not be considered in calculating the total investment as provided for in the third paragraph.

The limits provided for in the first to fifth paragraphs shall not be combined. Thus a UCITS may not invest more than 20% of its assets in securities, money market instruments, deposits or derivatives of the same issuer or in 35% of the securities and money market instruments of the same issuer, cf. the fifth paragraph.

Parties which are included in the same group shall be considered the same party for the purpose of calculations under this Article.

Cumulative investment by a UCITS in transferable securities issued by parties connected to the management company or its parent company, cf. the Act on Financial Undertakings, may not exceed 20% of the fund's assets.

Cumulative investment by a UCITS in transferable securities issued by other connected parties, cf. the Act on Financial Undertakings, may not exceed 20% of the fund's assets.

Low-risk securities as referred to in Art. 38 are exempt from the provisions of the eighth and ninth paragraphs.

The management company's obligation to connect parties shall be determined by the Act on Financial Undertakings.

Art. 36

Index funds

Notwithstanding the provisions of Art. 35, a UCITS may invest up to 20% of the fund's assets in equities or bonds of the same issuer if the objective of its investment strategy according to the rules of the UCITS is to replicate a specific equity or bond index. The index must have satisfactory risk diversification, be publicly available and replicate the market in question satisfactorily.

The Financial Supervisory Authority may increase the authorisation referred to in the first paragraph to 35% if the weighting of one issuer in the index is over 20%. Investment of more than 20% is only allowed in the shares or bonds of one issuer.

Art. 37

Money market funds

Investment authorisations of money market funds are limited by Art. 35.

Money market funds may only invest in money market instruments as defined in this Act, derivatives linked to these instruments and deposits, cf. Point 4 of Art. 30.

The maximum duration of individual securities may not exceed 397 days and the average duration of the portfolio of a money market fund may be a maximum of 180 days.

Art. 38

Low-risk securities

The Financial Supervisory Authority may authorise a UCITS to invest up to 100% of its assets in securities and money market instruments referred to in the fifth paragraph of Art. 35, if the Authority considers this in accord with the interests of unit holders.

Investment of a UCITS as referred to in the first paragraph shall be divided between at least six different securities issues, with investment in any single issue not exceeding the equivalent of 30% of the assets of the UCITS.

The rules and prospectus of the UCITS must clearly indicate the states, municipalities or international institutions issuing or guaranteeing the securities or money market instruments in which the fund intends to invest as referred to in the first paragraph.

Art. 39

Investment in units of UCITS and investment funds

A UCITS may invest in the units of other UCITS and other collective investment undertakings. The UCITS may not, however, invest more than 20% of its assets in units of a single UCITS or investment fund.

The aggregate investment of a UCITS in the units of investment funds shall not exceed 30% of the fund's assets.

A UCITS or individual compartment of it may not invest more than 50% of its assets in units of UCITS and investment funds under the same management company.

Art. 40

Restrictions on portfolios

A UCITS may acquire no more than:

1. 10% of the non-voting shares of a single public limited company;
2. 10% of the debt securities of a single securities issuer, and never more than 25% of

each individual issue;

3. 25% of the units of a UCITS or other undertaking for collective investment;
4. 10% of the money market instruments of an individual issuer.

Art. 41

Loans and guarantees

A UCITS may not grant loans or undertake guarantees for other parties, cf. however the authorisations provided for in Art. 30. It may, however, provide securities lending as part of normal risk management. The Financial Supervisory Authority may adopt detailed rules on securities lending by UCITS.

A UCITS may not borrow with the exception of short-term loans to cover redemption of units. Such loans may not exceed the equivalent of 10% of the assets of the UCITS or individual compartments of it.

Art. 42

Short selling

A UCITS may not sell financial instruments which it does not own at the time their sale is concluded.

Art. 43

Remedial actions

If the investments of a UCITS exceed the limits authorised under this Act, the Financial Supervisory Authority shall be notified thereof without delay and measures shall be taken immediately to remedy the situation and bring them into line with the statutory maximum at the latest within three months. In exceptional instances, the Financial Supervisory Authority may authorise a longer time limit, if this is clearly to the advantage of unit holders.

G. Marketing outside the home state

Art. 44 *[Marketing in Iceland of foreign UCITS established and authorised in another state of the European Economic Area]*

A foreign UCITS established and authorised in another state of the European Economic Area may market its units in Iceland after the Financial Supervisory Authority confirms receipt of a notification of the proposed activities from the competent supervisory authority of the home Member State of the UCITS.

The Financial Supervisory Authority shall confirm receipt of a notification no later than five working days after its receipt. The same shall apply to activities of Swiss and Faroese UCITS, provided the same requirements are made of them as of UCITS established in a Member State of the European Economic Area and a co-operation agreement has been concluded between the Financial Supervisory Authority and the competent Swiss or Faroese authorities.

The notification of marketing shall include the following documentation:

1. A statement by the competent supervisory authority in the home Member State of the UCITS that it has been authorised in that state and in other respects satisfies rules laid down in the European Economic Area concerning funds for collective investment in transferable securities.
2. The rules of the UCITS.
3. Prospectus and key investor information.
4. The audited annual financial statements of the previous year, if available, and subsequent interim financial statements.

The UCITS must take measures to ensure the rights of unit holders to distribution of profit, redemption of units and the information the fund is obliged to communicate.

Any changes occurring to details previously notified must be notified to the Financial Supervisory Authority.

The UCITS must, however, inform the Financial Supervisory Authority in advance in writing of changes in carrying out its proposed activities or marketing of units of the UCITS which were stated in the marketing notification. The UCITS must disclose, for instance, who will handle sale of units and have legal authority to redeem them on behalf of the UCITS and who the expected target investor group will be.]¹⁾

¹⁾Act No. 12/2013, Art. 6.

Art. 45

Marketing of investment funds (non-UCITS)

Other funds intending to begin marketing their units or shares in Iceland must apply for authorisation to the Financial Supervisory Authority and in tandem with this send the Financial Supervisory Authority the documentation listed in [Points 2-4 of the third paragraph of Art. 44.]¹⁾ In addition, the following documentation must be submitted:

1. A statement from a competent authority in the home Member State of the UCITS, stating that the fund and its management company are authorised or licensed to operate as provided for by legislation in the home Member State and subject to its supervision, including with regard to their activities in Iceland.
2. A statement from a competent authority in the home Member State of the UCITS that it is prepared to grant comparable Icelandic UCITS marketing authorisation in the state in question. States included in region A in the Annex to Rules No. 530/2003, on the Capital Adequacy Ratio of Financial Undertakings, are exempt from this point.

Any changes to details previously notified as provided for in this Article must be immediately notified to the Financial Supervisory Authority.

The Financial Supervisory Authority may grant approval for a UCITS as referred to in the first paragraph to begin marketing in Iceland if the provisions of the first paragraph are satisfied and measures provided for in [the fourth paragraph of Art. 44]¹⁾ are satisfactory and the marketing in other respects does not violate statutory provisions. If the Financial Supervisory Authority refuses to approve the marketing it must provide the UCITS with written grounds for its refusal.

¹⁾Act No. 12/2013, Art. 7.

Art. 46

Authorisation to prohibit the activities of foreign UCITS

[If the Financial Supervisory Authority has grounds to expect that a foreign UCITS violates the provisions of this Act, rules adopted by virtue of it or provisions of other Acts on financial activities, the Financial Supervisory Authority shall convey this to the competent supervisory authority of the UCITS, if this is a violation of provisions which the Authority is not to enforce as the host Member State. If the Financial Supervisory Authority is of the opinion that measures taken by the competent supervisory authority of the UCITS are insufficient to put a stop to the unlawful conduct of the UCITS, the Authority is authorised to take necessary measures to protect investors and the sound operation of financial markets in Iceland. This includes, for instance, authorisation to prohibit foreign UCITS from marketing their units in Iceland. The Financial Supervisory Authority may renew the approval for marketing a UCITS if the UCITS can demonstrate that it fulfils statutory requirements for activities of UCITS.]¹⁾

The Financial Supervisory Authority may prohibit foreign ...¹⁾ investment funds from marketing their units in Iceland if the investment fund concerned ...¹⁾ has grossly or repeatedly violated provisions of this Act, rules adopted by virtue of it or provisions of other Acts on financial activities. The Financial Supervisory Authority may renew the approval for marketing a fund if the fund can demonstrate that it will fulfil the requirements of this Act.

¹⁾Act No. 12/2013, Art. 8.

Art. 47

Exemptions

Exempt from the provisions of Articles 44 and 45 are foreign UCITS and other funds for collective investment which are only offered for sale or marketed, without general public advertisement or promotion, to professional investors as defined by the Act on Securities Transactions.

Funds which intend to market their shares or units exclusively to professional investors in Iceland must notify the Financial Supervisory Authority thereof in advance, providing information on the fund's home state, management company and address, whether the fund is subject to regular supervision, and other information which the Financial Supervisory Authority deems necessary.

Art. 48

Marketing of Icelandic UCITS outside of Iceland

[If a UCITS intends to market its units outside of Iceland it must notify the Financial Supervisory Authority thereof.

A notification in connection with proposed marketing of a UCITS shall contain a description of the marketing practices of the fund's units, including who will handle sale of units and have legal authorisation to redeem them on behalf of the UCITS, and what the expected target group of investors is. The notification shall include the following documentation:

1. The rules of the UCITS.
2. A prospectus and key investor information.
3. The audited annual financial statements of the previous year, if available, and subsequent interim financial statements.

The Financial Supervisory Authority shall confirm that the documentation submitted as provided for in the second paragraph is sufficient.

The Financial Supervisory Authority shall send the competent supervisory authority in the country where marketing is planned documentation as referred to in the second paragraph together with a statement that the UCITS has been approved in Iceland and in other respects fulfils rules laid down within the European Economic Area on funds for collective investment in transferable securities. The documentation referred to in this paragraph shall be sent to the competent supervisory authority in the country where marketing is planned no later than ten working days after notification together with satisfactory documentation is received by the Financial Supervisory Authority.

The Financial Supervisory Authority shall without delay notify the UCITS when the competent supervisory authority in the country where the UCITS plans to market its units has confirmed receipt of the notification; the UCITS may then market itself in that country.]¹⁾

¹⁾Act No. 12/2013, Art. 9.

H. Information disclosure

Art. 49

Annual financial statements and interim statements

The annual financial statements and interim financial statements of a management company shall disclose separately designated information on the UCITS or each investment compartment of it. The Minister may issue a Regulation providing in detail for separately designated information on UCITS in annual financial statements and interim financial statements of management companies.

Art. 50

Breakdown of investments

The management company of a UCITS must send the Financial Supervisory Authority a report with a breakdown of the investments of the UCITS in such format as the Financial Supervisory Authority decides.

Art. 51

Prospectus and [key investor information]¹⁾

The management company shall issue a prospectus and [key investor information]¹⁾ for a UCITS.

The prospectus shall include necessary information for investors to be able to assess the advantages of investment in the UCITS concerned. The [key investor information]¹⁾ shall summarise the main details of the prospectus.

The management company shall send the Financial Supervisory Authority the prospectus and [key investor information]¹⁾ following any amendments to them.

¹⁾Act No. 12/2013, Art. 4.

Art. 52

Further details in the prospectus

The prospectus of a UCITS shall describe in detail the fund's investment strategy and, as appropriate, that of its individual investment compartments and specify the types of investments which it is authorised to make according to the rules of the UCITS.

The prospectus shall specify whether the UCITS, or individual compartments of it, are authorised to invest in derivatives and, in such case, whether the investment is limited to minimising risk and mitigating volatility of returns, or whether it is part of the investment strategy.

If a UCITS, or individual compartment of it, is authorised by the fund's rules to invest in derivatives, the prospectus shall describe in detail the possible impact of derivatives on the investment risk of unit holders in the fund.

If the book value of the assets of a UCITS, or individual compartment of its, is likely to be highly volatile due to the composition of the portfolio or the portfolio management techniques applied, its prospectus and other marketing communications shall draw specific attention to this in a conspicuous manner.

If a UCITS invests a substantial portion of its assets in other UCITS and other funds for collective investment its prospectus must state the maximum management cost that the UCITS itself and the other funds are to bear. The annual financial statements of the UCITS shall specify the maximum percentage of management cost which, firstly, the UCITS itself and, secondly, the other funds in which it invests, are to bear.

The management company must provide, upon the request of a unit holder in the UCITS, information on the fund's methodology in managing the risk of its assets, having regard to the risk and expected return on the fund's investments in recent quarters.

The prospectus must state what tasks the management company has outsourced, as provided for in Art. 18.

More detailed rules on prospectuses and [key investor information]¹⁾ concerning a UCITS may be laid down in a Regulation, including on what information shall be published in prospectuses and in [key investor information].¹⁾

¹⁾Act No. 12/2013, Art. 4.

Art. 53

Access to information

[Key investor information]¹⁾ [shall be offered]¹⁾ to investors without charge before trading in units takes place. A prospectus, together with annual financial statements and interim financial statements must always be available to investors in a UCITS without charge.

The annual financial statements and interim financial statements shall be made available to the public in the manner provided for in the prospectus and the key investor information and approved by the Financial Supervisory Authority.

The currently applicable rules of the UCITS, the prospectus and [key investor information]¹⁾ shall be [accessible]¹⁾ to the public.

¹⁾Act No. 12/2013, Art. 4.

Art. 54

Fees

The management company must inform investors in a UCITS in advance of what fees it will charge for its services. Unit holders must be notified of any changes to fees with reasonable notice.

If a UCITS invests in units of other UCITS or other funds for collective investment, which are managed directly or through agency by the same management company, or by another company with which the management company is connected through joint operations or management, or with a considerable direct or indirect ownership share, the management company may not charge a fee for subscription or redemption of investments in the fund.

Art. 55

Marketing communications

In the advertisements and other marketing communications of UCITS, care shall be taken to provide correct and accurate information on the activities of these parties.

The advertisements and other marketing communications of UCITS shall include the following points:

1. whether the fund is a UCITS or investment fund,
2. the name of the management company,
3. information on the risks of the UCITS,
4. a reference to the prospectus and [key investor information]¹⁾ and where they may be obtained.

The website of the management company ...²⁾ shall include the same information as provided for in the second paragraph, in addition to which information shall be published on the ten largest issuers in the fund's portfolio together with details of the proportion of the investment in each of these parties. ...²⁾ Information on the fund's largest issuers shall be updated at least at six-week intervals. Furthermore, documentation as provided for in Art. 53 shall be available on the website.

A UCITS may not extrapolate the return over one period and apply it to another, longer period.

¹⁾Act No. 12/2013, Art. 4. ²⁾Act No. 12/2013, Art. 10.

Art. 56

Disclosure of risk

The management company should disclose to investors the risks involved in investment in a UCITS before concluding transactions.

[I. Merger of UCITS]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 a

UCITS which intend to merge must prepare a joint merger plan. Domestic mergers are only authorised after obtaining the consent of the Financial Supervisory Authority. Cross-border mergers are only authorised after obtaining the consent of the competent supervisory authority of the merging UCITS; the merger must comply with the law and rules of the home state of the merging UCITS.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art 56 b

Information for unit holders

After the Financial Supervisory Authority has authorised the proposed merger, the UCITS which are to merge must provide to unit holders of the respective merging and receiving UCITS accurate and satisfactory information on the proposed merger. The information shall enable unit holders to appreciate the impact of the proposed merger on their investments and to avail themselves of their rights according to provisions of this Chapter. The information must be provided no later than 30 days before the redemption obligation referred to in Art. 56 c expires.

Information shall be provided on the following:

1. The background to and rationale for the proposed merger.
2. The impact which the merger is expected to have on unit holders, including changes in the investment strategy, expected performance, periodic reporting and, if relevant, a warning to investors that their tax treatment may change due to the proposed merger.
3. The rights of unit holders in connection with the proposed merger, the right of unit holders to request redemption and, where applicable, their right to convert their units without charge and within what time limits they can exercise these rights.
4. Procedural aspects and the planned effective date of the merger.
5. Key investor information on the receiving UCITS.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 c

Redemption obligation

Units of the merging UCITS and receiving UCITS shall be redeemed at the request of owners in accordance with the rules of the UCITS without any charge other than that retained by the UCITS to meet disinvestment costs and, where applicable, unit holders may request to convert their units to units in another UCITS with a similar investment strategy managed by the same management company or by a company with which the management company is connected by common management or a direct or indirect holding.

The redemption obligation shall become effective once unit holders have received satisfactory information on the merger and shall apply until five working days prior to the reference date for calculating the exchange ratio of the merger.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 d

Regulation

The Minister shall issue a Regulation on the detailed implementation of this Chapter. The Regulation shall include provisions on:

1. authorisation of a merger,
2. application for authorisation of a merger,
3. the joint merger plan of the merging UCITS and receiving UCITS,
4. information disclosure to unit holders on the authorisation of the merger.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[J. Master UCITS and feeder UCITS]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 e

Application of a feeder UCITS to invest in a master UCITS

A feeder UCITS may only invest in a master UCITS after receiving the approval of the Financial Supervisory Authority. The Financial Supervisory Authority shall authorise investment by a feeder UCITS in a master UCITS if the feeder UCITS, its depositary, the auditor of the feeder UCITS and the master UCITS fulfil the statutory requirements applicable to them.

The feeder UCITS must submit to the Financial Supervisory Authority:

1. the rules of the feeder UCITS and master UCITS;
2. the prospectus and key investor information of the feeder UCITS and master UCITS;
3. an agreement between the feeder UCITS and master UCITS or, as applicable, an agreement on internal rules;
4. information to be provided to unit holders of the feeder UCITS;
5. an agreement between the depositaries of the feeder UCITS and master UCITS on information sharing if the feeder UCITS and master UCITS have different depositaries;
6. an agreement between the auditors of the feeder UCITS and master UCITS on information sharing if the feeder UCITS and master UCITS have different auditors.

The Financial Supervisory Authority shall notify the feeder UCITS whether the application for investment in a master UCITS is approved no later than 15 working days after receipt of satisfactory documentation as referred to in this Article.

Where the master UCITS is established and authorised in another Member State of the European Economic Area the feeder UCITS must submit a statement from the competent supervisory authority of the master UCITS that the latter is established in that state and in other respects satisfies the rules laid down in the European Economic Area for UCITS and the conditions defining a master UCITS.¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 f

Investment authorisations of a feeder UCITS

Notwithstanding the first paragraph of Art. 39, a feeder UCITS may invest at least 85% of its assets in a master UCITS after obtaining the approval of the Financial Supervisory Authority.

A feeder UCITS may invest up to 15% of its assets in cash or liquid assets as provided for in the second paragraph of Art. 31 and hedging derivatives as provided for in Point 5 of Art. 30.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

[Art. 56 g Regulation

The Minister shall issue a Regulation on the detailed implementation of this Chapter. The Regulation shall include provisions on:

1. the agreement between a feeder UCITS and master UCITS;
2. the agreement on the internal rules of the feeder UCITS and master UCITS;
3. the information to be provided to unit holders of the feeder UCITS;
4. the information-sharing agreement between the depositaries of the feeder UCITS and master UCITS;
5. the information-sharing agreement between the auditors of the feeder UCITS and master UCITS;
6. the prospectus for the feeder UCITS with additional information;
7. the investment authorisations of the feeder UCITS.]¹⁾

¹⁾Act No. 12/2013, Art. 11.

Chapter III. Investment funds

Art. 57

References to Chapter II

The management company issues certificates of ownership rights to the investment fund in the form of units. The provisions of Chapter II apply to investment funds as referred to in this Chapter.

Only investment funds may use in their name or in explanations of their activities the word “investment fund” (i. *fjárfestingarsjóður*).

Art. 58

Redemption

Units of investment funds referred to in this chapter are subject to redemption. The fund's rules shall apply concerning redemption of investment funds. The management company is obliged to draw clients' attention especially to the rules which apply to the fund's redemption obligations.

Notwithstanding the first paragraph, investment funds may, in accordance with provisions in the rules of the fund, suspend redemption of units. The suspension must be general and apply to all units and can only be applied if exceptional circumstances so warrant and if demanded by the interests of unit holders. Suspension of redemption shall not last longer than necessary and shall be notified immediately to the Financial Supervisory Authority [and to unit holders; it shall take effect upon the sending of notification.]¹⁾ Furthermore, suspension shall be advertised publicly.

When the suspension of redemption concludes, notification shall be given of the opening of the funds in the same manner as provided for in the second paragraph. If suspension lasts for more than four continuous weeks, notification of the opening of the funds shall be sent to unit holders in a letter or other comparable manner.

The Financial Supervisory Authority may demand that redemption of units be suspended if required in the interests of unit holders or the general public.

The net asset value of the units of an investment fund is the market value of the total assets of the fund less any liabilities of the fund at the time of redemption, such as debts owed to deposit institutions, unpaid administrative and management costs, collection costs and accrued or imputed public levies, divided by the total number of issued and unredeemed units.

¹⁾Act No. 12/2013, Art. 12.

Art. 59

Investment authorisations

Investment authorisations of UCITS as provided for in Articles 30-43 shall apply to the investments of investment funds with the exceptions stated in the second to seventh

paragraphs. If an investment fund avails itself of this provision, this must be clearly stated in the fund's rules.

The provisions of Point 3 of Art. 30 shall not apply to investment funds. Investment funds may invest up to 20% of their assets in the units of other funds for collective investment than UCITS and investment funds.

The provision of the first paragraph of Art. 31 shall not apply to investment funds. Investment funds may invest without restriction in unlisted securities and money market instruments. Investment in securities of a single issuer may not exceed 10% of an investment fund's assets.

The provisions of Art. 35 shall not apply to investment funds. The following rules shall apply to maximum investments of investment funds in transferable securities and deposits of the same issuer:

1. Investment funds may:

- a. invest up to 20% of their assets in securities and money market instruments of the same issuer. However, up to 35% of a fund's assets may be invested in securities listed on a stock exchange and money market instruments issued by the same issuer, provided that the investment exceeding 20% is only in securities of a single issuer;
- b. invest up to 30% of the fund's assets in deposits of the same financial undertaking;
- c. invest up to 10% of a fund's assets in transactions with the same party in OTC derivatives if the counterparty is a financial undertaking in the European Economic Area or a financial undertaking established outside the European Economic Area subject to supervision approved by the Financial Supervisory Authority;
- d. invest up to 35% in securities, money market instruments and derivatives issued by the same issuer, in which case only 20% may be invested in securities from a single issuer. An investment fund may also invest up to 30% of the fund's assets in deposits of the same financial undertaking; An investment fund's aggregate investment in securities, money market instruments, derivatives and deposits of the same issuer may never exceed 40%;
- e. invest up to 35% of its assets in securities and money market instruments issued or guaranteed by one or more states of the European Economic Area or municipalities of these states, or by international institutions to which one or more of these states belong, or by states outside the European Economic Area. Investment in a single securities issue may never amount to more than the equivalent of 30% of an investment fund's assets.

2. The restrictions of subparagraphs a-d of Point 1 may not be combined.

3. Parties which are included in the same group shall be considered the same party for the purpose of calculations under this paragraph.

4. Cumulative investment by a fund in transferable securities issued by parties connected to the management company or its parent company, cf. the Act on Financial Undertakings, may not exceed 40% of the fund's assets.

5. Cumulative investment by a fund in transferable securities issued by other connected parties, cf. the Act on Financial Undertakings, may not exceed 40% of the fund's assets.

6. Low-risk securities as referred to in Art. 38 are exempt from the provisions of the fourth and fifth paragraphs.

7. The management company's obligation to connect parties shall be determined by the Act on Financial Undertakings.

The provision of the second paragraph of Art. 39 shall not apply to investment funds. Investment funds may invest without restriction in investment funds. Investment in the same investment fund may not exceed 20% of an investment fund's assets.

Investment funds may take out short-term loans amounting to up to 25% of the value of the fund's assets.

The provisions of Art. 42 shall not apply to investment funds. The estimated maximum loss in transactions with securities which an investment fund does not have the right to dispose of must not exceed 20% of the fund's revalued net asset value. Short-selling of unlisted securities is prohibited.

Chapter IV. Professional investment funds

Art. 60

Professional investment funds operated by management companies of UCITS

Management companies of UCITS may establish funds for collective investment which do not accept funds from members of the public (professional investment funds) and issue units. The provisions of Articles 23-25 on units apply to funds referred to in this Article.

The management company shall not be liable for the obligations of individual professional investment fund and only the assets of each fund shall be available to satisfy the obligations of each of them. This provision shall not set aside the liability of the management company for damages.

Art. 61

Other professional investment funds

Parties other than management companies of UCITS may establish funds for collective investment which do not accept funds from members of the public (professional investment funds) and issue shares or units. A professional investment fund may be established as a public limited company or other legal form. If the fund issues units, the provisions of Articles 23-25 shall apply as applicable.

Art. 62

Common provisions

Marketing or presenting an professional investment fund to the general public is prohibited.

An professional investment fund must ensure that its clients satisfy the requirements to be treated as professional investors, [cf. the provisions of the Act on Securities Transactions.]¹⁾

Rules and an investment strategy shall be adopted for an professional investment fund which shall always be available to investors. An professional investment fund obliges itself to pursue the investment strategy it adopts. The fund's rules shall specify the nature of and reasons for possible conflicts of interest.

The Financial Supervisory Authority shall be notified of the establishment of an professional investment fund within one month of its establishment. In tandem with notification, the Financial Supervisory Authority shall be sent the fund's rules and investment strategy. Furthermore, the Financial Supervisory Authority shall be informed of the fund managers and managing director. All subsequent changes to the above must be notified to the Financial Supervisory Authority without delay.

An professional investment fund shall provide information on the fund's portfolio in its annual financial statements and six-month results, which shall always be available to investors.

Fund managers must have passed an examination in securities trading, cf. Art. 53 of the Act on Financial Undertakings.

Professional investment funds shall submit a report to the Financial Supervisory Authority with a breakdown of investments concerning funds under their management in such format as the Financial Supervisory Authority decides.

The liability of a management company or professional investment fund towards unit holders or shareholders remains unchanged even if a third party is entrusted with part of the tasks connected with the fund's operation.

Provisions of Art. 19 on good business practices and of Article 63 on supervision shall apply to funds referred to in this Chapter.

¹⁾Act No. 12/2013, Art. 13.

Chapter V. Supervision and regulation

Art. 63

Supervision

The Financial Supervisory Authority shall supervise the activities of UCITS, investment funds and professional investment funds, as well as the management companies and depositaries of such funds, ensuring that they comply with this Act and Regulations adopted by virtue of it. The Financial Supervisory Authority shall have access to all documentation and information of those parties covered by the Act which it deems necessary for purposes of supervision. The Act on Official Supervision of Financial Activities shall apply to this supervision as applicable.

If, in the estimation of the Financial Supervisory Authority, activities of parties referred to in the first paragraph violate provisions of this Act, or Regulations and rules adopted in accordance with it, or are in other respects abnormal, unhealthy or unsound, it can grant the party concerned a reasonable time limit to rectify the situation, unless the violations are serious.

If the Financial Supervisory Authority is of the opinion that activities covered by this Act are being carried out without the required authorisation, it may demand documentation and information from the parties concerned or from regulated entities, as necessary to determine whether this is the case. It may demand that such activities cease immediately. Furthermore, the Authority may make public the names of parties considered to be offering services without the required authorisations.

Art. 64

Regulation

This Act is under the authority of [the Minister]¹⁾ who is authorised to provide in detail for its implementation in a Regulation. The Regulation may provide, for instance, for the investment strategy and investment authorisations of UCITS and investment funds, good business practices, outsourcing of management companies' tasks, net asset value, cross-border marketing, authorisations for marketing of funds other than UCITS outside the home state and information disclosure of UCITS and investment funds and supervision of professional investment funds. The Regulation may also provide for the use of derivative contracts by UCITS and investment funds and methods of assessing their impact on the risk of the funds' portfolio.

¹⁾Act No. 21/2012, Art. 7.

Chapter VI. Penalties

Art. 65

Administrative fines

The Financial Supervisory Authority may levy administrative fines on any party violating the provisions of:

1. the third paragraph of Art. 1 and [the second sentence of the third paragraph of Art. 4]¹⁾ stating that activities subject to license may not be pursued without authorisation or an operating license;

2. the second paragraph of Art. 3, on the obligation to give notification of changes to previously registered information;

3. [the fourth paragraph of Art. 4]¹⁾ on the prohibition against converting UCITS to another type of fund for collective investment;

4. Art. 10, on the exclusive right of UCITS to use the name UCITS for more detailed explanation of their activities; 5. the third paragraph of Art. 11, on amending the rules of a UCITS;

6. the fourth paragraph of Art. 11, on notifying unit holders of amendments to the fund's rules;

7. the first paragraph of Art. 14, requiring managing directors of management companies and fund managers to have concluded examinations in securities trading;

8. the third paragraph of Art. 14, on notifications of changes to fund managers and managing directors;

9. Art. 15, on the segregation of management and depositary functions and the independence of a management company towards its parent company and depositaries of UCITS and obligations of management companies to be guided by the interests of unit holders;

10. the first paragraph of Art. 18, on outsourcing tasks of the management company of a UCITS;

11. Art. 20, on the activities of a depositary of UCITS;

12. the second paragraph of Art. 21, prohibiting the change of depositary without the consent of the Financial Supervisory Authority;

13. the first paragraph of Art. 25, on the obligation of a management company to keep a register of unit holders; 14. Art. 29, on the advertising of net asset value;

15. Art. 30-43, on the investment authorisations of a UCITS;

16. the first paragraph of Art. 44, on marketing of a UCITS established in the EEA in Iceland;

17. the first paragraph of Art. 45, on marketing of an investment fund in Iceland;

18. the second paragraph of Art. 47, on notification of foreign funds for collective investment;

19. Art. 48, on marketing of Icelandic UCITS outside of Iceland;

20. Articles 49-55, on information disclosure of UCITS;

21. Art. 56, on notification of risk;

[22. Art. 56 f, on the investment authorisations of a feeder UCITS];¹⁾

[23.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. [the fourth paragraph of Art. 4]¹⁾ on the conversion of investment funds to another type of fund for collective investment;

[24.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the third paragraph of Art. 11, on amendments to the rules of an investment fund;

[25.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the fourth paragraph of Art. 11, on notifying unit holders of amendments to the fund's rules;

[26.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the first paragraph of Art. 14, requiring managing directors of management companies and fund managers to have concluded examinations in securities trading;

[27.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the third paragraph of Art. 14, on notifications of changes to fund managers and managing directors;

[28.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Art. 15, on the segregation of management and depositary functions and the independence of a management company towards its parent company and depositaries of investment funds and obligations of management companies to be guided by the interests of unit holders;

[29.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the first paragraph of Art. 18, on outsourcing tasks of the management company of an investment fund;

[30.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Art. 20, on the activities of a depositary of an investment funds;

[31.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the second paragraph of Art. 21, prohibiting the change of depositary without the consent of the Financial Supervisory Authority;

[32.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Articles 49-55, on information disclosure of investment funds;

[33.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Art. 56, on notification of risk;

[34.]¹⁾ the second paragraph of Art. 57, on the exclusive right of investment funds to use the term investment fund for more detailed explanation of their activities;

[35.]¹⁾ Art. 59, on investment authorisations of investment funds;

[36.]¹⁾ the first paragraph of Art. 62, prohibiting the marketing of an professional investment funds to the general public;

[37.]¹⁾ the first paragraph of Art. 60, Art. 61 and the fourth paragraph of Art. 62, on the establishment of professional investment funds and notification of the establishment of the funds to the Financial Supervisory Authority; [38.]¹⁾ the fourth paragraph of Art. 62, on the obligation of professional investment funds to send notifications and documentation to the Financial Supervisory Authority;

[39.]¹⁾ the sixth paragraph of Art. 62, requiring fund managers to have concluded an examination in securities trading;

[40.]¹⁾ the seventh paragraph of Art. 62, on reporting of operators of professional investment funds to the Financial Supervisory Authority regarding a breakdown of investments in connection with funds under their management and other provisions which apply to professional investment funds;

[41.]¹⁾ settlement between the Financial Supervisory Authority and parties, cf. Art. 66.

The Financial Supervisory Authority may also levy administrative fines on anyone grossly or repeatedly violating Art. 19, on good business practices.

The Financial Supervisory Authority may levy an administrative fine on operators of UCITS, investment funds or professional investment funds who grossly or repeatedly deviate from the fund's investment strategy.

Fines which are levied on individuals may range from ISK 10,000 to ISK 20,000. Fines which are levied on legal entities may range from ISK 50,000 to ISK 50 million. In determining the fine, regard shall be had, among other things, for the seriousness of the offence, how long it has continued, the readiness of the offending party to co-operate and whether the offence has been repeated. Decisions on administrative fines shall be taken by the Board of Directors of the Financial Supervisory Authority and are enforceable by execution. After deducting the cost of collection, fines shall accrue to the Treasury. If administrative fines are not paid within a month of a decision by the Financial Supervisory Authority, penalty interest shall be paid on the amount of the fine. The Act on Interest and Indexation shall apply to a decision on and calculation of penalty interest.

Administrative fines may be applied regardless of whether violations are committed deliberately or through negligence.

¹⁾Act No. 12/2013, Art. 14.

Art. 66

If a party has violated the provisions of this Act or decisions by the Financial Supervisory Authority based upon it, the Financial Supervisory Authority may conclude the case with a settlement with the party's consent, provided no major offence is involved subject to criminal punishment. A settlement is binding upon a party to the case once the party has approved and confirmed its substance with his/her signature. The Financial Supervisory Authority shall adopt detailed rules on the implementation of the provision.

Art. 67

In a case directed against an individual, which may conclude with the levying of an administrative fine or charges laid with the police, a person who there is reasonable grounds to suspect is guilty of an offence has the right to refuse to answer questions or deliver data or objects unless the possibility can be excluded that this may be of significance for determining his/her offence. The Financial Supervisory Authority shall inform the suspect of this right.

Art. 68

The authorisation of the Financial Supervisory Authority to levy administrative fines under this Act shall expire once five years have elapsed from the time the behaviour concluded.

Calculation of the time limit provided for in the first paragraph shall be suspended when the Financial Supervisory Authority notifies a party of the initiation of an investigation of an alleged offence. Suspension of the time limit shall have legal effect on all parties involved in an offence.

Art. 69

Fines or imprisonment

Violations of the following provisions shall be liable to fines or imprisonment of up to two years, unless more severe punishment is provided for in other Acts:

1. the third paragraph of Art. 1 and [the second sentence of the third paragraph of Art. 4]¹⁾ stating that activities subject to license may not be pursued without authorisation or an operating license;

2. [the fourth paragraph of Art. 4]¹⁾ on the prohibition against converting UCITS to other funds for collective investment;

3. the second paragraph of Art. 15, on the segregation of management and depositary functions and the independence of a management company towards its parent company and depositaries of UCITS and obligations of management companies to be guided by the interests of unit holders;

4. the first paragraph of Art. 18, on outsourcing tasks of the management company of a UCITS;

5. Art. 20, on the activities of a depositary of a UCITS;

6. Art. 30-43, on the investment authorisations of a UCITS;

7. the first paragraph of Art. 44, on marketing of a UCITS established in the EEA in Iceland;

8. Articles 49-55, on information disclosure of UCITS;

9. Art. 56, on notification of risk;

[10. Art. 56 f, on the investment authorisations of a feeder UCITS];¹⁾

[11.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. [the fourth paragraph of Art. 4]¹⁾ on the conversion of investment funds to other funds for collective investment;

[12.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the second paragraph of Art. 15, on the segregation of management and depositary functions and the independence of a management company towards its parent company and depositaries of investment funds and obligations of management companies to be guided by the interests of unit holders;

[13.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. the first paragraph of Art. 18, on outsourcing tasks of the management company of an investment fund;

[14.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Art. 20, on the activities of a depositary of an investment fund;

[15.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Articles 49-55, on information disclosure of investment funds;

[16.]¹⁾ the second sentence of the first paragraph of Art. 57, cf. Art. 56, on notification of risk;

[17.]¹⁾ Art. 59, on investment authorisations of investment funds.

¹⁾Act No. 12/2013, Art. 15.

Art. 70

Violations of this Act which are liable to fines or imprisonment shall be subject to punishment whether committed deliberately or through negligence.

Any direct or indirect gain acquired through a violation of the provisions of this Act which is liable to fines or imprisonment may be confiscated by verdict of a court.

An attempt to commit or participation in a violation of this Act is liable to punishment as prescribed by the Criminal Code.

Art. 71

Violations against this Act shall only be subject to police investigation following a complaint from the Financial Supervisory Authority.

If an alleged violation of this Act is liable to both administrative fines and punishment, the Financial Supervisory Authority shall assess whether to refer the case to the police or conclude it with an administrative decision by the Authority. In the case of major violations, the Financial Supervisory Authority should refer these to the police. A violation is considered major if substantial amounts are involved or if the violation has been committed in an especially reprehensible manner or under circumstances which greatly increase the culpability of the violation. Furthermore the Financial Supervisory Authority may, at any stage of the investigation, refer violations of this Act for public investigation. Care shall be taken to ensure consistency in resolving comparable cases.

Charges laid by the Financial Supervisory Authority shall be accompanied by copies of the documentation supporting the suspicion of a violation. The provisions of Chapters IV-VII of the Public Administration Act shall not apply to a decision by the Financial Supervisory Authority to lay charges with the police.

The Financial Supervisory Authority may provide the police and prosecution with information and documentation which the Authority has acquired and is connected with the violations referred to in the second paragraph. The Financial Supervisory Authority may participate in actions by the police concerning their investigation of violations referred to in the second paragraph.

The police and prosecution may provide the Financial Supervisory Authority with information and documentation which they have acquired and is connected with the violations referred to in the second paragraph. The police may participate in actions by the Financial

Supervisory Authority concerning their investigation of violations referred to in the second paragraph.

If the prosecution is of the opinion that there is insufficient cause for bringing suit concerning alleged punishable behaviour which furthermore is liable to administrative penalties, it may send or return the case to the Financial Supervisory Authority for handling and a decision.

Chapter VII. Entry into force, etc.

Art. 72

Transposition

[This Act involves the transposition of Commission Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions, and Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). Directive 2007/16/EC became part of the EEA Agreement by a decision of the EEA Joint Committee, No. 114/2007, published on 21 February 2008 in the EEA Supplement to the *Official Journal of the European Union*, No. 9/2008. Directive 2009/65/EC became part of the EEA Agreement by a decision of the EEA Joint Committee, No. 120/2010, published on 3 March 2011 in the EEA Supplement to the *Official Journal of the European Union*, No. 12/2011.]¹⁾

¹⁾Act No. 12/2013, Art. 16.

Art. 73

Entry into force

This Act shall enter into force on 1 November 2011 ...

Temporary Provisions

I.

Operators of professional investment funds in operation upon the entry into force of this Act must have notified the Financial Supervisory Authority of the establishment of an professional investment fund, as provided for in Articles 60 and 61 by 1 December 2011.

II.

Reporting of professional investment funds as referred to in Art. 62 shall commence on 31 December 2011.

III.

Current fund managers must have concluded an examination in securities trading no later than two years after the entry into force of the Act.