

Economic and monetary chronicle

October 2010

On 5 October, the report of the monitoring committee on measures to assist individuals, households, and businesses due to extraordinary circumstances in the financial market was presented to the Government and the opposition party leaders. The aim of the Act on Problem Debt Restructuring is to expedite the reconstruction of the Icelandic economy and establish equilibrium in private sector debt. The committee assessed the financial institutions' work on private sector debt mitigation and made suggestions for improvements in its report.

On 14 October, Parliament passed Act no. 128/2010 amending the Act on Debt Mitigation for Individuals, no. 101/2010, due to the extremely heavy workload at the newly established Office of the Debtors' Ombudsman. The amendments were intended to ease debtors' position by granting applicants a deferral of payment upon submittal of the application for debt mitigation and not upon approval.

On 14 October, the Ministry of Finance, the Byr Savings Bank winding-up committee, and the Byr hf. board of directors signed an agreement on the settlement and ownership of Byr hf. with the takeover of the savings bank by the Byr winding-up committee. The State's holding in Byr hf. will be 5.2%. Byr Savings Bank's stake, 94.8%, will be in the custody and oversight of the Ministry of Finance until the winding-up committee requests it, probably within two years. With this action, Byr hf. is fully capitalised and meets the capital adequacy and liquidity requirements of the Financial Supervisory Authority and the Central Bank of Iceland. The Treasury grants Byr hf. a subordinated loan of up to 5 b.kr. at market rates for a period of 10 years, which Byr hf. is expected to pay in full in five years' time. Byr Savings Bank's claim against Byr hf. will be converted to share capital.

On 15 October, the Financial Supervisory Authority authorised Arion Bank hf. to own a qualifying holding in Valitor hf. Arion Bank hf. requested permission to increase its qualifying holding in Valitor hf. indirectly, through its holding in Valitor Holding hf., cf. Article 40 of the Act on Financial Undertakings. The Financial Supervisory Authority considers Arion Bank eligible to own and administer the holding, partly because of Valitor's sound and reliable operations. On 12 October, the Financial Supervisory Authority authorised Arion Bank to own a stake of over 50% in Valitor.

On 15 October, the Ministry of Fisheries authorised a 15,000-tonne quota for Icelandic summer spawning herring, for the fishing year 2010/2011.

On 15 October, the committee on foreign investment submitted its third report on the legality of Magma Energy Sweden's investment in the subsidiaries of HS Orka. The committee expressed the opinion that there was no further reason to comment on the acquisition, citing two previous opinions wherein the majority of the committee considered Magma's purchase of HS Orka in compliance with the law.

On 18 October, the Financial Supervisory Authority announced that, on 1 October, it had recalled ALMC hf.'s (previously Straumur-Burdaras Investment Bank) commercial banking licence, as the company was dissolved pursuant to Chapter XII of the Act on Financial Undertakings, no. 161/2002; cf. Article 9, Paragraph 1, Subparagraph 6 of the same Act.

On 20 October, Parliament passed Act no. 129/2010 amending the Act on Forced Sale, no. 90/1991. Because the Office of the Debtors' Ombudsman had only recently commenced operation and because of the time required to resolve pending cases, the Act on Forced Sale was amended, and the respondent's deadline for requesting that the Commissioner postpone the continuation of a forced sale be deferred for three months was extended until 31 March 2011.

On 21 October, it was decided at a meeting of coastal nations that the total catch of the Norwegian spring spawning herring stock should be 988,000 tonnes in 2011. The total blue whiting catch was set at 44,000 tonnes. Iceland's share of the quotas is 143,000 tonnes of herring and 6,500 tonnes of blue whiting.

November 2010

On 1 November, the Central Bank announced that the review of the Rules on Foreign Exchange, no. 370/2010, was complete. The Bank considered it unnecessary to amend the Rules; therefore, they remained in effect unchanged.

On 3 November, the Monetary Policy Committee of the Central Bank of Iceland decided to lower the Bank's interest rates by 0.75 percentage points. Interest rates were lowered to the following amounts: interest on deposit institutions' current accounts, to 4.0%; the maximum rate on 28-day certificates of deposit (CDs), to 5.25%; seven-day collateralised loans, to 5.5%; and overnight loans, to 7.0%.

On 3 November, Már Guðmundsson issued a statement explaining the policy framework and plans for the removal of the capital controls. In the statement, the Governor reviewed the status of the controls and described the conditions that must be in place in order for liberalisation to take place.

On 3 November, the Ministry of Fisheries increased the maximum quota for Icelandic summer spawning herring from 15,000 tonnes to 40,000 tonnes.

On 14 November, a two-week visit to Iceland by an IMF mission under the leadership of Julie Kozack was completed. The mission discussed the fourth review of the IMF-supported economic programme with the Icelandic authorities. Meetings were held with the authorities, members of Parliament, academics, private sector representatives, and labour market representatives.

On 16 November, Parliament passed Act no. 132/2010 amending the Act on Financial Undertakings, no. 161/2002, as regards provisions concerning winding-up proceedings and bankruptcy proceedings for the failed commercial banks. The amendment was made following

comments by the resolution committees and winding-up committees of the failed banks as a result of judgments handed down by an appeals court in France on 4 November 2010. It can be concluded from the judgment that there could be some legal uncertainty pertaining to the origination of financial institutions' winding-up proceedings according to general rules. Because significant interests were at stake, it was considered necessary to eliminate all doubt about the involvement of the courts in winding-up proceedings and to ensure that there was no doubt about whether the formal requirements set forth in Directive 2001/24/EC on reorganisation and winding up of credit institutions were fulfilled.

On 19 November, the Ministry of Fisheries issued a capelin quota of 200,000 tonnes for the winter fishing season dating from 23 November 2010 – 30 April 2011.

On 25 November, the Supreme Court of Iceland handed down Decision no. 274/2010 concerning the Act on Guarantors, no. 32/2009. In the case, payment was demanded of two guarantors for a debt of which the District Court had relieved a debtor with a composition of creditors agreement involving debt mitigation. The Supreme Court upheld the District Court decision, which was that the creditor's right against the guarantors of the debt was protected by Article 72 of the Constitution and that those rights could not be curtailed without compensation by means of retroactive legislation. The provisions of the Act on Guarantors were therefore in contravention of the Constitution.

On 30 November, Parliament passed Act no. 135/2010 amending the Act on Debt Mitigation for Individuals, no. 101/2010, and other Acts, with the aim of rectifying various flaws in the Act on Debt Mitigation, clarifying provisions and ensuring the effectiveness of debt mitigation, and co-ordinating the implementation of the debt mitigation measure.

December 2010

On 1 December, the Enterprise Investment Fund announced that the Competition Authority's examination and due diligence analysis of the Fund's purchase of the holding company Vestia from Landsbanki was complete. The valuation changed somewhat during the process, and Landsbanki retains more of the company's assets than was assumed at the time of the purchase on 20 August. As a result, the purchase price is 15.5 b.kr. instead of the 19.5 b.kr. assumed in August.

On 3 December, the Government announced an agreement with credit institutions and pension funds concerning measures to assist distressed households. Distressed borrowers with over-leveraged assets are offered the opportunity to reduce their outstanding debt to 110% of the value of the asset concerned. The original debt service burden must be at least 20% of the income tax base plus investment income. Collateralised debt could be reduced by as much as 4 m.kr. for individuals and 7 m.kr. for couples or single parents. A much more detailed appraisal of assets and capacity to pay must be carried out if a larger write-down is needed, up to a maximum of 15 m.kr. for individuals and 30 m.kr. for couples and single parents. Changes were also made

to problem debt restructuring measures so that they would benefit a larger number of households. Over 2 b.kr. would be allocated to the maintenance of a special increase in mortgage interest allowances that was implemented in 2009-2010. A new temporary measure would then be created to pay down interest expense due to residential housing. Lenders will also attempt to reach all households that are in arrears and offer them satisfactory solutions before 1 May 2011. In connection with the agreement on debt problems, the Government declared that it would reduce the linkage between pension benefits and social security benefits and that the tax-free threshold for pensioners would be raised in stages during the period 2013-2015.

On 7 December, the supplementary budget for 2010 was approved by Parliament. Estimated revenues for 2010 rise by 16 b.kr., due primarily to stronger asset sales, while estimated expenditures decline by 0.9 b.kr., because a 24 b.kr. increase stemming from appropriated bank debt offsets a 24 b.kr. reduction in interest expense.

On 8 December, the Monetary Policy Committee of the Central Bank of Iceland decided to narrow the Bank's interest rate corridor by 1 percentage point. Interest on deposit institutions' current accounts was reduced by 0.5 percentage points, to 3.5%. The maximum rate on 28-day CDs and the interest on seven-day collateralised loans were reduced by 1.0 percentage point each, to 4.25% and 4.5%, respectively. The overnight lending rate was lowered by 1.5 percentage points, to 5.5%. According to the MPC statement, the objective of the changes was to reduce volatility in short-term rates and move the overnight lending rate closer to the centre of the corridor.

On 9 December, the Icelandic negotiating committee in the Icesave dispute announced the results of discussions with the British and Dutch negotiating committees and presented a draft of a new agreement. The draft provides for an average interest rate of 2.64% until 2016 instead of the 5.5% in the previous agreement. It also provides for flexible repayment time if the outstanding balance in 2016 is higher than expected. In addition, annual payments are subject to a maximum of 1.3% of GDP, or 5% of Government revenues, whichever is lower. On 15 December, the Government presented a bill of legislation authorising the approval of the agreement.

On 15 December, Parliament passed Act no. 141/2010 amending the Act on Securities Transactions, which expands the exemptions from the takeover requirement when a company is listed on the market or lists financial instruments on the market.

On 15 December, the Ministry of Economic Affairs, Icelandic Federation of Trade, Ministry of Finance, Confederation of Icelandic Employers, Icelandic Financial Services Association, and Iceland Chamber of Commerce signed an agreement concerning a plan to expedite the settlement of small and medium-sized companies' debt with financial institutions. The agreement covers companies whose continued operation is most likely, in the opinion of the financial institution concerned, to protect the interests of creditors, employees, and owners. The objective is that companies' total indebtedness following finan-

cial restructuring not exceed their restated asset value or operational value, whichever is higher, plus the value of other collateral backing the debt of the company in question. Monthly goals will be set for the number of processed offers for the period January to May 2011. The State will facilitate the agreement by lengthening the payment deadlines for public levies and increasing authorisations to cancel public claims that are considered unlikely to be collected. The agreement was announced under the title "the Straight Path."

On 16 December, the National Budget for 2011 was approved by Parliament. Revenues are estimated at 473 b.kr., expenditures at 510 b.kr., and the deficit at 37 b.kr. The surplus before interest income and expense is estimated at 15 b.kr. Revenues are estimated to decline by 1% from the increased 2010 National Budget due to lower sales revenues and the transfer of revenue bases to municipalities. Tax revenues are estimated to rise by 3%, even though the transfer of revenues for the affairs of the disabled to municipalities will cause a 2.4% reduction. Expenditures are projected to decrease by 9%, including 1.6% due to the transfer of the affairs of the disabled.

On 16 December, the EFTA Surveillance Authority (ESA) confirmed its previously issued preliminary conclusion that the provisions of Act no. 125/2008, the so-called Emergency Act, were in compliance with the EEA Agreement and fulfilled other legal requirements. This included both the provisions assigning higher priority to deposits than to general claims and the actions taken by the Icelandic authorities on the basis of the Act. ESA was of the opinion that the actions to which the authorities resorted were the only options that could have averted the complete collapse of the Icelandic economy.

On 16 December, the Financial Supervisory Authority announced that it had granted T Plús hf. in Akureyri a licence to operate as a securities undertaking in accordance with Article 4 of the Act on Financial Undertakings, no. 161/2002.

On 17 December, Parliament decided that it would have an impartial and independent investigation carried out of the operations of the Housing Financing Fund during the period 2004-2010.

On 17 December, Parliament passed Act no. 142/2010 amending the Act on Bankruptcy, Etc., which aimed at enabling individuals who have undergone bankruptcy proceedings but are still responsible for debt not paid during the proceedings to stabilise their finances. The changes entailed shortening the expiry deadline for those claims, or for the portion not paid during bankruptcy proceedings, so that the expiry date of all claims in the estate will be the same – two years – irrespective of the type of claim.

On 17 December, Parliament passed Act no. 144/2010 amending the Act on the Establishment of the Partnership Orkuveita Reykjavíkur, which limits the owners' liability in the wake of the EFTA Surveillance Authority's decision that unlimited owner liability is not consistent with the EEA Agreement provisions on state aid.

On 17 December, Parliament passed Act no. 152/2010, which stipulates that the municipalities of Iceland shall assume professional and financial responsibility for the provision of services for the disabled, and that this responsibility shall be transferred from the State to the municipalities as of 1 January 2011, in return for increased local tax revenues.

On 17 December, the Minister of Fisheries allocated a 147,000-tonne mackerel quota to Icelandic fishing vessels for 2011, a 17,000-tonne increase from the prior year.

On 18 December, Parliament passed Act no. 150/2010, which provided for a 40% year-on-year increase in supervisory fees paid to the Financial Supervisory Authority by financial institutions.

On 18 December, Parliament passed Act no. 151/2010 amending the Act on Interest and Price Indexation; the Act on Measures to Assist Individuals, Households, and Businesses due to Extraordinary Circumstances in the Financial Markets; and the Act on the Debtors' Ombudsman. The amendments were intended to reduce the uncertainty that developed in the wake of the Supreme Court judgments on exchange rate-linked loans, as regards the legality of contractual agreements covering a wide range of short- and long-term financing. The objectives were to ensure, to the extent possible, that comparable cases would receive comparable treatment, and to ensure legal security in the settlement of loan agreements with non-binding exchange rate linkage clauses.

On 18 December, Parliament passed Act no. 153/2010, amending legislation on unemployment benefits. For those who lost their jobs after end-April 2008, the period of entitlement to benefits was lengthened from three years to four, and the authorisation to pay benefits commensurate with reduced employment was extended by six months, until 30 June 2011. Benefits are only paid if the reduction in employment is at least 30% of a full-time position, as opposed to the previous 20%.

On 18 December, Parliament passed Act no. 155/2010, imposing a special tax on financial institutions in the amount of 0.041% of a base equal to total liabilities.

On 18 December, Parliament passed Act no. 156/2010, which changes the structure of the excise tax on imported motor vehicles, the motor vehicle tax, and the oil charge, so that levies rise with increased CO₂ emissions.

On 18 December, Parliament passed Act no. 163/2010 amending the Value-Added Tax Act, so as to enable monitoring and follow-up by the tax authorities, to clarify provisions on tax deductions for exported electronic services, including data centre services, and to discontinue rebates for indoor heating while extending authorisations for special rebates due to distance coaches and construction work done on residential housing until year-end 2011.

On 18 December, Parliament passed Act no. 164/2010, which sets forth various fiscal measures. The main features of the Act are i) the

investment tax is increased from 18% to 20%; ii) the corporate income tax is raised from 18% to 20%; iii) the wealth tax is raised from 1.25% to 1.5%, and tax-free threshold is reduced by 16.7%; iv) the inheritance tax is raised from 5% to 10%; v) the tobacco tax is raised by 7%, and a special, limited tobacco levy is imposed at the duty-free store upon arrival in Iceland; vi) the carbon tax is increased by 50% by raising the reference from 50% to 75% of the price of emissions allocations at EU auctions; vii) the overall authorisation to withdraw third-pillar pension savings before 1 April 2011 is raised from 2.5 m.kr. to 5 m.kr. per person. These changes are expected to generate a total of 11 b.kr. in tax revenues for the Treasury in 2011.

On 18 December, Parliament passed Act no. 165/2010, amending various pieces of tax legislation. Chief among them were i) the transfer of local tax revenues to municipalities due to the transfer of the affairs of the disabled; ii) the authorisation for companies to distribute the tax base due to cancelled debt over the years 2010-2014 and to pay the outstanding balance over five years; iii) the expansion of authorisations to defer or cancel businesses' tax debt; iv) the cancellation of the equity securities discount on individuals' income tax, in view of comments from EFTA, and increased authorisations for tax deductions for innovation companies; v) amendments to the statutory framework for tax investigations, so as to expedite case handling.

On 22 December, Parliament passed Act no. 141/2010 amending the Act on Securities Transactions, no. 108/2007, as regards mandatory takeover bids due to control of a company upon its listing on a stock exchange. The amendment was made because of comments indicating that the previous provisions could harm the securities market and could pose a serious risk that companies would remove their shares from trading in Iceland.

On 22 December, the Ministry of Finance published the tax brackets for withholding tax in 2011. The average local tax rate will be 14.41%, 66 of a total of 76 municipalities will levy the maximum local tax, and two municipalities will levy the minimum tax. The withholding percentages for income tax and local tax will be in three brackets: 37.31%, 40.21% and 46.21%. The monthly income thresholds for the three brackets will be 209,400 kr. for the first bracket; 471,150 kr. for the second bracket, and 680,550 kr. for the third bracket. The personal deduction will be unchanged at 44,205 kr. per month, and the tax-free income threshold will be 123,417 kr., after wage earners' mandatory 4% pension fund contribution. Municipalities' minimum and maximum local tax rates will rise by 1.20% due to the transfer of the affairs of the disabled to the local authorities, and the national tax percentages will decline accordingly, in each tax bracket. The tax-free income threshold and the thresholds between tax brackets will increase proportional to the twelve-month rise in the wage index, now about 4.7%.

On 30 December, the Central Bank of Iceland announced that it had concluded contractual agreements concerning the debt of five savings banks that did not meet minimum capital adequacy requirements

in the wake of the banking collapse. The savings banks in question are: Sparisjóður Bolungarvíkur, Sparisjóður Norðfjarðar, Sparisjóður Svarfdæla, Sparisjóður Vestmannaeyja, and Sparisjóður Þórshafnar og nágrennis. In addition, Sparisjóður Suður-Pingeyinga and Sparisjóður Höfðhverfinga have paid their debts to the Central Bank. During the restructuring process, the Central Bank acquired a large part of the savings banks' guarantee capital. The guarantee capital shares have been transferred to Icelandic State Financial Investments, which administers the holding on behalf of the State.

Near the end of the year, the Central Bank purchased foreign currency for 24.6 b.kr. (160 million euros), as well as negotiating forward contracts amounting to 47.9 b.kr. (312 million euros). These transactions will expand the Central Bank's foreign exchange reserves by about 72.5 b.kr. (472 million euros) during the term of the agreement. These transactions were undertaken so as to correct imbalances between foreign assets and liabilities on the balance sheets of various financial institutions. In addition, they promote increased financial system stability and bolster the Central Bank's non-borrowed foreign exchange reserves.

January 2011

On 1 January, the asset and income thresholds according to the rules on State-subsidised residential housing were raised by 2.46%. The asset limit for rent subsidy allowances was raised by the same percentage. The increases accord with the rise in consumer prices from the beginning of 2010 to the beginning of 2011.

On 4 January, the Minister of Welfare called for the municipalities to increase financial assistance to individuals so that such assistance would equal the amount of unemployment benefits.

On 5 January, an agreement between the Government and the Icelandic Pension Funds' Association was announced. The agreement stipulates as follows: i) general increases in pension payments within the year 2011 will not reduce State payments through income linkage; ii) during the same period, the pension funds will not use income linkage to reduce payments because of new disability pension decisions or increases in State pensions; iii) the tax-free threshold for pensioners will increase in three stages over the period 2013-2015, in accordance with the increase in the tax-free threshold for disability benefits.

On 6 January, the Central Bank and the Financial Supervisory Authority announced the conclusion of a new co-operation agreement. The aim of the agreement is to promote a sound, effective, and safe financial system in Iceland, including payment and settlement systems. Among new provisions, senior management and relevant experts from both institutions are to meet regularly, at least twice a year, so as to assess systemic risk in the financial system, including macroeconomic risk factors, risks in financial institutions' operations, the interplay of risk factors, the status of payment systems, the need for amendment of regulatory instruments, and improvements in contingency plans.

On 7 January, the Government agreed to extend the incentive programme called "Back to Work," which was established in collaboration

with the Icelandic Federation of Labour, the Confederation of Icelandic Employers, the Federation of Icelandic Industries, and others. The authorisation for reimbursement of value-added tax on labour costs for work done on residential housing will be extended until year-end 2011 and will remain in effect for the same length of time as the authorised income tax deduction.

On 10 January, the Executive Committee of the International Monetary Fund (IMF) approved the fourth review of Iceland's economic programme. The approval by the Executive Board released the fifth tranche of the IMF loan facility, in the amount of SDR 105 million (just under 19 b.kr.). Iceland is also authorised to draw further funds on the loan facilities from the Nordic countries and Poland.

On 28 January, the Financial Supervisory Authority decided that the holding company Eignarhaldsfélag NBI ehf. is eligible to own qualifying holdings large enough that Landsvaki hf. and SP-Fjármögnun hf. will be considered its subsidiaries.

On 28 January, it was announced that the Competition Authority had approved the Central Bank's sale of its stake in the Icelandic Banks' Data Centre, concurrent with its takeover of Fjölgreiðslumiðlun hf., which will henceforth be called Greiðsluveitan. Before this change was implemented, Fjölgreiðslumiðlun operated the netting system and the joint payment channel for payment card transactions. Henceforth, it will also operate the RTGS system, the SWIFT-Alliance system for cross-border payments, the collections system for electronic claims and remittance slips (payables pool), and the system that handles the posting of electronic documents to online banking accounts (the check-free system). In its approval of the change, the Competition Authority makes reference to its ruling on the card companies' violation in 2008 and sets requirements for Greiðsluveitan's conduct in the market.

On 31 January, the Financial Supervisory Authority concluded that NBI hf. was eligible to own and administer up to a 33% qualifying holding in Borgun hf.

On 31 January, the Central Bank announced a minor change in the announcement of decisions by the Monetary Policy Committee. Beginning with the Committee's 2 February decision, the MPC statement announcing and explaining the decision will be published at 9:00 on the interest rate decision date instead of 11:00, as had previously been done. The change was made primarily to allow market agents to assess the Committee's decision before markets open. This arrangement allows members of the media, financial analysts, and other interested parties to acquaint themselves with the MPC statement prior to the press conference.

February 2011

On 2 February, the Monetary Policy Committee of the Central Bank of Iceland decided to lower the Bank's interest rates by 0.25 percentage points. The current account rate was reduced to 3.25%, the maximum rate on 28-day certificates of deposit (CDs) to 4.0%, the seven-day collateralised lending rate to 4.25%, and the overnight lending rate to 5.25%.

On 2 February, Parliament passed Act no. 9/2011, amending the Act on Responsible Utilisation of Fish Stocks. The amendment authorises the Minister of Fisheries to impose per diem fines in order to enforce submittal of catch reports.

On 2 February, the Minister of Finance publicised the Government's debt management strategy for 2011-2014 and its plans for borrowing. The plans aim to reduce total Treasury debt from 83% of GDP at end-2010 to 70% of GDP at end-2014, and to reduce net debt from 43% of GDP to 35% of GDP over the same period. According to the strategy, annual repayments on domestic Treasury bonds should be less than 6% of GDP, balances on the Treasury's current accounts should equal at least 80 b.kr. at all times, and Treasury debt should be 60-80% domestic and non-indexed, 20-40% indexed, and 0-20% foreign.

On 3 February, Parliament passed Act no. 12/2011, which increased the number of judges in the judicial system. Three new Supreme Court judges and five new District Court judges will be appointed because of the strain on the judicial system in the wake of the financial crisis.

On 7 February, the Minister of Welfare presented a report on consumption criteria for Icelandic households, prepared by a group of experts. Three types of consumption criteria were presented: i) typical criteria, which represent modest consumption; that is, the median expenses of Icelandic households; ii) short-term criteria based on the same assumptions, but assuming a temporary reduction in consumption and postponement of expenditure items; and iii) basic criteria, which indicate the minimum a household needs to support itself.

On 16 February, Parliament passed the so-called Icesave Act, no. 13/2011, which authorises the Government to guarantee repayment by the Depositors' and Investors' Guarantee Fund to the British and Dutch governments for the compensation paid for Icesave deposits.

On 18 February, the Ministry of Agriculture and Fisheries announced that the capelin quota for the year had been increased to 390,000 tonnes. The original quota was 200,000 tonnes.

On 20 February, the president of Iceland refused to sign Act no. 13/2011, the so-called Icesave Act, which confirmed the agreements providing for a State guarantee of the Depositors' and Investors' Guarantee Fund repayment to the British and Dutch governments. In so doing, the president referred the matter to the electorate for a national referendum, which was subsequently scheduled for 9 April.

On 23 February, the Financial Supervisory Authority revoked the operating licenses of the old financial institutions Byr Savings Bank, Frjálsi Investment Bank hf., and Reykjavík Savings Bank (SPRON) hf., in the wake of a ruling winding up these institutions pursuant to Chapter XII of the Act on Financial Undertakings, no. 161/2002.

On 23 February, rating agency Moody's Investors Service issued a special opinion on the results of the Icesave referendum. The opinion stated that if the Icesave agreements were approved in the referendum, the outlook for Iceland's sovereign credit rating would probably

be changed from negative to stable. On the other hand, if the agreements were rejected in the referendum, the rating would probably be downgraded to non-investment grade.

On 23 February, Parliament passed Act no. 14/2011 in order to reinforce the Competition Act, no. 44/2005. Provisions include authorising the Competition Authority to take action against conditions or conduct that prevents, restricts, or is detrimental to competition and is contrary to the public interest. The Competition Authority is now authorised to initiate legal proceedings before the courts in order to revoke rulings by the Competition Appeals Committee.

On 25 February, the Financial Supervisory Authority concluded that the holding company Eignarhaldsfélag NBI ehf. was eligible to own a large enough qualifying holding in Rose Invest hf., a UCITS management company, that Rose Invest would be considered a subsidiary of the holding company.

March 2011

On 1 March, Parliament passed amendments to the Electricity Act. Among other changes, the amended Act eases the requirements for connecting to distribution systems. It also stipulates that Landsnet shall be directly owned by the State and/or the municipalities beginning no later than 1 January 2015. Furthermore, price lists shall be structured so that they can support average operating expenses plus a profit equivalent to taxes and cost of capital. The Act also requires a licence to operate a market for energy distribution.

On 3 March, Parliament approved amendments to the Act on Landsvirkjun, no. 42/1983, so as to comply with ESA guidelines and to ensure that State guarantees for Landsvirkjun are in compliance with the EEA Agreement provisions on State aid. According to the amendment, the State guarantee is not unlimited; that is, the Act on Bankruptcy, Etc., no. 21/1991, can apply to the company, the guarantee covers only credit obligations, and a suitable guarantee fee must be paid for the State guarantee.

On 3 March, Parliament passed an amendment to the Act on State Guarantees, no. 121/1997. According to the amendment, instead of the general State guarantee fee (0.25%) pursuant to Article 6, Paragraph 2 of the Act, Landsvirkjun and others specified in Article 6, Paragraph 1 of the Act on State Guarantees shall pay a guarantee fee that fully corresponds to the concession enjoyed by the company on the basis of the State guarantee, in the form of credit terms more beneficial than those generally available in the market without such a guarantee. With Act no. 144/2010 amending the Act on the Establishment of the Partnership Orkuveita Reykjavíkur, no. 139/2001, with subsequent amendments, Parliament approved the same type of changes as regards owner liability for Orkuveita Reykjavíkur's credit obligations.

On 5 March, the Minister of Finance concluded an agreement with Landsbanki Íslands concerning the latter's takeover of Spkef Savings Bank. This was done in consultation with Icelandic State Financial Investments and with the approval of the Financial Supervisory Au-

thority. On 5 February, Spkef's capital was assessed as negative in the amount of 11 b.kr. In all, the savings bank was deemed in need of 19.4 b.kr. in order to fulfil the FME's minimum capital adequacy requirements. The savings bank had been in liquidity difficulties as well. The agreement with Landsbanki limits the Treasury's expense to the funds necessary to cover deposits. The additional economic capital necessary to fulfill the FME requirements was estimated at 8.2 b.kr.

On 16 March, the Central Bank of Iceland Monetary Policy Committee decided to hold the Bank's interest rates unchanged. The current account rate therefore remained 3.25%, the maximum rate on 28-day certificates of deposit (CDs) was 4.0%, the seven-day collateralised lending rate was 4.25%, and the overnight lending rate was 5.25%.

On 16 March, Parliament authorised the Government to confirm various decisions of the EEA Committee on amendments to the following annexes to the EEA Agreement: Annex IX (on financial reporting standards, Parliamentary Document 1056; and electronic payment intermediation, Parliamentary Document 1057); Annex XIII (on maritime insurance, Parliamentary Document 1058); Annex XIX (on consumer protection, Parliamentary Document 1055); Annex XX (on environmental affairs, Parliamentary Document 1054); and Annex XXII (on company law, Parliamentary Document 1060).

On 16 March, Parliament passed Act no. 24/2011, amending the Act on Withholding of Public Levies, the Value-Added Tax Act, and the Act on Withholding of Investment Tax. Provisions were added to all of these Acts, authorising freezing of assets if the risk is considered to exist that the taxable party could avoid payment of public levies by transferring assets to another party. A comparable provision was added to the Income Tax Act in 2010.

On 17 March, an agreement was reached among major fishing nations apart from Russia, concerning fishing of the ocean perch stock around the Reykjanes peninsula. The agreement was reached after many years of discussions. The objective is that fishing will be carried out as advised and that Iceland's share will be 31%.

On 22 March, the Prime Minister issued a code of conduct for Government ministers. The code includes provisions on connections and conflicts of interest, finances and wage payments, conduct and demeanour, interactions between ministers and ministerial employees, and disclosure of information to the public.

On 22 March, Parliament authorised the Government to confirm two decisions of the EEA Committee on amendments to Annex XX to the EEA Agreement (on environmental issues, Parliamentary Documents 1090 and 1091).

On 25 March, it was announced that the Financial Supervisory Authority's advisory committee on board member eligibility had evaluated 47 insurance and financial company board members, including eight board members from holding companies. The conclusion was that the expertise, understanding, and attitudes of the board members as regards the main topics related to their sphere of activity was adequate in 35 instances and inadequate in 12 instances.

On 25 March, the Central Bank of Iceland published its capital account liberalisation strategy report. The report discusses the experience gained from the Central Bank's previous strategy and the conditions that must be met in order for it to be possible to lift the controls. In addition, two main phases of the strategy are described, as are smaller increments in the first phase. The report concludes that the conditions required to begin careful removal of some controls already exist, while major steps cannot be taken until the Treasury has demonstrated, through borrowing, that it is able to refinance its foreign loans.

On 28 March, Parliament agreed to add a temporary provision to the Housing Affairs Act, no. 44/1998, authorising the Housing Financing Fund (HFF), upon fulfilment of specified conditions, to write individual mortgage loans down to 110% of the value of the underlying residential property. The amendment is in accordance with the 3 December 2010 agreement between the Government, on the one hand, and credit institutions and pension funds, on the other. The cost of the HFF write-down is estimated at 21.8 b.kr.

