

Amendments to the Foreign Exchange Act

Amendments have been made to the Foreign Exchange Act, no. 87/1992. The amended Act includes general changes designed to prevent circumvention of the capital controls and special provisions centring on the financial undertakings that are currently in winding-up proceedings or have concluded them. The main amendments are as follows:

First of all, the Act is amended so as to explain the term *contractual instalment payments* more fully and to clarify that payments on loan agreements may not be made on the basis of provisions that could result in accelerated repayment of the loans concerned.

Second, amendments have been made to Article 13(c) of the Act, which concerns foreign exchange transactions between residents and non-residents. According to the amended provisions, failed financial undertakings and legal entities established in connection with the fulfilment of their composition agreements may engage in foreign exchange transactions involving the Icelandic króna with domestic commercial banks and savings banks only. However, this restriction will not prevent these legal entities from using foreign currency in their possession to make distributions to creditors in connection with a settlement for which the Central Bank has granted an exemption.

Third, amendments have been made to Article 13(g) of the Act, which concerns lending and borrowing between residents and non-residents. According to this amendment, failed financial undertakings and legal entities established in connection with the fulfilment of their composition agreements may only engage in intragroup lending activity upon satisfying the general conditions for cross-border lending and borrowing as set forth in the Act.

Fourth, amendments have been made to Article 13(j) of the Act, which concerns payments on foreign currency loans. According to this amendment, residents are not permitted to purchase foreign currency from financial undertakings in Iceland in order to make payments on foreign currency loans unless the loan period is at least two years or the loan has been granted in order to make payment to a non-resident in connection with trade in goods and services. This applies to loans taken after the entry into force of the amended Act. This amendment also entails that it is only permissible to purchase foreign currency for

loan payments or payments on past-due intragroup guarantees if the loan satisfies the general conditions for cross-border lending and borrowing as set forth in the Act. Furthermore, the amendment entails that failed financial undertakings and legal entities established in connection with the fulfilment of their composition agreements are prohibited from purchasing foreign currency in connection with loan payments or payments on past-due guarantees unless such loans have been granted in connection with trade in goods and services.

Fifth, the Act has been amended to revoke the failed financial undertakings' special exemptions from the Foreign Exchange Act. These entities are still exempt from the repatriation requirements for foreign currency, with the exception of foreign currency borrowings.

The purpose of the above-described amendments is to restrict the relevant parties' ability to circumvent the capital controls. This is a prerequisite for the success of the authorities' capital account liberalisation strategy.

The amendments to the Foreign Exchange Act had entered into force when the markets opened this morning, and the Central Bank of Iceland's execution of matters relating to the capital controls will change accordingly.

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