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Foreign Exchange Act

1992 no. 87 — 17 November

Progress of the Case in Parliament. Bill of Legislation.

Entered into force 23 November 1992. *EEA Agreement:* Annex XII Directive 88/361/EEC. Amended with Act no. 82/1998 (entered into force 1 October 1998), Act no. 128/1999 (entered into force 1 February 2000; *EEA Agreement:* Annex IX Directive 97/5/EC), Act no. 134/2008 (entered into force 28 November 2008), Act no. 27/2009 (entered into force 1 April 2009), Act no. 73/2009 (entered into force 14 July 2009), Act no. 98/2009 (entered into force 1 October 2009, except Articles 69 and 70, which entered into force 1 January 2010), Act no. 78/2010 (entered into force 30 June 2010), Act no. 81/2011 (entered into force 29 June 2011), Act no. 120/2011 (entered into force 1 December 2011; *EEA Agreement:* Annex IX Directive 2007/64/EC), Act no. 126/2011 (entered into force 30 September 2011), Act no. 127/2011 (entered into force 30 September 2011), Act no. 17/2012 (entered into force 13 March 2012), Act no. 21/2012 (entered into force 16 March 2012), Act no. 16/2013 (entered into force 11 March 2013), Act no. 35/2013 (entered into force 5 April 2013), Act no. 67/2014 (entered into force 6 June 2014), Act no. 27/2015 (entered into force 8 June 2015), Act no. 58/2015 entered into force 17 July 2015), Act no. 60/2015 entered into force 17 July 2015), Act 37/2016 (entered into force 23 May 2016), Act no. 42/2016 (entered into force 3 June 2016), and Act no. 105/2016 (entered into force 21 October 2016).

If mention is made in this Act of a Minister or Ministry without further specification, this shall be understood to mean the Minister of Finance and Economic Affairs or the Ministry of Finance and Economic Affairs, under whose auspices this Act is administered. Information on the functions of the ministries, pursuant to presidential decree, can be found here.

Article 1

For the purposes of this Act, the terms below shall be defined as follows:

Resident shall mean:

1. any person with a fixed residence in Iceland pursuant to the Domicile Act, irrespective of nationality; the same applies to an Icelandic citizen and his family who reside abroad and work there on behalf of the Government of Iceland, for an embassy, standing committee, or consulate, and receives wages from the Treasury, or an Icelandic citizen who is an employee of an international institution of which Iceland is a member;
2. any legal entity whose registered legal address is in Iceland, whose Articles of Association list Iceland as its address, or whose actual directorship is in Iceland; Icelandic branches of legal entities with a legal address in another country shall be considered resident entities.

Non-resident shall mean all parties other than residents.

Domestic currency shall mean Icelandic banknotes, coins, cheques and other orders of payment, bills of exchange and other payment instructions for payment in Icelandic krónur, commemorative coins, gold, silver, and other precious metals, if these are used as a medium of exchange in Iceland.

Foreign currency shall mean foreign banknotes, coins, cheques and other orders of payment, bills of exchange and other payment instructions for payment in foreign money, commemorative

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coins, gold, silver, and other precious metals, if these are used as a medium of exchange in other countries.

Foreign exchange transactions shall mean the act of exchanging domestic currency for foreign currency, foreign currency for domestic currency, or one foreign currency for another, or carrying out credit transactions that constitute the equivalent of remitting or receiving foreign currency.

[*Cross-border movement of capital* shall mean the transfer or transport of capital across national borders and the transfer or transport of capital between residents and non-residents in connection with:]¹⁾

1. Direct investment;
2. Issuance of and transactions with equity securities, bonds, bills of exchange, unit share certificates in UCITS, and other long- and short-term securities;
3. Lending, borrowing, and remittance or receipt of instalments on loans;
4. Provision of guarantees and any form of security for payment;
5. Establishment and use of bank accounts;
6. Forward transactions, options contracts, and currency and interest rate swap agreements;
7. Transfers of funds belonging to individuals and families.

Short-term movement of capital shall mean the transfer of capital across borders in connection with:

1. Issuance of and trading with bonds and bills with a maturity of up to one year from the date of issue, and other such short-term securities;
2. Issuance of and trading with unit shares in UCITS that invest in short-term securities;
3. Lending and borrowing for a period of less than one year;
4. Deposits to and withdrawals from accounts with deposit undertakings.

The importation and exportation of short-term securities and other analogous transactions shall also be considered short-term movement of capital.

Long-term movement of capital shall mean all movement of capital other than short-term movement of capital.

Direct investment shall mean a capital contribution or other contribution to the equity of a commercial undertaking, or to the purchase of a holding with the aim of acquiring significant influence over its management. Long-term loans from a company's owners to the company are also considered direct investment.

Indirect investment shall mean all investment other than direct investment, particularly to include investment in securities that is intended primarily to earn returns and not to acquire significant influence over management of the undertaking.

Domestic securities shall mean any type of transferable claim for payment issued by a resident, such as equity securities, dividend coupons, bonds, interest coupons, and unit shares in UCITS, as well as transferable certificates of title to assets other than real estate or individual moveable assets.

Foreign securities shall mean any type of transferable claim for payment issued by a non-resident, such as equity securities, dividend coupons, bonds, interest coupons, and unit shares in

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UCITS, as well as transferable certificates of title to assets other than real estate or individual moveable assets.

¹⁾ *Act no. 127/2011, Article 1.*

Article 2

Foreign exchange transactions for the importation and exportation of goods and services shall be unrestricted, as shall movement of capital and related foreign exchange transactions, unless otherwise stipulated by law.

Article 3

Notwithstanding the provisions of Article 2, the Central Bank of Iceland is authorised, upon consultation with the [Ministry]¹⁾, to restrict or suspend, for up to six months, any or all of the following categories of movement of capital if the Bank considers short-term movements of capital to and from Iceland to cause monetary and exchange rate instability:

1. Transactions with short-term securities;
2. Deposits to and withdrawals from accounts with deposit undertakings;
3. Transactions with unit shares in UCITS that invest in short-term securities;
4. Lending and borrowing for a period shorter than one year that are not related to cross-border trade in goods and services;
5. Importation and exportation of short-term securities and of foreign and domestic currency;
6. Other short-term capital movements analogous to those listed in Items 1-5.

¹⁾ *Act no. 126/2011, Article 169.*

Article 4

Notwithstanding the provisions of Article 2, the [Minister]¹⁾ is authorised to issue a Regulation restricting foreign exchange transactions relating to any or all of the following categories of movement of capital, provided that due consideration is given to the provisions of the Act on Investment by Non-Residents in Business Enterprises, the Act on the Right of Ownership and Use of Real Property, and international agreements to which Iceland is a party:

1. Foreign direct investment in business enterprises in Iceland;
2. Transactions by non-residents with shares in domestic undertakings;
3. Purchases by non-residents of real property in Iceland.

Such restrictions may not include the transfer from Iceland of funds owned by a non-resident and deriving from the sale of a holding in an enterprise, the dissolution of a business enterprise, or the sale of real property in Iceland.

¹⁾ *Act no. 126/2011, Article 169.*

Article 5

Notwithstanding the provisions of Article 2, the Minister is authorised to issue a Regulation restricting any or all of the following categories of movement of capital until 31 December 1994:

1. Transactions undertaken by residents with bonds and bills denominated in foreign currency and with a maturity of up to one year from the date of issue, and foreign issuance of such securities by these parties;

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2. Transactions undertaken by non-residents with domestic bonds and bills denominated in Icelandic krónur and with a maturity of up to one year from the date of issue, and issuance in Iceland of such securities by these parties;
3. Foreign issuance of bonds and bills denominated in Icelandic krónur and with a maturity of up to one year from the date of issue;
4. Transactions with unit shares in UCITS that invest in short-term securities;
5. Lending and borrowing for a period shorter than one year that are not related to cross-border trade in goods or services;
6. Deposits to and withdrawals from accounts with deposit undertakings;
7. Importation and exportation of short-term securities, banknotes, and coin;
8. Other short-term capital movements analogous to those listed in Items 1-7.
9. Forward transactions, options contracts, currency and interest rate swap agreements, and other related foreign exchange transactions in which the Icelandic króna is the only currency or one of the currencies.

The Minister is also authorised to issue a Regulation laying down rules on the obligation to sell or repatriate foreign currency acquired by residents from the sale of goods and services or by other means. This authorisation shall expire on 1 January 1995.

Article 6

Foreign states, local authorities, and other foreign governmental authorities are prohibited from issuing bonds in the Icelandic market unless authorised by the Central Bank of Iceland.

Article 7

If specific restrictions apply to movement of capital according to Article 4, Article 5, [Articles 13(a)-13(n)]¹⁾, or Temporary Provisions, the Central Bank is authorised to grant exemptions from them pursuant to an application requesting an exemption. Each time an exemption is granted, a special fee totalling 1% of the amount concerned shall be collected. Movement of capital undertaken on behalf of the Treasury and movement of capital in connection with foreign exchange transactions undertaken by parties authorised to trade in foreign currency are always exempt from the fee. The fee shall be paid either to the resident entity acting as an intermediary for the foreign exchange transaction or to the Central Bank. Revenues from the fee shall revert to the Treasury.

[In evaluating requests for exemptions, the Central Bank shall consider the consequences of the capital controls for the applicant, the objectives of the controls, and the impact that an exemption will have on monetary and exchange rate stability. ...²⁾³⁾

¹⁾ Act no. 127/2011, Article 2. ²⁾ Act no. 78/2010, Article 1. ³⁾ Act no. 27/2009, Article 2.

Article 8

The Central Bank is authorised to act as an intermediary in foreign exchange transactions and to trade in foreign currency. Parties other than the Central Bank of Iceland are prohibited from acting as intermediaries in foreign exchange transactions in Iceland unless authorised by law or in accordance with the provisions of international agreements to which Iceland is a party, or unless they have been granted authorisation by the Central Bank of Iceland.

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The Central Bank sets more detailed rules¹⁾ [and guidelines]²⁾ on the conditions for foreign exchange transactions, which shall apply to the parties referred to in the second sentence of Paragraph 1. These shall provide, for instance, for the scope and limits of each undertaking's foreign exchange transactions, regular reporting to the Central Bank, satisfactory internal monitoring and information systems, and required employee qualifications. They shall also provide for the revocation of authorisations for foreign exchange transactions in the case of parties not authorised to engage in such transactions by law or in accordance with provisions in international agreements to which Iceland is a party.

[If it is revealed that a party mentioned in the second sentence of Paragraph 1 does not comply with the rules and guidelines set by the Central Bank of Iceland concerning the conditions for foreign exchange transactions according to Paragraph 2, the Bank shall demand that remedial action be taken within a suitable time limit, subject to *per diem* fines according to Article 15(h).]²⁾

¹⁾ Rules no. 387/2002. Rules no. 1098/2008. Rules no. 950/2010; cf. Rules no. 1171/2012 and Rules no. 1138/2013. ²⁾ Act no. 78/2010, Article 2.

Article 9

A Regulation may be issued requiring that securities transactions between residents and non-residents be subject to intermediation by securities brokers authorised to operate in Iceland by law or in accordance with the provisions of international agreements to which Iceland is a party. It may also stipulate that specific groups of legal entities shall be exempt from this requirement and that the Central Bank may authorise specific parties to trade securities directly with non-residents.

Article 10–13 ...¹⁾

¹⁾ Act no. 120/2011, Article 81.

[Article 13(a)]

Notwithstanding the provisions of Article 2 of this Act and Article 9 of the Act on Investment by Non-Residents in Business Enterprises, no. 34/1991, the movement of capital and foreign exchange transactions specified in Articles 13(b)-13(n) shall be prohibited ...¹⁾²⁾

¹⁾ Act no. 16/2013, Article 1. ²⁾ Act no. 127/2011, Article 3.

[Article 13(b)]

The following cross-border movement of capital is prohibited:

1. Transactions with and issuance of securities, unit share certificates in UCITS and investment funds, money market instruments, and other transferable financial instruments;
2. Deposits to and withdrawals from accounts with credit undertakings;
3. Lending, borrowing, and issuance of guarantees not related to cross-border trade in goods and services;
4. Importation and exportation of securities and of foreign and domestic currency;

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5. Forward transactions, derivatives contracts, options contracts, currency and interest rate swap agreements, and other related foreign exchange transactions in which the Icelandic króna is one of the currencies involved;
6. Gifts, grants, and other capital movements analogous to those listed in Items 1-5 and conducive to severe and significant monetary and exchange rate stability.

[All cross-border movement of foreign-denominated capital according to Paragraph 1 is prohibited apart from movement of capital that is demonstrably due to:

1. Trade in goods and services;
2. Wages that a non-resident or a resident living abroad, such as for purposes of work or study, has acquired in Iceland in the past six months. Wage-related expenses, student loans, unemployment benefits, pension benefits (including old-age pensions, disability pensions, and social assistance benefits), and other comparable payments are considered wages in the sense of this Item.
3. Gifts and grants to non-residents, such as individuals, charitable institutions, or other comparable parties, up to a maximum of 6,000,000 kr. per calendar year. Movement of capital for gifts and grants shall be deposited to an account owned by the recipient, and the donor or grantor shall be the beneficial owner of the funds in question.
4. Interest, indexation, contractual instalments, and dividends according to Article 13(j).
5. Rental income from real estate acquired by a non-resident in Iceland.
6. Prepayment and retirement of loans or investments in securities, mutual fund and investment fund units, money market instruments, other transferable financial instruments, monetary claims and other comparable claims in foreign currency, importation and exportation of securities, or deposits to and withdrawals from accounts with financial undertakings, including withdrawals of cash, for a combined maximum value equivalent to 100,000,000 kr. per party. Movement of capital or cash withdrawals on the basis of this provision are subject to the following conditions:
 - a. The party exercising the authorisation must be the beneficial owner of the funds.
 - b. An individual who exercises the authorisation must have reached the age of 18 years.
 - c. The asset position of a legal entity that exercises the authorisation must, as of 1 August 2016, be at least equal to the amount of the proposed movement of capital or cash withdrawal. The term asset position refers to total assets without deducting liabilities.
 - d. A financial undertaking that carries out movement of capital or processes a cash withdrawal must send the Central Bank of Iceland a notification specifying the purpose of the transaction within five business days. Notifications of prepayment and retirement of loans must be received by the Central Bank before the payments are executed, however.

7. Direct investment by residents. Movement of capital on the basis of this Item is subject to the requirement that the investor be the beneficial owner of the funds, that the investment entail a purchase of at least 10% of equity, and that the Central Bank has confirmed that the investment is classified as direct investment.
8. Importation of foreign currency to a deposit account with a domestic financial undertaking, but not when the payer is a resident and the recipient a non-resident.
9. Individuals' living expenses abroad.
10. Payment of taxes and public levies, legal fees pursuant to court order, accident benefits and compensatory damages accruing in Iceland, and inheritance payments owed to a non-resident individual in accordance with an inheritance report confirmed by a Commissioner.
11. Purchase by an individual of one real property abroad per calendar year, subject to prior confirmation by the Central Bank of Iceland. An individual is authorised to pay a confirmation fee for a real estate transaction equalling up to 15% of the purchase price of the property without prior confirmation. If an individual sells or receives compensation for damage to a property abroad, he or she is authorised to use the sales proceeds or compensation to reinvest in another property abroad within six months.
12. Other movement of capital that is explicitly exempt pursuant to other provisions of this Act.]¹⁾

All cross-border movement of capital denominated in domestic currency according to Paragraph 1 is prohibited. The following are exempted from the prohibition in the first sentence:

- [1. Capital movements explicitly exempted from the Foreign Exchange Act, [other than those due to trade in goods and services],²⁾ when payment takes place by withdrawal from the payer's account with a financial undertaking in Iceland.
- [2. Movement of capital due to trade in goods and services that is not [required to be]²⁾ carried out in foreign [currency, cf. Temporary Provision II],²⁾ when payment takes place by withdrawal from the payer's account with a financial undertaking in Iceland.
- [3. ...²⁾
- [4. [Movement of capital for payment of legal fees pursuant to court order, accident benefits and compensatory damages, and inheritance payments in accordance with an inheritance report confirmed by a Commissioner, where payment takes place by withdrawal from the payer's account with a financial undertaking in Iceland.]¹⁾²⁾
- [5.]^{2) ...³⁾}
- [6. Movement of capital for real estate transactions in Iceland and transactions with financial instruments issued in domestic currency according to rules set by the Central Bank of Iceland, where payment takes place by withdrawal from an account held by the purchaser with a financial undertaking in Iceland. The authorisation in the first sentence does not apply, however, when payment is made by withdrawal from an account subject to special restrictions in the sense of the Act on the Treatment of Króna-Denominated Assets Subject to Special

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Restrictions. Investments made by legal entities on the basis of this provision are subject to the requirement that the purchaser be the beneficial owner of the funds at the time this provision enters into force. Funds released upon the sale of the investments shall be returned to a domestic currency account owned by the seller with a financial undertaking in Iceland. The Central Bank of Iceland may set rules laying down further conditions for movement of capital according to this provision.]¹⁾

[The Central Bank of Iceland is authorised to set rules⁴⁾ providing for exemptions from the restrictions contained in Paragraphs 1-3. The Central Bank may set conditions for exemptions from the rules, which may pertain, *inter alia*, to the source of funds, the ownership of funds, the purpose of individual capital movements, amounts of individual capital movements, and supervision by and information disclosure to the Central Bank. Before setting rules on exemptions as provided for in the first sentence, which apply to individual entities with balance sheets exceeding 400 b.kr. and could have a substantial impact on the external debt position of the economy and the ownership of the commercial banks, the Minister shall be consulted, as shall the minister responsible for matters relating to the financial market, and the rules must be approved by the Minister.]⁵⁾

[Foreign financial undertakings' domestic currency accounts (Vostro accounts) are not considered accounts with financial undertakings in Iceland; cf. the conditions provided for in Paragraph 3, Items 1-6.]¹⁾²⁾

[The Central Bank of Iceland shall publish guidelines on how to demonstrate that cross-border movement of capital derives from the transactions listed in Paragraph 2, Items 1-12.]¹⁾⁶⁾

¹⁾ Act no. 105/2016, Article 1. ²⁾ Act no. 35/2013, Article 1. ³⁾ Act no. 17/2012, Article 1. ⁴⁾ Rules no. 862/2016. ⁵⁾ Act no. 16/2013, Article 2. ⁶⁾ Act no. 127/2011, Article 3.

[Article 13(c)]

Foreign exchange transactions taking place between residents and non-residents and involving domestic currency as a constituent of the transaction are prohibited.

[It is prohibited to purchase foreign currency at a financial undertaking in Iceland when payment is remitted in domestic currency, unless it is demonstrated that the foreign currency purchase is in connection with cross-border movement of capital that is exempt pursuant to Article 13(b), Paragraph 2, Items 1-7 and 9-11. Foreign currency purchases according to the first sentence in connection with cross-border movement of capital pursuant to Article 13(b), Paragraph 2, Items 1, 3-7, and 10-11 are subject to the requirement that the payment be made to a non-resident. Notwithstanding the provisions of the first and second sentences, non-residents' foreign currency purchases on the basis of Article 13(b), Paragraph 2, Item 4, cf. Article 13(j), are subject to the requirement that the foreign currency purchase be in connection with such payments from a resident in Iceland. It is prohibited to purchase foreign currency in cash or to withdraw foreign currency in cash from a foreign currency account with a financial undertaking in Iceland. However, purchases or withdrawals according to the fourth sentence are authorised provided that the party has an unexercised authorisation pursuant to Article 13(b), Paragraph 2, Item 6 in the same or a larger amount and the conditions laid down in Points (a)-(d) of the same Item are satisfied. It is also authorised to purchase or withdraw foreign currency from a financial undertaking in Iceland for prepayment or retirement of loans in foreign currency that have been

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granted by a domestic financial undertaking, provided that the party has an unexercised authorisation pursuant to Article 13(b), Paragraph 2, Item 6 in the same or a larger amount and the conditions laid down in Points (a)-(d) of the same Item are satisfied. Purchases or withdrawals in accordance with the fifth and sixth sentences are deducted from the authorisation pursuant to Article 13(b), Paragraph 2, Item 6.]¹⁾ Foreign exchange transactions for trade in goods and services between two residents [in which domestic currency is a constituent of the transaction]²⁾ are prohibited. [Legal entities undergoing winding-up proceedings as provided for in Article 101 of the Act on Financial Undertakings, legal entities that have concluded winding-up proceedings in accordance with Article 103(a) of the same Act, and legal entities that have been established in connection with the implementation of a composition agreement for the above-specified legal entities are prohibited from engaging in foreign exchange transactions with any parties other than commercial banks or savings banks in Iceland, if domestic currency is a constituent of the transaction concerned. The restrictions provided for in the [ninth sentence]¹⁾ of this Paragraph do not apply to foreign exchange transactions undertaken by the entities listed therein if such entities use foreign currency in their possession to make distributions to creditors that have claims in domestic currency in connection with insolvency proceedings or implementation of composition agreements.]³⁾

...¹⁾
Furthermore, non-residents are permitted to purchase domestic currency at domestic financial undertakings.

[The Central Bank of Iceland is authorised to set rules⁴⁾ providing for exemptions from the restrictions contained in Paragraphs [1 and 2.]¹⁾ The Central Bank may set conditions for exemptions from the rules, which may pertain, *inter alia*, to the source of funds, the ownership of funds, the purpose of individual capital movements, amounts of individual capital movements, and supervision by and information disclosure to the Central Bank. Before setting rules on exemptions as provided for in the first sentence, which apply to individual entities with balance sheets exceeding 400 b.kr. and could have a substantial impact on the external debt position of the economy and the ownership of the commercial banks, the Minister shall be consulted, as shall the minister responsible for matters relating to the financial market, and the rules must be approved by the Minister.]⁵⁾⁶⁾

¹⁾ Act no. 105/2016, Article 2. ²⁾ Act no. 35/2013, Article 2. ³⁾ Act no. 27/2015, Article 1. ⁴⁾ Rules no. 862/2016. ⁵⁾ Act no. 16/2013, Article 3. ⁶⁾ Act no. 127/2011, Article 3.

[Article 13(d) ...¹⁾²⁾

¹⁾ Act no. 105/2016, Article 3. ²⁾ Act no. 127/2011, Article 3.

[Article 13(e)

Investment in securities, unit share certificates in UCITS and investment funds, money market instruments, or other transferable financial instruments issued in foreign currency is prohibited. However, parties that have invested in such financial instruments ...¹⁾ are permitted to reinvest. If the proceeds of sale or redemption, or funds deriving from [payments of dividends, interest, or principal],²⁾ are used, partially or in their entirety, to invest again in any type of foreign investment within [six months]²⁾, this is considered reinvestment in the sense of the second sentence. [During the grace period for reinvestment, the funds according to the third sentence

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shall be exempt from the provisions of Article 13(l).²⁾ [The sales proceeds of direct investment pursuant to Article 13(b), Paragraph 2, Item 7 are not reinvestable according to this provision.]¹⁾

The sales proceeds of transactions with a financial instrument listed in Paragraph 1 and issued in domestic currency, which take place between residents and non-residents and are settled in Iceland, shall be deposited to the seller's account with a financial undertaking in Iceland. [The sales proceeds of financial instruments falling under the definition of offshore króna assets according to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions shall be deposited to an account subject to special restrictions or an account with the Central Bank that is subject to the same restrictions according to the same Act.]³⁾

Settlement in foreign currency of transactions with financial instruments listed in Paragraph 1 and issued in domestic currency is prohibited.

It is prohibited to issue and/or sell financial instruments listed in Paragraph 1 if issuance and settlement take place in different currencies and domestic currency is one of the settlement currencies. If the issue is denominated in domestic currency, the proceeds of the sale must be deposited to a domestic currency account, in the issuer's name, with a financial undertaking in Iceland.

Cross-border movement of capital for prepayment of financial instruments listed in Paragraph 1 is prohibited.⁴⁾

¹⁾ Act no. 105/2016, Article 4. ²⁾ Act no. 35/2013, Article 4. ³⁾ Act no. 37/2016, Article 27. ⁴⁾ Act no. 127/2011, Article 3.

[Article 13(f) ...]¹⁾²⁾

¹⁾ Act no. 105/2016, Article 5. ²⁾ Act no. 127/2011, Article 3.

[Article 13(g)]

Borrowing and lending between residents and non-residents for purposes other than cross-border trading in goods and services are prohibited unless such borrowing and lending take place between undertakings in the same group [and are denominated in foreign currency].¹⁾ [Legal entities undergoing winding-up proceedings as provided for in Article 101 of the Act on Financial Undertakings, legal entities that have concluded winding-up proceedings in accordance with Article 103(a) of the same Act, and legal entities that have been established in connection with the implementation of a composition agreement for the above-specified legal entities are not covered by the exemption provided for in the first sentence as regards lending and borrowing between undertakings within the same group.]²⁾

Notwithstanding the provisions of Paragraph 1, ...³⁾ lending [by residents to non-residents]³⁾ that meets the following conditions shall be permitted:

1. Each party's loan does not exceed 10,000,000 kr., or the equivalent of that amount in foreign currency, per calendar year.
2. The loan period is at least one year.
3. Transfers of foreign currency for the loan are in accordance with the provisions of Article 13(l).
4. Loan agreements, including all appendices and accompanying documents, must be sent, within one week of signing, to the financial undertaking that carries out the movement of capital.

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[Notwithstanding the provisions of Paragraph 1, resident entities' foreign-denominated borrowing from non-residents shall be permitted if it satisfies the following conditions:

1. [The loan period is at least two years, and payments on the loan agreement are not based on provisions that could result in the borrower's being obliged to or authorised to accelerate the payment profile in excess of predefined instalments or to pay the loan in full before the final maturity date.]²⁾
2. Transfers of foreign currency for the loan are in accordance with the provisions of Article 13(l).
3. Loan agreements, including all appendices and accompanying documents, must be sent, within one week of signing, to the financial undertaking that carries out the movement of capital.]³⁾

It is prohibited to prepay ...³⁾ loans taken by residents [from non-residents].³⁾

It is prohibited to repay loans between residents and non-residents with domestic currency if the loan concerned was issued in foreign currency. It is prohibited to repay loans between residents and non-residents with foreign currency if the loan concerned was issued in domestic currency.

The provisions of this Article do not prevent extending the maturity of loans between residents and non-residents, provided that other terms and conditions apply in the same respects as they did previously. [All amendments to the terms and conditions of loans taken and granted between residents and non-residents, including amendments to payments of principal and interest, changes to payment dates, and/or amendments due to the transfer of such claims to other parties, shall be considered new loans in the sense of Paragraph 1.]³⁾⁴⁾

¹⁾ Act no. 37/2016, Article 27. ²⁾ Act no. 27/2015, Article 2. ³⁾ Act no. 35/2013, Article 6. ⁴⁾ Act no. 127/2011, Article 3.

[Article 13(h)]

It is prohibited to act as a guarantor or assume liability for payments [to]¹⁾ non-residents.

The provisions of this Article do not apply to guarantees relating to trade in goods and services or to guarantees between undertakings within the same group[, nor do they apply to guarantees that are granted in connection with loans taken by residents from non-residents not considered related parties and that satisfy the conditions laid down in Article 13(g), Paragraph 3].¹⁾ [Legal entities undergoing winding-up proceedings as provided for in Article 101 of the Act on Financial Undertakings, legal entities that have concluded winding-up proceedings in accordance with Article 103(a) of the same Act, and legal entities that have been established in connection with the implementation of a composition agreement for the above-specified legal entities are not covered by the exemption provided for in the first sentence as regards guarantees between undertakings within the same group, unless such guarantees are granted in connection with trade in goods and services or the loan for which a guarantee is granted satisfies the conditions set forth in Article 13(g), Paragraph 3.]²⁾³⁾

¹⁾ Act no. 35/2013, Article 7. ²⁾ Act no. 27/2015, Article 3. ³⁾ Act no. 127/2011, Article 3.

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[Article 13(i)]

It is prohibited to enter into derivatives contracts involving domestic currency against a foreign currency, whether they are contracts involving currencies, securities, a combination of currencies and securities, or other comparable financial instruments.

Derivatives contracts related solely to trade in goods and services do not fall under this provision.

[The Central Bank of Iceland is authorised to set rules providing for exemptions from the prohibition in Paragraph 1, which may include the authorisation to trade in derivatives in a specific market. The Central Bank may set conditions for exemptions from the rules, which may pertain, *inter alia*, to the source of funds, the ownership of funds, the purpose of individual capital movements, and supervision by and information disclosure to the Central Bank.]¹⁾²⁾

¹⁾ Act no. 35/2013, Article 8. ²⁾ Act no. 127/2011, Article 3.

[Article 13(j)]

Cross-border movement of capital [and related foreign exchange transactions]¹⁾ for the payment of interest, indexation, dividends, and contractual instalments are exempt from this [Act]¹⁾; cf. [Article 13(b), Paragraph 2;]¹⁾ Article 13(b), Paragraph 3, Item 1; and Article 13(c), [Paragraph 2.]²⁾ Residents are authorised to purchase foreign currency for payment of contractual instalments on foreign-denominated loans from the domestic financial undertaking that granted the loan concerned[, provided that the loan period is at least two years or the loan was granted for the purpose of remitting payment to a non-resident in connection with trade in goods and services].³⁾

[Interest in the sense of Paragraph 1 includes only the interest on deposits with domestic financial undertakings, accrued interest on bonds issued by resident entities, and interest on loan agreements in which the lender is a non-resident and the borrower a resident.]¹⁾

...²⁾

Indexation in the sense of Paragraph 1 applies to indexation on both interest and principal payments.

[Notwithstanding the provisions of Paragraph 1, ...²⁾ [instalment payments on loans and payments to non-residents for past-due intragroup guarantees shall not be exempt from the prohibitions provided for in Article 13(c), [Paragraph 2]²⁾, unless such loans or guarantees were granted in connection with trade in goods and services or they satisfy the conditions set forth in Article 13(g), Paragraph 3. Instalment payments on loans or payments made to non-residents for past-due guarantees, including intragroup guarantees, where the borrower and/or the guarantor is a legal entity undergoing winding-up proceedings as provided for in Article 101 of the Act on Financial Undertakings, a legal entity that has concluded winding-up proceedings in accordance with Article 103(a) of the same Act, or a legal entity that has been established in connection with the implementation of a composition agreement for the above-specified legal entities shall not be exempt from the prohibitions provided for in Article 13(c), [Paragraph 2]²⁾, unless such loans or guarantees were granted in connection with trade in goods and services.]³⁾⁴⁾

[Dividends according to Paragraph 1 refer to dividend payments on profits from a company's regular operations, not on revenues deriving from the sale of assets in excess of sales gains, profits due to debt write-offs, asset valuation increases, share capital reductions, or other

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comparable factors. Dividends shall be financed with cash from operations in available funds and not with asset sales, borrowings, share capital increases, or other comparable measures. If the measure underlying the payment of dividends differs substantially from general practice in such transactions and the main purpose appears to be the circumvention of restrictions on foreign exchange transactions and cross-border movement of capital, the Central Bank may refuse confirmation.]⁵⁾

Foreign exchange transactions and cross-border movement of capital due to payments according to this provision must have taken place within six months of the date the funds were acquired or could have been acquired by the owner or his/her representative.

[Prepayments, payments due to either call-ins of loans or insolvency administration, and payments on loan agreements that do not satisfy the conditions set forth in Article 13(g) are not considered contractual instalments in the sense of Paragraph 1. Furthermore, payments and other distributions according to the provisions of a composition agreement, payments in accordance with debt instruments issued in connection with a composition agreement, or payments carried out in some other way, when the above-described payments are made for the purpose of distributing the assets of entities that are undergoing winding-up proceedings or that have concluded such winding-up proceedings with a composition agreement, are not considered contractual instalments in the sense of Paragraph 1.]³⁾

Foreign exchange transactions and cross-border movement of capital deriving from payments according to this provision must be confirmed by the Central Bank of Iceland before they are carried out. The Central Bank of Iceland sets more detailed rules⁶⁾ on the implementation of this provision.]¹⁾⁷⁾

¹⁾ Act no. 35/2013, Article 9. ²⁾ Act no. 105/2016, Article 6. ³⁾ Act no. 27/2015, Article 4. ⁴⁾ Act no. 17/2012, Article 2. ⁵⁾ Act no. 37/2016, Article 27. ⁶⁾ Rules no. 862/2016. ⁷⁾ Act no. 127/2011, Article 3.

[Article 13(k) ...¹⁾²⁾

¹⁾ Act no. 105/2016, Article 7. ²⁾ Act no. 127/2011, Article 3.

[Article 13(l)

All foreign currency acquired by residents, either for goods and services sold or in another manner, shall be submitted to [a deposit account in that party's name with a financial undertaking]¹⁾ in Iceland within three weeks of the time the foreign currency was acquired or could have been acquired by the owner or his/her representative. The obligation to repatriate foreign currency according to the first sentence of this Article is fulfilled when the foreign currency is deposited to a foreign currency account with a financial undertaking in Iceland.

[The repatriation requirement according to Paragraph 1 does not apply to the following:

1. A resident individual who lives abroad, for example, temporarily for purposes of work or study.
2. Funds in connection with loans taken by an individual from non-resident entities in order to purchase real estate according to Article 13(b), Paragraph 2, Item 11 or transport equipment abroad.
3. Funds in connection with loans taken by a party for his investments pursuant to Article 13(b), Paragraph 2, Items 6 and 7.

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4. Funds according to the second sentence of Article 13(e), Paragraph 1, provided that they are used for reinvestment within six months.
5. Funds released upon the sale of or due to payments of compensation for damage to real estate abroad that is owned by an individual, provided that they are used to reinvest in another property within six months.
6. Rental income received by a resident for real estate abroad, provided that it is used to pay the operating expenses of the property concerned. Operating expenses include payments on loans assumed at the time of purchase and/or taken to finance the purchase.
7. Funds released upon the sale of or due to payments of compensation for damage to transport equipment abroad that is owned by an individual, provided that they are used to reinvest in transport equipment within six months.²⁾³⁾

¹⁾ Act no. 35/2013, Article 11. ²⁾ Act no. 105/2016, Article 8. ³⁾ Act no. 127/2011, Article 3.

[Article 13(m)]

New domestic investment shall be unrestricted.

In the sense of this provision, new investment is investment commencing after 31 October 2009 and based on new inflows of foreign currency that is converted to domestic currency at a financial undertaking in Iceland. [Direct or indirect investments in derivatives contracts and in claims against entities that either are undergoing winding-up or insolvency proceedings or have concluded winding-up or insolvency proceedings with a composition agreement entailing distribution of assets to creditors are not considered new investments.]¹⁾ Deposits made to foreign currency accounts with domestic financial undertakings before 31 October 2009, [export revenues, and other foreign currency subject to repatriation requirements, cf. Article 13(l), are not considered new inflows of foreign currency].¹⁾

Foreign exchange transactions involving the conversion of new inflows of foreign currency to domestic currency in accordance with Paragraph 2 are not covered by Article 13(c), Paragraph 1.

Investors shall, with the assistance of a financial undertaking in Iceland, notify the Central Bank of Iceland of the new investment within [three weeks]²⁾ of the date the new inflow of foreign currency is converted to domestic currency. Such a notification shall be accompanied by documents demonstrating that the inflows are due to new investment in the sense of this Article.

When the Central Bank has confirmed that capital has been released by the sale of a new investment, that capital shall not be subject to the restrictions according to Articles 13(b) and 13(c).

[It is permissible to reinvest capital released by the sale or redemption of new investments that satisfy the requirements set forth in Paragraphs 2, 3, and 4.

With the assistance of a financial undertaking in Iceland, the investor shall report the reinvestment to the Central Bank of Iceland according to Paragraph 6, within one week of the date it takes place. The notification shall be accompanied by documentation confirming that the investment satisfies the requirements set forth in Paragraph 6.]³⁾

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[Sales proceeds and other payments in connection with investments according to Article 13(b), Paragraph 2, Items 6 and 7 are not considered new inflows of foreign currency in the sense of Paragraph 2.]²⁾⁴⁾

¹⁾ Act no. 27/2015, Article 5. ²⁾ Act no. 105/2016, Article 9. ³⁾ Act no. 42/2016, Article 1. ⁴⁾ Act no. 127/2011, Article 3.

[Article 13(n)]

The Central Bank of Iceland and the Treasury are exempt from Article 13(b) - [Article 13(l)]¹⁾ of this Act.

The following parties shall be exempt from Article 13(b) - [Article 13(l)]¹⁾ of this Act, with the exception of Article 13(b), Paragraph 3; Article 13(c); and Article 13(i):

1. Domestic entities that are parties to investment agreements with the Government of Iceland.
2. Resident entities operating under a licence [from the minister responsible for matters relating to geological resources]²⁾ to prospect for oil in accordance with Act no. 13/2001.

The following parties are exempt from Article 13(e), Paragraph 1; [the maximum amount in Article 13(b), Paragraph 2, Item 6, but not Article 13(c), Paragraph 2]³⁾; and the provisions of Articles 13(g) and 13(h):

1. Undertakings in which the Treasury owns a majority holding and which operate according to special legislation.
2. Municipalities and undertakings in which municipalities own a majority holding and which operate according to special legislation.

...³⁾
...³⁾
...

Undertakings with over 80% of their revenues and 80% of their expenses abroad may apply for an exemption from Article 13(e), Paragraph 1; [the maximum amount in Article 13(b), Paragraph 2, Item 6, but not Article 13(c), Paragraph 2; and the provisions of]³⁾ Article 13(g), Article 13(h), and Article 13(l). Those undertakings that consider themselves to satisfy the conditions set forth in the first sentence shall submit an application to the Central Bank of Iceland and demonstrate that they fulfil the conditions, together with a confirmation from a chartered auditor. The Central Bank of Iceland publishes a list of parties that receive exemptions on this basis. Undertakings that are granted exemptions according to this paragraph shall, when twelve months have passed from the Central Bank's confirmation of the exemption, demonstrate that they still meet the requirements according to this Paragraph and submit documentation confirming this to the Central Bank, together with a confirmation to this effect from a chartered auditor. Such a confirmation shall be submitted to the Central Bank at twelve-month intervals thereafter. If it emerges that the company no longer fulfils the requirements according to this paragraph, the exemption shall be revoked.

Commercial banks, savings banks, and credit undertakings operating under the supervision of the Financial Supervisory Authority ...³⁾ are authorised to engage in spot, forward, and swap transactions with foreign currency among themselves. Commercial banks, savings banks, and credit institutions are also exempt from the provisions of Article 13(g), Article 13(h), and Article 13(l). Commercial banks, savings banks, and credit undertakings are authorised to receive

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money market deposits in domestic currency from non-residents, in accordance with their authorisations pursuant to Act no. 161/2002.

³⁾
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...

[Cross-border movement of capital due to the transfer of offshore króna assets to accounts subject to special restrictions or to accounts with the Central Bank of Iceland that are subject to the same restrictions according to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions shall be exempt from the prohibition contained in Article 13(b), Paragraphs 2 and 3.

The sale of offshore króna assets according to Article 2, Items 1(c)-1(g) of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions shall be exempt from the prohibition contained in Article 13(b), Paragraph 3 in connection with participation by their owners in the Central Bank of Iceland foreign currency auction, or if settlement takes place by transfer to accounts subject to special restrictions or accounts with the Central Bank of Iceland that are subject to the same restrictions in accordance with the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions.

Cross-border movement of capital for investments in certificates of deposit according to Article 10, Paragraph 1 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions and their settlement according to Paragraph 4 of the same provision shall be exempt from the prohibition contained in Article 13(b), Paragraph 3.

Foreign exchange transactions and cross-border movement of capital for transactions with the Central Bank of Iceland in accordance with Article 9 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions shall be exempt from the prohibition contained in Article 13(b), Paragraph 3 and Article 13(c), Paragraph 1.

Assets that have received confirmation according to Article 9, Paragraph 4 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions shall be exempt from the prohibition contained in Article 13(b), Paragraphs 2 and 3 and Article 13(c), Paragraph 1.]⁴⁾

[Parties may transfer their authorisations pursuant to Article 13(b), Paragraph 2, Item 6 and Article 13(c), Paragraph 2 to funds that operate pursuant to the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds by purchasing unit share certificates in such funds, to the extent that the fund concerned uses the authorisations for investments in foreign currency. In the same manner, individuals may transfer their authorisations to insurance companies and financial undertakings on the basis of contractual agreements concerning payment of premiums for acquisition of third-pillar pension savings or supplemental insurance, and pursuant to agreements concerning investment plan insurance, single-premium insurance, and regular savings in foreign currency. A transfer pursuant to the first and second sentences shall be made in writing. Transferees pursuant to the first and second sentences shall notify the Central Bank of Iceland of transfers in accordance with this provision.]³⁾⁵⁾

¹⁾ Act no. 35/2013, Article 12. ²⁾ Act no. 21/2012, Article 3. ³⁾ Act no. 105/2016, Article 10. ⁴⁾ Act no. 37/2016, Article 27. ⁵⁾ Act no. 127/2011, Article 3.

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[Article 13(o)]

The provisions of Article 7 apply to the Central Bank of Iceland's authority to grant exemptions from the provisions of Articles 13(b)-13(n). No fee shall be collected, however, when exemptions are granted. The Central Bank may set conditions for an exemption. Notwithstanding the wording of Article 7, the Central Bank may grant general exemptions without the prior submittal of an application for an exemption. Applications for exemptions must be submitted in writing to the Central Bank, together with the relevant documents.

[Exemptions according to Paragraph 1 shall only be granted after consultation with the Minister, as well as the minister responsible for matters relating to the financial market, and after the Minister has explained the economic impact to the Parliamentary Economic Affairs and Trade Committee, if the exemptions satisfy the following conditions:

- a. the exemption pertains to a financial undertaking or legal entity of which the Financial Supervisory Authority has taken control by appointing for it a resolution committee or interim board of directors, or a legal entity for which a district court judge has appointed a winding-up board pursuant to Act no. 161/2002, and it entails an authorisation for foreign exchange transactions and cross-border movement of capital in an amount exceeding 25 b.kr. in a single year; or
- b. the exemption pertains to a legal entity with a balance sheet in excess of 400 b.kr. and could have a substantial impact on the external debt position of the economy and the ownership of the commercial banks.

Calculations of amounts according to Paragraph 2 shall be based on the official Central Bank of Iceland reference exchange rate on the date the Bank's decision is issued.]¹⁾

The Central Bank may set more detailed rules²⁾ on the implementation of Articles 13(b)-13(n).

[The Central Bank of Iceland is authorised to set rules providing for exemptions from the restrictions contained in Articles 13(e)-13(n). The Central Bank may set conditions for exemptions from the rules, which may pertain, *inter alia*, to the source of funds, the ownership of funds, the purpose of individual capital movements and foreign exchange transactions, amounts of individual capital movements and foreign exchange transactions, and supervision by and information disclosure to the Central Bank.]³⁾⁴⁾

¹⁾ Act no. 16/2013, Article 5. ²⁾ Rules no. 862/2016. ³⁾ Act no. 105/2016, Article 11. ⁴⁾ Act no. 127/2011, Article 3.

[Article 13(p)]

[It is required, subject to *per diem* fines pursuant to Article 15(h), to provide the Central Bank of Iceland with all information pertaining to foreign exchange transactions and movement of capital that it considers necessary in order to ensure that the activities of the party concerned are in accordance with the provisions of Articles 13(a)-13(o), Temporary Provision II, the provisions of Article 8, Paragraph 1, and other provisions relating to restrictions on foreign exchange transactions and movement of capital. In this context, it does not matter whether the information pertains to the party to whom the request is addressed or to other parties' transactions with him for which he can provide information and which pertain to investigations and supervision by the Central Bank. Statutory provisions on confidentiality shall not limit the obligation to provide information and access to data. [In connection with its supervisory role according to this Act, the

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Central Bank may carry out on-site inspections or request information in this manner as often as it deems necessary. A decision to conduct an on-site inspection may be implemented via enforcement proceedings.]¹⁾

When the restrictions according to the provisions of Articles 13(a)-13(o), Temporary Provision II, the provisions of Article 8, Paragraph 1, and other provisions relating to restrictions on foreign exchange transactions and movement of capital are no longer in place, the Central Bank of Iceland shall delete the information gathered on the basis of Paragraph 1 of this Article. This does not apply, however, to data pertaining to alleged violations of the Foreign Exchange Act and information underlying the results of investigations of alleged violations.

The Central Bank is also authorised to set more detailed rules²⁾ on the implementation of Paragraphs 1 and 2, such as registration and notification requirements related to residents' accounts with foreign deposit institutions, submittal of documents, general information disclosure, and preparation of forms.]³⁾⁴⁾

¹⁾ Act no. 37/2016, Article 27. ²⁾ Rules no. 862/2016. ³⁾ Act no. 35/2013, Article 13. ⁴⁾ Act no. 127/2011, Article 3.

[Article 13(q) ...]¹⁾²⁾

¹⁾ Act no. 16/2013, Article 6. ²⁾ Act no. 127/2011, Article 3.

[Article 14]¹⁾

[[It is required, subject to *per diem* fines pursuant to Article 15(h), to provide the Central Bank of Iceland with all information that it may request concerning foreign exchange transactions and cross-border movement of capital in order that it may carry out the necessary supervision on the basis of this Act.]²⁾ Similarly, it is required to provide the Bank with all information necessary for preparation of statistical reports; cf. the provisions of the Act on the Central Bank of Iceland.]³⁾ The Central Bank is authorised to set more detailed rules on the execution of foreign exchange transactions, such as registration and notification requirements related to residents' accounts with foreign deposit institutions, submittal of documents, general information disclosure, and preparation of forms. [Statutory provisions on confidentiality shall not limit the obligation of other authorities, financial undertakings, payment institutions, and electronic money institutions to provide information and access to data on the basis of this provision.]²⁾

[Resident legal entities are required to notify the Central Bank of Iceland of the following foreign exchange transactions and cross-border movement of capital that takes place without the intermediation of domestic financial undertakings within three weeks of the date the obligation is established:

1. Loans taken and granted between them and non-residents in an amount equivalent to at least 100,000,000 kr.
2. Amendments to terms of loans between them and non-residents if the principal amount of the loan is equivalent to at least 100,000,000 kr.
3. Guarantees undertaken between them and non-residents if the principal amount of the guarantee is equivalent to at least 100,000,000 kr.
4. Derivatives transactions between them and non-residents.
5. Issuance of bonds and other debt instruments if the principal amount of the debt instrument is at least 100,000,000 kr.

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The Central Bank is authorised to set rules on the fulfilment of the reporting requirement pursuant to Paragraph 2 and exemptions from it.]²⁾

¹⁾ Act no. 128/1999, Article 2. ²⁾ Act no. 105/2016, Article 12. ³⁾ Act no. 78/2010, Article 3. ⁴⁾ Rules no. 862/2016.

[Article 15]¹⁾

Those engaged in implementing this Act are bound by an obligation to observe confidentiality concerning the affairs of individual customers and other knowledge that they may acquire during their work and that should remain secret according to law or the nature of the matter in question, unless a judge rules that such information shall be disclosed in court or to the police, or the disclosure of information is required by law. The obligation to observe confidentiality shall remain in effect after employment ceases.

¹⁾ Act no. 128/1999, Article 2.

[Article 15(a) ...]¹⁾

The [Central Bank of Iceland]¹⁾ is authorised to impose administrative fines on any party that violates:

1. Rules set on the basis of Article 3 concerning the restriction or suspension of specified short-term movement of capital for up to six months.
2. Article 4 concerning restrictions on foreign exchange transactions related to movement of capital for non-residents' direct investment in commercial activities, non-residents' transactions with shares in domestic undertakings, and non-residents' purchases of real estate in Iceland.
- [3. Article 8 concerning intermediation in foreign exchange transactions and trading in foreign currency [or rules set on the basis of it].²⁾³⁾
- [4.]³⁾ Article 10 concerning the obligation of parties that conduct foreign exchange transactions to have information available on such services.
- [5.]³⁾ Article 11 on the obligation of parties to comply with a customer's request to complete specified transfers.
- [6.]³⁾ Article 12 concerning the time limit for completion of transfers.
- [7. Articles 13(a)-13(n) concerning the prohibition on movement of capital and foreign exchange transactions [or rules set on the basis of them].¹⁾⁴⁾
- [8. Article 14, Paragraph 2 concerning the reporting requirement for specified foreign exchange transactions and movement of capital.]⁵⁾
- [9.]⁵⁾ Article 15 on the obligation to observe confidentiality.

Fines imposed on individuals may range from 10,000 kr. to [65,000,000 kr.]²⁾ Fines imposed on legal entities may range from 50,000 kr. to [250,000,000 kr.]²⁾ [Notwithstanding the provisions of the second sentence, fines for violations of Articles 13(b) and 13(c) by legal entities may range up to five times the amount of the movement of capital or foreign exchange transaction.]⁶⁾ In determining the fine, consideration shall be given, among other things, to the seriousness of the violation, its duration, the violator's willingness to cooperate, and whether the violation is a repeat offense. [Decisions on administrative fines are subject to enforcement measures.]¹⁾ Fines net of collection costs shall accrue to the National Treasury. If administrative fines are not paid within one month of the date of the decision by the [Central Bank of Iceland],¹⁾

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penalty interest shall be paid on the amount of the fine. The decision and calculation of penalty interest shall be carried out in accordance with the Act on Interest and Price Indexation.

Administrative fines shall be imposed irrespective of whether the violation is committed through intent or negligence.]⁷⁾

¹⁾ Act no. 78/2010, Article 4; cf. also the Temporary Provisions of the same Act. ²⁾ Act no. 35/2013, Article 14. ³⁾ Act no. 73/2009, Article 1. ⁴⁾ Act no. 127/2011, Article 4. ⁵⁾ Act no. 105/2016, Article 13. ⁶⁾ Act no. 60/2015, Article 12. ⁷⁾ Act no. 134/2008, Article 1.

[Article 15(b)]

If a party has violated the provisions of this Act or rules set on the basis of it, the [Central Bank of Iceland]¹⁾ is authorised to conclude the matter by settlement with the consent of the parties to the case, provided that no major violation subject to criminal sanctions is involved. A settlement is binding upon the party to a case once it has been accepted and its substance confirmed by the party's signature. The [Central Bank of Iceland]¹⁾ sets more detailed rules on the implementation of this provision.]²⁾

¹⁾ Act no. 78/2010, Article 5. ²⁾ Act no. 134/2008, Article 1.

[Article 15(c)]

In a case against an individual that could be concluded with the imposition of administrative fines or charges filed with the police, the individual suspected on legitimate grounds of having violated the law shall have the right to refuse to answer questions or submit data or goods unless the possibility can be excluded that it could have significance for a decision on his violation. The [Central Bank of Iceland]¹⁾ shall provide guidance to the suspect on this right.]²⁾

¹⁾ Act no. 78/2010, Article 6. ²⁾ Act no. 134/2008, Article 1.

[Article 15(d)]

The authority of the [Central Bank of Iceland]¹⁾ to impose administrative fines in accordance with this Act or rules set on the basis of it expires when five years have passed since the conclusion of the conduct concerned.

The limitation period provided for in Paragraph 1 is interrupted when the [Central Bank of Iceland]¹⁾ notifies the party of that an investigation of the alleged violation has commenced. The interruption of the limitation period has legal effect vis-à-vis all parties that have participated in the violation.]²⁾

¹⁾ Act no. 78/2010, Article 7. ²⁾ Act no. 134/2008, Article 1.

[Article 15(e)]

[In connection with the investigation of cases, the Central Bank of Iceland is authorised to demand that individuals and legal entities submit all information and documentation that it considers necessary. In this context, it does not matter whether the information pertains to the party to whom the request is addressed or to other parties' transactions with him for which he can provide information and which pertain to investigations and supervision by the Central Bank. Statutory provisions on confidentiality shall not limit the obligation to provide information and access to documentation. This shall not apply, however, to information that a lawyer acquires during the investigation of the legal position of his client in connection with

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legal proceedings, including when he has given advice on whether to initiate proceedings or avoid them, or information that he has acquired before, during, or after the conclusion of legal proceedings if the information relates directly to the case. The Central Bank may summon individuals that it believes to possess information pertinent to the investigation of a case in order to take statements from them.]¹⁾

[If the Central Bank of Iceland is of the opinion that activities covered by this Act and rules set on the basis of it are carried out without the required authorisation, it may demand from the parties concerned such documentation and information as are necessary to determine whether this is the case. It may demand that such activities be discontinued immediately. In addition, it may make public the names of parties regarded as offering services without the required authorisation.]¹⁾

The [Central Bank of Iceland]¹⁾ may demand that the assets of an individual or legal entity be impounded if there are legitimate grounds to suspect that the practices of the party in question violate the provisions of this Act. The conditions for and treatment of such a demand shall be subject to the provisions of Article 88 of the Act on Criminal Procedure, as appropriate.

[The Central Bank of Iceland is authorised to carry out special investigations and confiscate documentation in accordance with the Act on Criminal Procedure, provided that there is good reason to believe that individuals and legal entities have violated this Act or rules set on the basis of it, or there is reason to believe that the Central Bank's investigations and actions will otherwise not achieve the intended results. The provisions of the Act on Criminal Procedure shall apply to the execution of such measures.]¹⁾²⁾

¹⁾ Act no. 78/2010, Article 8. ²⁾ Act no. 73/2009, Article 2.

[Article 15(f)]

In connection with investigations of specific cases, the Central Bank of Iceland is authorised to acquire information and documentation from other authorities, irrespective of their duty to observe confidentiality.

The Central Bank of Iceland is authorised to seek information from the Financial Supervisory Authority in connection with acquisition of data related to investigations of specific cases, insofar as the Financial Supervisory Authority's authorisations permit.

The Central Bank is authorised to engage in reciprocal exchange of information with public authorities abroad on matters covered by this Act, provided that the information is subject to a corresponding confidentiality requirement in the country concerned.]¹⁾

¹⁾ Act no. 78/2010, Article 9.

[Article 15(g)]

The Central Bank of Iceland shall examine, as often as is deemed necessary, whether the activities of entities authorised to act as intermediaries in foreign exchange transactions pursuant to Article 8, Paragraph 1 are in accordance with the provisions of this Act and rules set on the basis of it. Parties referred to in the first sentence are obliged to grant the Central Bank of Iceland access to all data in their possession that pertain to their activities and are deemed necessary by the Central Bank. In connection with its supervisory role according to this Act, the Central Bank may carry out on-site inspections or request information in this manner as often as it deems necessary.

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Parties authorised to act as intermediaries in foreign exchange transactions pursuant to Article 8, Paragraph 1 are required to examine thoroughly all planned and executed transactions if there is any suspicion that they are in violation of this Act and rules set on the basis of it, and to notify the Central Bank of Iceland immediately of such transactions. The background and purpose of such transactions shall be investigated to the extent possible. Parties referred to in the first sentence shall provide all information deemed necessary for the notification.

Parties authorised to act as intermediaries in foreign exchange transactions pursuant to Article 8, Paragraph 1, executives, employees, and others working on their behalf are obliged to ensure that neither the customer nor any other external party is informed that the Central Bank of Iceland has been notified of the suspicion referred to in Paragraph 2. Information from a party referred to in Paragraph 2 or its employee, provided in good faith as referred to in this provision, shall not be regarded as a violation of confidentiality by which the person concerned may be bound by law or other means. Such information disclosure shall neither subject the party concerned to criminal sanctions nor make him liable for damages.]¹⁾

¹⁾ Act no. 78/2010, Article 9.

[Article 15(h)]

The Central Bank of Iceland may impose *per diem* fines on a regulated entity if it fails to provide requested information or to heed demands for rectification within a reasonable time limit. This provision applies to legal entities as well as to individuals. The same applies to parties that can provide information pertinent to an investigation pursuant to the provisions of this Act. *Per diem* fines shall be paid until the party in question has complied with the Central Bank's demands. *Per diem* fines are imposed from the deadline for submittal of the information until the day the obligation has been fulfilled. *Per diem* fines may range from 10,000 kr. to 1,000,000 kr. per day [in instances other than when they are imposed on the basis of Article 15(i)]¹⁾ In determining the amount of *per diem* fines, consideration may be given to the nature of the negligence or violation and the financial strength of the party in question.

If proceedings are initiated to demand invalidation of a decision according to Paragraph 1 within 14 days of the date the party concerned was notified of it, and the party concerned requests expedited case handling, it is prohibited to collect *per diem* fines before a judgment has been rendered. Notwithstanding the initiation of proceedings to invalidate a decision according to Paragraph 1, *per diem* fines shall continue to accrue against the party concerned.

Uncollected *per diem* fines shall not be cancelled even though parties later comply with the demands of the Central Bank of Iceland unless the Central Bank so decides explicitly.

Decisions on *per diem* fines provided for in this Article are enforceable by execution.

Collected *per diem* fines net of collection costs shall accrue to the National Treasury. More detailed provisions on the determination and collection of *per diem* fines may be laid down in a Regulation.]²⁾

¹⁾ Act no. 60/2015, Article 12. ²⁾ Act no. 78/2010, Article 9.

[Article 15(i)]

If the Central Bank of Iceland considers conduct to be in contravention of the provisions of this Act, the Bank may demand that the illegal conduct be discontinued immediately. The Central Bank of Iceland may also demand remedy or correction of those measures considered to be in

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contravention of the provisions of this Act. The Central Bank is authorised to impose *per diem* fines in accordance with Article 15 until its demands have been met.]¹⁾

¹⁾ Act no. 60/2015, Article 12.

[Article 16]¹⁾

[Violations of the following shall be subject to fines or imprisonment of up to two years in duration, unless more severe penalties are provided for in other Acts:

1. Rules set on the basis of Article 3 concerning the restriction or suspension of specified short-term movement of capital for up to six months.
2. Article 4 concerning restrictions on foreign exchange transactions related to movement of capital for non-residents' direct investment in commercial activities, non-residents' transactions with shares in domestic undertakings, and non-residents' purchases of real estate in Iceland.
- [3. Article 8 concerning intermediation in foreign exchange transactions and trading in foreign currency [or rules set on the basis of it].²⁾³⁾
- [4. Articles 13(a)-13(n) concerning the prohibition on movement of capital and foreign exchange transactions [or rules set on the basis of them].²⁾⁴⁾
- [5.]⁴⁾ Article 15 on the obligation to observe confidentiality.]⁵⁾

¹⁾ Act no. 128/1999, Article 2. ²⁾ Act no. 35/2013, Article 15. ³⁾ Act no. 73/2009, Article 3. ⁴⁾ Act no. 127/2011, Article 5. ⁵⁾ Act no. 134/2008, Article 2.

[Article 16(a)]

Violations of this Act and rules set on the basis of it that are punishable by fines or imprisonment are punishable irrespective of whether they are committed through intent or negligence.

Any direct or indirect benefit acquired through a violation of the provisions of this Act that is punishable by fines or imprisonment may be confiscated by court judgment.

An attempt to commit a violation or complicity in a violation of this Act and rules set on the basis of it is punishable under the General Penal Code.

[[A legal entity may be fined for violations of this Act and rules set on the basis of it, irrespective of whether guilt is proven against a specified officer or employee of the legal entity or another party working on its behalf.]¹⁾ If its officer or employee has been found guilty of a violation of this Act or rules set on the basis of it, the legal entity may, in addition to the punishment to which it is subject, be subjected to fines and revocation of its operating licence, provided that the violation is for the benefit of the legal entity or the entity has profited from it.]²⁾³⁾

¹⁾ Act no. 58/2015, Article 1. ²⁾ Act no. 67/2014, Article 2. ³⁾ Act no. 134/2008, Article 3.

[Article 16(b)]

Violations of this Act and rules set on the basis of it may only be subjected to criminal investigation after the [Central Bank of Iceland]¹⁾ has filed charges with the police.

If alleged violations of this Act and rules set on the basis of it are punishable by both fines and criminal penalties, the [Central Bank of Iceland]¹⁾ shall determine whether to file charges with the police or to conclude the matter by an administrative decision of the [Central Bank].¹⁾ If

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the violations are major, the [Central Bank of Iceland]¹⁾ is required to refer them to the police. A violation shall be considered major if it involves substantial amounts of money, if the violation is committed in a particularly reprehensible manner, or if it is committed under circumstances that greatly exacerbate the criminality of the violation. Furthermore, the [Central Bank of Iceland]¹⁾ may, at any stage of an investigation, refer a case involving violations of this Act for criminal investigation. Consistency shall be maintained in the resolution of comparable cases.

Charges filed by the [Central Bank of Iceland]¹⁾ shall be accompanied by copies of the documentation on which the suspicion of a violation is based. The provisions of Chapters IV-VII of the Administrative Procedures Act do not apply to a decision by the [Central Bank of Iceland]¹⁾ to refer a case to the police.

The [Central Bank of Iceland]¹⁾ is authorised to provide the police and the prosecuting authorities with information and documentation gathered by the [Central Bank]¹⁾ and related to the violations specified in Paragraph 2. The [Central Bank of Iceland]¹⁾ is authorised to participate in police actions pertaining to the investigation of the violations specified in Paragraph 2.

The police and the prosecuting authorities are authorised to provide the [Central Bank of Iceland]¹⁾ with information and documentation that [has been gathered]¹⁾ and is related to the violations specified in Paragraph 2. The police are authorised to participate in [Central Bank of Iceland]¹⁾ actions pertaining to the investigation of the violations specified in Paragraph 2.

If the prosecutor is of the opinion that there are no grounds for legal action in connection with alleged criminal conduct that is also subject to administrative penalties, the prosecutor may send or re-send the case to the [Central Bank of Iceland]¹⁾ for processing and a decision.²⁾

[The Central Bank of Iceland shall inform the Financial Supervisory Authority of cases against parties falling under the Act on Official Supervision of Financial Activities that are referred to the police because of violations of this Act and rules set on the basis of it.]¹⁾

¹⁾ Act no. 78/2010, Article 10. ²⁾ Act no. 134/2008, Article 3.

[Article 16(c)]

If a party does not accept the Central Bank of Iceland's decision, that party may initiate legal proceedings to request its invalidation in court. Such legal proceedings must be initiated within three months of the date the party was notified of the decision. The initiation of legal proceedings does not postpone the legal effect of the decision or the authorisation for legal enforcement; cf., however, Article 15(h), Paragraph 2.]¹⁾

¹⁾ Act no. 78/2010, Article 11.

[Article 16(d)]

The Central Bank of Iceland is authorised to make public the results of cases or investigations based on this Act unless such publication can be considered to jeopardise the interests of the foreign exchange market, does not affect its interests as such, or causes damage to the parties involved that is disproportionate to the offence in question. The Central Bank shall publish its policy concerning such publication.]¹⁾

¹⁾ Act no. 78/2010, Article 11.

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[Article 17]¹⁾

[The [Minister]²⁾ is responsible for the implementation of this Act. The Minister sets a regulation³⁾ on the implementation of the Act.]⁴⁾ [The Central Bank of Iceland shall ensure that entities' operations are carried out in accordance with this Act. ...⁵⁾⁶⁾

¹⁾ Act no. 128/1999, Article 2. ²⁾ Act no. 126/2011, Article 169. ³⁾ Regulation no. 679/1994 (on Foreign Exchange). Rules no. 13/1995. Regulation no. 56/2000. ⁴⁾ Act no. 128/1999, Article 3. ⁵⁾ Act no. 78/2010, Article 12. ⁶⁾ Act no. 134/2008, Article 4.

[Article 18]¹⁾

This Act shall enter into force at once. ...

¹⁾ Act no. 128/1999, Article 2.

Temporary Provisions ...

I.

[The [Central Bank may]¹⁾ subject its foreign exchange transactions to conditions pertaining to its customers' internal organisation and investment policy, customers' ownership and funding, the minimum holding period for shares or stock issued by customers, customers' allocation of foreign currency to further specified investments, and the minimum period for customers' investments.

[The Minister shall report publicly on progress made under the strategy for liberalisation of restrictions on cross-border movement of capital and foreign exchange transactions every six months until the restrictions have been fully removed. The first report as provided for in the first sentence shall be published within six months of the entry into force of this Act.]¹⁾²⁾

¹⁾ Act no. 16/2013, Article 7. ²⁾ Act no. 127/2011, Article 6.

[II.

Notwithstanding the provisions of Article 2, payments for exportation of goods and services shall ...¹⁾ take place in foreign currency.

If export transactions take place between related parties, they shall be carried out on the basis of the general terms and customs in transactions between unrelated parties.

The Minister may, in a Regulation,²⁾ lay down more detailed provisions concerning the implementation of this provision, including transactions between related parties. The Minister is also authorised to require that parties submit regular reports on their export transactions, on the disposal of sales proceeds, and on other points pertaining to exportation.

Violations of this provision are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).]³⁾

¹⁾ Act no. 16/2013, Article 8. ²⁾ Regulation no. 543/2009, cf. Regulation no. 803/2010. ³⁾ Act no. 27/2009, Article 3.

[III.

The Central Bank of Iceland is authorised, upon receiving approval from the Minister, to set rules¹⁾ providing for special reserve requirements relating to new inflows of foreign currency in connection with:

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1. New investments and reinvestment of such new investments according to Article 13(m), in bonds or bills issued in domestic currency or deposited to domestic currency deposit accounts.
2. Domestic currency deposits with deposit undertakings in Iceland, other than those deriving from capital that is eligible for reinvestment according to Article 13(e) ...²⁾ or that falls under Article 13(l) or Article 13(m), but not those deriving from capital according to Item 5 of this Paragraph.
3. New investments and reinvestment of such new investments according to Article 13(m), in unit share certificates of funds that invest in bonds or bills issued in domestic currency or own domestic currency deposits.
4. New investments and reinvestment of such new investments according to Article 13(m), in the equity of a company for the purpose of investing, directly or indirectly, in bonds or bills issued in domestic currency or deposited to domestic currency deposit accounts.
5. Loans granted to resident entities that are used for investments in domestic currency, for the benefit of the lender, in bonds or bills issued in domestic currency or deposited to domestic currency deposit accounts. The same applies to such loans that are used for investments in unit share certificates of funds or in the equity of a company that is invested or disposed of, directly or indirectly, in the manner described in the first sentence.

The special reserve requirements shall be satisfied by depositing the special reserve amount to a special reserve account with a deposit undertaking in Iceland. The special reserve ratio is applied to the special reserve base to determine the special reserve amount. The deposit undertaking shall, within the same business day, deposit an amount corresponding to the entire special reserve amount according to the first sentence to a capital flow account with the Central Bank of Iceland. The special reserve requirement shall conclude when the holding period has passed, irrespective of whether new inflows of foreign currency that create a special reserve base have been released via sale or redemption. Withdrawals from special reserve accounts are prohibited during the holding period. Deposits to deposit undertakings' capital flow accounts with the Central Bank of Iceland shall be subject to the same holding period and to a corresponding special reserve amount. It is prohibited to hypothecate the special reserve amount and deposit undertakings' deposits in capital flow accounts with the Central Bank of Iceland.

The rules according to Paragraph 1 shall contain further provisions on the implementation of the special reserve requirements, including:

1. the holding period, special reserve ratio, and interest rates on deposit undertakings' capital flow accounts with the Central Bank of Iceland; cf. the third sentence of Paragraph 2.
2. the settlement currency for the special reserve amount and the corresponding amount in deposit undertakings' capital flow accounts with the Central Bank of Iceland.

The special reserve ratio may range up to 75%, and the holding period may range up to five years. The Central Bank of Iceland's decisions on special reserve ratios, holding periods, and interest rates shall be based on the Bank's legally mandated objectives and on a thorough

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assessment of developments and prospects for the economy, monetary policy, and financial stability.

The rules according to Paragraph 1 may stipulate different holding periods, special reserve ratios, settlement currencies, and interest rates, depending on the type of funds that constitute the special reserve base.

Violations of this provision and the rules set on the basis of it are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).]³⁾

¹⁾ *Rules no. 490/2016; cf. Rules no. 537/2016 and Rules no. 892/2016.* ²⁾ *Act no. 105/2016, Article 14.*
³⁾ *Act no. 42/2016, Article 2.*

[IV.]

Notwithstanding the provision contained in the first sentence of Article 13(b), Paragraph 2, Item 6, each party's capital transfers according to that provision shall be authorised only up to a combined total equivalent to 30,000,000 kr. until 1 January 2017.

The Central Bank of Iceland shall review the maximum amount provided for in the first sentence of Article 13(b), Paragraph 2, Item 6 before 1 July 2017; cf. the authorisation to set rules pursuant to Article 13(b), Paragraph 4.

Notwithstanding the investment authorisation provided for in Article 13(b), Paragraph 2, Item 6, securities shall be held in custody with a domestic custodian until 1 January 2017. Furthermore, cross-border movement of capital in foreign currency that entails importation and exportation of securities or deposits to and withdrawals from accounts with deposit institutions shall be prohibited until the same date. The same applies to cash withdrawals or purchases of foreign currency in cash pursuant to the fifth sentence of Article 13(c), Paragraph 2.

Violations of this provision are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).]¹⁾

¹⁾ *Act no. 105/2016, Article 15.*

[V.]

Until 1 January 2017, individuals are authorised to purchase or withdraw foreign currency in cash from a financial undertaking in Iceland upon satisfying the following conditions:

1. The foreign currency must be intended for use during travel abroad. When purchasing or withdrawing foreign currency, the individual must provide evidence of the proposed travel by presenting a travel ticket or payment receipt for a trip to be taken within four weeks. Crew members without a travel ticket shall demonstrate their travel plans by presenting a shift roster or through some other verifiable means.
2. The amount of purchased or withdrawn foreign currency in cash may not exceed the equivalent of 700,000 kr. per individual according to Item 1 per trip taken, unless a special need for additional cash withdrawal is demonstrated.
3. The resident individual must purchase or withdraw foreign currency in cash from a financial undertaking in Iceland with which he/she does business.
4. It must be demonstrated that the individual – or the individual's custodial parent or guardian, if the individual is a minor – is the owner of the funds used to pay for

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the foreign currency purchased or the foreign currency account from which the withdrawal is made. Notwithstanding the provisions of the first sentence, an individual is permitted to purchase foreign currency for a spouse.

5. The individual specified upon the purchase or withdrawal of the foreign currency must take the funds out of the country him- or herself.

A financial undertaking in Iceland may apply for an exemption from Paragraph 1, authorising a branch of that financial undertaking to sell foreign currency, in an amount not to exceed 700,000.00 kr. per trip taken, to a resident individual without an established business relationship with the undertaking concerned, if it is demonstrated that the funds will be used for travel abroad. The Central Bank of Iceland shall publicly disclose information on entities that receive exemptions on the basis of this provision.

Violations of this provision are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).]¹⁾

¹⁾ *Act no. 105/2016, Article 15.*