

23 September 2013
1308187

Winding-up committee, Glitnir hf.
Sóltún 26
105 Reykjavík

Re: The Foreign Exchange Act and the status of Glitnir hf.'s winding-up proceedings

Reference is made to the 27 August 2013 letter from the Glitnir hf. winding-up committee, which presents the winding-up committee's proposal for a process to conclude Glitnir's winding-up proceedings. It can be inferred from the substance of the letter that the winding-up committee is labouring under a misunderstanding concerning the framework set by the current Foreign Exchange Act, no. 87/1992, for the process.

With a letter to the Central Bank of Iceland, dated 28 November 2012, the Glitnir hf. winding-up committee requested an exemption from the Foreign Exchange Act, no. 87/1992, in order to conclude its winding-up proceedings with a composition agreement. According to Article 7, Paragraph 1 of the Foreign Exchange Act, no. 87/1992, cf. Article 13(o) of the same Act, it is the Central Bank of Iceland that grants such exemptions. However, because such an exemption falls under the conditions set forth in Article 13(o), Paragraph 2 of the Foreign Exchange Act, it shall be granted only following consultation with the Minister of Finance and Economic Affairs and following a presentation by the Minister to the Parliamentary Economic and Commerce Committee concerning the economic effects of the exemption.

The Act states clearly that, in order for the Central Bank of Iceland to recommend in favour of such an exemption, the Bank must be of the opinion that the exemption will not jeopardise monetary and exchange rate stability; cf. Article 7, Paragraph 2 of Act no. 87/1992. In order for the Bank to formulate such an opinion, a detailed analysis of the Glitnir hf. estate's assets and recovery must have been carried out, with consideration given to the effect that payouts to creditors will have on Iceland's balance of payments. Central Bank staff have been working on such an analysis, and representatives from the winding-up committee and the Bank have met on numerous occasions in order to gather the necessary information from the winding-up committee and clarify the matters in hand. This work – the necessary compilation of data from the winding-up committee and the Bank's assessment of the impact of Glitnir hf.'s composition agreement on the balance of payments – is well underway but is not yet complete, as the winding-

up committee is well aware. For this reason, it is not yet possible to take a position on the exemption request.

Although a detailed analysis is not yet complete, it is clear that the Central Bank of Iceland cannot give a positive answer to the Glitnir winding-up committee's exemption request without a solution concerning the assets that, other things being equal, will have a negative effect on Iceland's balance of payments when they are disbursed to creditors, 93.8% of whom are non-residents, as is stated in Central Bank of Iceland *Special Publication* no. 9. Reference is made here to the classification of creditors, to Glitnir hf.'s króna assets (including shares in Íslandsbanki), and foreign-denominated claims against domestic parties. In order for the Central Bank to be able to grant an exemption for the above-mentioned composition agreement, there must be a solution concerning these assets, so that Iceland's balance of payments and planned capital account liberalisation provide scope for disbursement to foreign creditors. It is important to emphasise that this is not a matter for negotiation. Either this condition is fulfilled, or it is not. Glitnir's exemption request does not fulfil this condition at present.

In view of the foregoing, the Central Bank considers that there are no premises for setting up a process of the type proposed in the winding-up committee's letter, and certainly not one subject to binding time limits. It is the role of the Glitnir hf. winding-up committee, in connection with its exemption request, to create the conditions that allow for the approval of an application for a composition agreement. As before, the Central Bank of Iceland is prepared to assess whether it is likely that specified options fulfil the above-mentioned conditions. If the Glitnir hf. winding-up committee has developed ideas of this type, as is asserted in its letter, the Bank is ready and willing to discuss them.

Respectfully yours,
CENTRAL BANK OF ICELAND

Már Guðmundsson
Governor

cc: Prime Minister
Minister of Finance and Economic Affairs