

RULES

on foreign exchange

Article 1

Objectives

The purpose of these Rules is to restrict or stop, on a temporary basis, certain types of cross-border capital movements or foreign exchange transactions related thereto, in the Central Bank's estimation, cause serious and substantial monetary and exchange rate instability.

Article 2

Movement of capital

For the purpose of these Rules, cross-border movement of capital shall mean the transfer or transport of capital across national borders and transfer or transport of capital between residents and non-residents.

All cross-border movement of foreign-denominated capital according to Paragraph 1 of Temporary Provision I of Act no. 87/1992 is prohibited unless it is for the purchase of goods or services or is particularly exempted according to these Rules. Furthermore, a non-resident individual is permitted to transfer foreign currency in an amount not to exceed the equivalent of 3,000,000 kr. per calendar year, if it is demonstrated that the funds will be used for the individual's own living expenses.

All cross-border movement of capital denominated in domestic currency according to Paragraph 1 of Temporary Provision I of Act no. 87/1992 is prohibited. The following movement of capital is exempt from the prohibition in the first sentence of this Paragraph:

1. capital movements specially exempted according to these Rules, and payment takes place via withdrawal from a bank account owned by the payer and held at a financial undertaking in Iceland;
2. Capital movement due to trade in goods and services other than that falling under Paragraph 1 of Temporary Provision II of Act no. 87/1992, and payment is remitted in cash or by withdrawal from a bank account owned by the purchaser and held at a financial undertaking in Iceland;
3. Capital movement due to real estate transactions in Iceland and transactions with financial instruments issued in domestic currency, and payment takes place via withdrawal from a bank account owned by the purchaser and held at a financial undertaking in Iceland;
4. Capital movement due to payment of claims from a bankruptcy estate and payment of contractual claims according to composition of creditors agreements, cf. Act no. 21/1991; and payment takes place via withdrawal from a bank account owned by the payer and held at a financial undertaking in Iceland.

Article 3

Foreign exchange transactions

Foreign exchange transactions between residents and non-residents are prohibited if domestic currency is part of the transaction.

Residents are prohibited from purchasing foreign currency at a financial undertaking in Iceland, when payment is remitted in domestic currency, unless they demonstrate that the funds will be used for transactions with goods and services or for movement of capital according to Articles 10 and 11.

Notwithstanding the provisions of Paragraph 1, non-residents are permitted to purchase foreign currency from a financial undertaking in Iceland in connection with movement of capital according to Article 10 and Article 11, Paragraph 2. Furthermore, a non-resident individual is permitted to purchase foreign currency at a financial undertaking in Iceland, with which he or she has an established business relationship, for movement of capital in an amount not to exceed the equivalent of 3,000,000 kr. per calendar year, if it is demonstrated that the funds will be used for the individual's own living expenses. Furthermore, non-residents are permitted to purchase domestic currency from a financial undertaking in Iceland.

A resident individual is permitted to purchase foreign currency at a financial undertaking in Iceland, with which he or she has an established business relationship, in an amount not to exceed the equivalent of 350,000 kr. in cash per calendar month, if it is demonstrated that the funds will be used for travel abroad. A non-resident individual temporarily residing in Iceland for travel purposes is permitted to purchase foreign currency at a financial undertaking in Iceland, in an amount not to exceed the equivalent of 350,000 kr. in cash per calendar month, if it is demonstrated that the funds will be used for travel abroad.

A financial undertaking in Iceland may apply for an exemption from Paragraph 4, authorising a branch of that financial undertaking to sell foreign currency, in an amount not to exceed the equivalent 350,000 kr. in cash per calendar month, 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. A list of parties that have been granted such exemptions will be published on the website of the Central Bank of Iceland.

Article 4

Cash withdrawals from foreign-denominated accounts

Resident individuals are permitted to withdraw funds from foreign currency accounts held at a financial undertaking in Iceland in an amount not to exceed the equivalent of 350,000 kr. in cash per calendar month, if it is demonstrated that the funds will be used for travel abroad.

The exportation of foreign currency in cash in amounts exceeding the equivalent of 350,000 kr. per individual party, per calendar month, is prohibited.

Article 5

Investments and transactions with financial instruments

Investing 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 prior to 28 November 2008 are permitted to reinvest. If the proceeds of the sale or full payment of financial instruments, or funds acquired as a result of dividend or interest payments, are used, partially or in their entirety, to invest again in the same type of foreign instrument

within two weeks' time, this is considered reinvestment in the sense of the second sentence

Sales proceeds from transactions with financial instruments issued in domestic currency, according to Paragraph 1, which take place between residents and non-residents and are settled in Iceland, must be deposited to the seller's account with a financial undertaking in Iceland.

Transactions with financial instruments issued in domestic currency, according to Paragraph 1, may not be settled in foreign currency.

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

Cross-border capital movement for prepayment of financial instruments according to Paragraph 1 is prohibited.

Article 6

Investments in other assets

Cross-border capital movement for investments in monetary claims denominated in foreign currency and other similar claims not falling under Article 5 is prohibited.

Cross-border capital movement for real estate purchases abroad is prohibited unless it is demonstrated that the transaction is due to the party's change of residence.

Cross-border capital movement for the purchase of other assets in foreign currency, such as commodities, motor vehicles, and heavy machinery that neither constitute a normal part of the party's business operations nor are intended for importation related to his production is prohibited.

Article 7

Borrowing and lending

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 conglomerate.

Notwithstanding the provisions of Paragraph 1, borrowing and lending that meet 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. Capital transfers for the loan are in accordance with the provisions of Article 12 of these Rules.
4. Loan agreements, including all appendices and accompanying documents, are sent to the financial undertaking that carries out the movement of capital within one week of signing.

It is prohibited to prepay funds borrowed or loaned between residents and non-residents.

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

The provision of this Article do not prevent extending the duration of loans between residents and non-residents, provided that other terms and conditions apply in the same respects as they did previously.

Article 8
Guarantees

It is prohibited to act as a guarantor or assume liability for payments between domestic and foreign parties.

The provisions of this Article do not apply to guarantees related to the trade of goods and services, nor do they apply to guarantees between undertakings within a conglomerate.

Article 9
Trading in derivatives

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

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

Article 10
Interest, indexation, dividends, and instalment payments

Cross-border movement of capital due to payment of interest, indexation, dividends, and contractual instalment payments are exempt from these Rules, in accordance with Article 2, Paragraph 2; Article 2, Paragraph 3, Subparagraph 1; and Article 3, Paragraphs 2 and 3.

Interest according to Paragraph 1 includes only the interest on deposit balances in domestic financial undertakings and accrued interest on bonds issued by domestic entities.

The calculation of interest according to Paragraph 1 shall be as follows: for bonds that accrue interest on a daily basis, the transferable amount is calculated proportional to the holding period. For zero-coupon bonds – for example, Treasury bills – the interest shall be calculated as the difference between its issued discounted price (purchase price on date of issue) and its redemption value. Interest on zero-coupon bonds shall accrue on a straight-line basis over the lifetime of the bond.

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

Dividends deriving from a decrease in share capital according to Article 11, Paragraph 4 of Act no. 90/2003, are not considered dividends in the sense of Paragraph 1.

Foreign exchange transactions and cross-border movement of capital due to payments according to this provision must have taken place within six (6) months of the date the funds were acquired or could have been acquired by the owner or his/her representative.

Article 11

Miscellaneous movement of capital

Cross-border movement of capital for gifts from residents to individuals, subsidies to charitable organisations or other like entities, and other comparable cross-border capital movements, in amounts exceeding 3,000,000 kr. per calendar year, is prohibited.

Wages earned in Iceland by a non-resident in the past six (6) months are exempt from these Rules, in accordance with Article 2, Paragraph 2, and Article 2, Paragraph 3, Subparagraph 1. Furthermore, foreign exchange transactions related to such movement of capital shall not be limited by Article 3, Paragraph 1. The same applies to wages earned by a resident domiciled abroad for purposes of work or study.

Article 12

Obligation to repatriate foreign currency

All foreign currency that domestic parties acquire, including that resulting from the sale of goods and services, must be submitted to a domestic financial institution within two weeks of the time the foreign currency was acquired or could have been acquired by the owner or his agent or representative. If the party in question cannot submit the foreign currency within the above-specified time limit, he or she must explain the reason to a financial undertaking. 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.

This obligation to repatriate foreign currency does not apply to domestic parties residing abroad for purposes of work or study.

Article 13

New investment

New domestic investment shall be unrestricted upon the entry into force of these Rules.

In the sense of this provision, new investment is investment commencing after 31 October 2009 and based on new inflow of foreign currency that is converted to domestic currency at a financial undertaking in Iceland. Derivatives contracts are not considered new investment. Export revenues and balances on deposit in foreign currency accounts in domestic financial undertakings prior to the entry into force of these Rules are not considered new inflows of foreign currency.

Foreign exchange transactions involving the conversion of new foreign-denominated capital inflows to domestic currency in accordance with Paragraph 2 are not covered by Article 3, Paragraph 1.

Investors shall, with the assistance of a financial undertaking in Iceland, notify the Central Bank of Iceland of the new investment within two weeks 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 inflow is 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 2 and 3.

Article 14 *Exemptions*

The Central Bank of Iceland and the Treasury are exempted from these Rules.

The following parties are exempt from these Rules, with the exception of Article 2, Paragraph 3, Article 3, and Article 9:

1. Domestic entities that are parties to investment agreements with the Government of Iceland.
2. Domestic entities that operate in accordance with a permit issued by the Minister of Industry to search for oil according to Act no. 13/2001.

The following parties are exempt from the provisions of Article 5, Paragraph 1; Article 6, Paragraph 1; and Articles 7-8 of these Rules:

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

A legal entity of which the Financial Supervisory Authority has taken control by appointing a resolution committee or interim Board of Directors, and a legal entity for which a District Court Judge has appointed a winding-up committee pursuant to Act no. 161/2002 are exempt from Article 2, Paragraph 2; Article 5; Article 6, Paragraph 1; Articles 7-8, and Article 12 of these Rules.

Undertakings with over 80% of their revenues and 80% of their expenses abroad may apply for an exemption from Article 5, Paragraph 1; Article 6, Paragraph 1; and Articles 7, 8, and 12 of these Rules. Those undertakings that consider themselves to meet the requirements set forth in the first sentence shall send an application to the Central Bank of Iceland and demonstrate that they fulfil the conditions. The application shall be accompanied by a confirmation from a chartered auditor. A list of parties that have been granted such exemptions will be published on the website of the Central Bank of Iceland. Undertakings that are granted exemptions according to this Paragraph shall, when 12 months have passed from the Central Bank's confirmation of the exemption, demonstrate that they still meet the requirements according to this Paragraph and shall submit a confirmation to this effect from a chartered public auditor. Such a confirmation shall be submitted to the Central Bank every 12 months thereafter. If it emerges that the undertaking no longer fulfils the requirements according to this Paragraph, the exemption shall automatically expire.

Undertakings that were granted an exemption according to Article 14, Paragraph 3 of the Rules on Foreign Exchange, no. 1130/2008, shall be exempt from these Rules according to Paragraph 5 from 31 October 2009.

Commercial banks, savings banks, and credit institutions operating under the supervision of the Financial Supervisory Authority, other than legal entities falling under the provisions of Paragraph 4, are authorised to engage in spot, forward, and swap transactions with foreign currency. Commercial banks, savings banks, and credit institutions are also exempt from the provisions of Articles 7, 8, and 12 of these Rules. Commercial banks, savings banks and credit institutions are authorised to receive money market deposits in domestic currency from non-residents, in accordance with their authorisations pursuant to Act no. 161/2002.

Article 15

Guidelines and applications for exemptions

The provisions of Article 7 of Act no. 87/1992 apply to the Central Bank of Iceland's authority to grant exemptions from these Rules.

Applications for exemptions must be submitted in writing to the Central Bank, together with relevant documents.

The Central Bank may set further guidelines concerning the implementation of these Rules.

Article 16

Sanctions

Violations of the provisions of these Rules are subject to administrative fines and penalties in accordance with Articles 15(a) – 15(d) and Articles 16, 16(a), and 16(b) of Act no. 87/1992, with subsequent amendments.

Article 17

Entry into force, etc.

These Rules are set in accordance with the authority contained in Act no. 87/1992, with subsequent amendments, and shall enter into force on 30 April 2010. At the same time, the Rules on Foreign Exchange, no. 880/2009, are abrogated. These Rules shall be reviewed within six (6) months of their entry into force.

Reykjavík, 29 April 2010
Central Bank of Iceland

Már Guðmundsson
Governor

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