This is an English translation.

*The original Icelandic text, as published in the Official Journal of Iceland (*Icel. Stjórnartíðindi*), is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.*

Act on Financial Undertakings

No. 161 20 December 2002

Entered into force 1 January 2003. *EEA Agreement:* Annex IX Directives 85/611/EEC, 86/635/EEC, 93/22/EEC, 95/26/EC, 2000/12/EC and 2000/43/EC. *Amended by* Act No. 4/2004 (entered into force 6 Feb. *2004), Act No.* 129/2004 (entered into force 31 Dec. *2005), Act No.* 130/2004 (entered into force 1 Jan. 2005, for rules on jurisdictional limits see further Art. 21; EEA Agreement: Annex IX, Directives 2002/87/EC and 2001/24/EC), Act No. 67/2006 (entered into force 24 June 2006), Act No. 108/2006 (entered into force 1 Nov. 2006 in accordance with Advertisement C 1/2006) and Act No. 170/2006 (entered into force 1 Jan. *2007), Act No.* 55/2007 (entered into force 3 April 2007), Act No. 111/2007 (entered into force 1 Nov. 2007; *EEA Agreement:* Annex IX Directive 2004/39/EC, Act No. 144/2007 (entered into force 29 Dec. *2007), Act No.* 88/2008 (entered into force 1 Jan. 2009 with the exception of Temporary Provision VII, which entered into force on 21 June 2008), Act No. 96/2008 (entered into force 24 June 2008), Act No. 125/2008 (entered into force 7 Oct. *2008), Act No.* 129/2008 (entered into force 15 Nov. *2008), Act No.* 44/2009 (entered into force 22 April 2009), Act No. 61/2009 (entered into force 31 May 2009), Act No. 74/2009 (entered into force 14 July 2009), Act No. 76/2009 (entered into force 16 July 2009), Act No. 98/2009 (entered into force 1 Oct. 2009, with the exception of Articles 69 and 70, which took effect on 1 Jan. *2010), Act No.* 125/2009 (entered into force 30 Dec. *2009), Act No.* 65/2010 (entered into force 27 June 2010), Act No. 75/2010 (entered into force on 26 June 2010 with the exception of the second paragraph) and Act No. Art. 8 and Articles 10 and 13, which took effect on 1 January 2011, the third paragraph of Art. 39, which took effect on 1 July 2011, and the fourth paragraph of Art. 39, which took effect in accordance with the instructions in Point 5 of Temporary Provision II), Act No. 127/2010 (entered into force 12 Oct. *2010), Act No.* 132/2010 (entered into force 17 Nov. *2010), Act No.* 162/2010 (entered into force 1 Jan. *2011), Act No.* 32/2011 (entered into force 14 April 2011), Act No. 78/2011 (entered into force 29 June 2011), Act No. 119/2011 (entered into force 29 Sept. *2011), Act No.* 120/2011 (entered into force 1 Dec. 2011; *EEA Agreement:* Annex IX Directive 2007/64/EC), Act No. 126/2011 (entered into force 30 Sept. *2011), Act No.* 146/2011 (entered into force 26 Oct. *2011), Act No.* 72/2012 (entered into force on 4 July 2012 with the exception of Art. 7 which took effect on 15 July 2012), Act No. 77/2012 (entered into force 5 July 2012), Act No. 17/2013 (entered into force on 1 April 2013; *EEA Agreement*: Annex IX Directive 2009/110/EC) and Act No. 47/2013 (entered into force on 11 April 2013).

Any mention in this Act of the Minister or Ministry, without specifying or referring to the function, refers to the Minister of **Industries and Innovation** or the **Ministry of Industries and Innovation**, which administers this Act. Information on the functions of Ministries as provided for by a Presidential Ruling is available here.

Chapter I [Scope. Objectives. Definitions][1)]

[1)] *Act No. 75/2010, Art. 3.*

Art. 1 [The purpose of this Act is to ensure that financial undertakings are operated in a sound and normal manner in the interests of customers, shareholders, guarantee capital owners and the entire economy.][1)]

This Act shall apply to domestic financial undertakings and the activities of foreign financial undertakings in Iceland. …[2)]

[1)] *Act No. 75/2010, Art. 1.* [2)] *Act No. 119/2011, Art. 1.*

[Art. 1 a *Definitions*

For the purposes of this Act the following meanings shall apply:

1. *Close links:* Close links are considered to exist when:

a. direct ownership ties or direct control over up to 20% of the shares or voting rights of an undertaking exist, or

b. there is control or collaboration between parties in the understanding of this Act.

2. *Group of connected clients:* A group of clients is considered connected if one or both of the following conditions is satisfied:

a. two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other(s), or

b. two or more natural or legal persons between whom there is no relationship of control as set out in subparagraph a, but who are to be regarded as constituting a single risk because they are so financially interconnected that, if one of them were to experience financial difficulties, in particular in connection with funding or repayment of debt, the other or all of the others would be liable to encounter [difficulties with funding or repayment of debt].[1)]

3. *Qualifying holding:* A direct or indirect holding in a company which represents 10% or more of its equity capital, guarantee capital or voting rights or other holding which enables the exercise of a significant influence over the management of the company concerned.

4. *Participating interest:* A direct or indirect right of ownership or, as the case may be, other form of right to dispose of a holding, e.g. voting rights.

5. *Concert:* Parties shall be considered to be acting in concert if they have concluded an agreement for one or several of them to obtain a qualifying holding in a company, whether this agreement is formal or informal, written or oral, or in any other form. Parties shall always be considered to be acting in concert when the following connections exist unless the opposite is demonstrated:

a. Married couples, registered or co-habiting partners, and children of married couples or registered or co-habiting partners. Parents and children are also regarded as parties acting in concert.

b. Connections between parties which directly or indirectly involve control by one party of the other, or if two or more companies are directly or indirectly under the control of the same party. Regard shall be had for connections between parties as referred to in subparagraphs a, c and d.

c. Companies in which a party directly or indirectly owns a significant holding, i.e. a party directly or indirectly owns at least 20% of the voting rights in the company in question. A company, its parent company, subsidiaries and associates are considered to be acting in concert. Regard shall be had for connections between parties as referred to in subparagraphs a, b and d.

d. Connections between a company and its directors and between a company and its managing director.

6. *Managing director:* The person whom the Board of Directors of a financial undertaking engages to direct its operations in accordance with the provisions of the Act on Public Limited Companies or this Act, regardless of his/her actual title.

7. *Member State:* A state which is party to the Agreement on a European Economic Area or the European Free Trade Association (EFTA) Treaty or the Faroe Islands.

8. *Key employee:* An individual in a management position, other than the managing director, who is authorised to take decisions which can affect the future development and performance of the undertaking.

9. *Control:* Links between a parent company and subsidiary, as defined in the Act on Annual Financial Statements, or a comparable relationship between a natural or legal person and a company.

[10. *Financial undertaking:* A commercial bank, savings bank, credit undertaking, electronic money undertaking, securities undertaking, securities broker or UCITS management company, which has been granted an operating licence as provided for in Art. 6, cf. Art. 4.

11. *Securitisation:* A business contract or system of arrangements where the credit risk connected to a specific claim or pool of claims is divided into tranches in the following manner:

1. payments provided for under the business contract or system of arrangements are dependent upon the performance of the claim or the pool of claims, and

2. the priority of the tranches determines the distribution of loss during the lifetime of the business contract or system of arrangements.][1)]

[12. *Re-securitisation*: a securitisation where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation position.

13. *Re-securitisation position:* an exposure to a re-securitisation.][2)]][3)]

[1)] *Act No. 119/2011, Art. 2.* [2)] *Act No. 47/2013, Art. 1.* [3)] *Act No. 75/2010, Art. 2.*

Chapter II. Operating license

A. Granting of an operating license

Art. 2 *Licensing authority*

The Financial Supervisory Authority shall grant operating licenses as provided for in this Act. A financial undertaking may commence operation upon receiving an operating license from the Financial Supervisory Authority.

[The Financial Supervisory Authority shall consult with competent authorities in other Member States in assessing an application for an operating license from a financial undertaking which is:

a. a subsidiary of a financial undertaking or insurance company licensed to operate in another Member State,

b. a subsidiary of the parent company of a financial undertaking or insurance company licensed to operate in another Member State or

c. controlled by a party, either a natural person or legal entity, which has a dominant position in a financial undertaking or insurance company in another Member State.

Consultation as referred to in the second paragraph shall include information on the eligibility of shareholders and management, cf. Articles 42 and 52.

Consultation as referred to in the second paragraph shall furthermore apply to ongoing surveillance that conditions for operation are satisfied.

…[1)]][2)]

[1)] *Act No. 75/2010, Art. 4.* [2)] *Act No. 130/2004, Art. 1.*

Art. 3 *Activities subject to license*

The following activities shall be subject to operating licences as provided for in this Act:

1. Receipt of repayable funds from the public:

a. deposits,

b. debt instruments.

2. Granting of credit which is financed by repayable funds from the public.

3. Asset leasing, if such activity forms the principal activity of an undertaking. Asset leasing shall mean the leasing of movable assets or real estate where the lessor turns over to the lessee the leased property for the leasing fee agreed for a specified minimum rental period.

4. …[1)]

5. …[2)]

6. [Trade and services in financial instruments, as provided for in the Act on Securities Transactions:

a. reception and forwarding of clients' orders concerning one or more financial instruments;

b. order execution on behalf of clients;

c. asset management;

d. investment advice;

e. underwriting in connection with the issue and/or placing of financial instruments;

f. [co-ordinating placing of financial instruments without underwriting and admission of securities to trading on a regulated securities market.][3)]

g. operation of a multilateral trading facility (MTF).][4)]

7. Operation of Undertakings for Collective Investment in Transferable Securities (UCITS).

The provisions of Chapter IV shall apply to other authorised activities of financial undertakings.

[The following parties are not covered by the Act:

1. Central banks of Member States of the European Economic Area and other public institutions handling or dealing with sovereign credit matters.

2. Insurance companies

3. [UCITS, investment funds and pension funds, as well as the depositaries of such funds.][5)]

4. Attorneys and certified public accountants, provided that incidental services are involved, made available as a normal part of more extensive activity in their field of operation.

5. Parties providing services for their parent company, subsidiary or other subsidiaries of their parent company.

6. Parties who only provide services in connection with management of employee investment funds.

7. Parties who do not pursue regulated activities as provided for in this Act as their main activity, assessed on a group basis, and who deal in financial instruments on own account or provide clients of their main activities services in commodity derivatives or derivative contracts as referred to in subparagraph d of Point 2 of the first paragraph of Art. 2 of the Act on Securities Transactions.

8. Parties who provide investment advice as part of a service not covered by this Act in other respects, provided that such advice is not remunerated specifically.

9. Parties whose main activity is dealing on own account in commodities or commodity derivatives, provided that they do not form part of a group whose main activity is subject to license under this Act.][4)]

[The Minister may set issue a Regulation with detailed provisions on exemptions as provided for in the third paragraph.][4)]

[1)] *Act No. 120/2011, Art. 81.* [2)] *Act No. 17/2013, Art. 47.* [3)] *Act No. 75/2010, Art. 5.* [4)] *Act No. 111/2007, Art. 1.* [5)] *Act No. 144/2007, Art. 1.*

Art. 4 *Types of operating licenses*

A financial undertaking may be granted a license to operate as:

1. a commercial bank, as provided for in Points 1-6 of the first paragraph of Art. 3. A commercial bank must, however, always have an operating license and provide services as referred to in Points 1 and 2 of the first paragraph of Art. 3;

2. [a savings bank as provided for in Points 1-6 of the first paragraph of Art. 3. A savings bank which operates in a delimited local operating district as referred to in the third paragraph of Art. 14 can obtain an operating license as provided for in Points 1, 2 and 5 of the first paragraph of Art. 3. A savings bank must, however, always have an operating license and provide services as referred to in Points 1 and 2 of the first paragraph of Art. 3;][1)]

3. a credit undertaking, as provided for in subparagraph b of Points 2-6 of the first paragraph of Art. 3; a credit undertaking must always have an operating license as provided for in subparagraph b of Point 1 and Point 2 of the first paragraph of Art. 3. A credit undertaking may call itself an investment bank;

4. …[2)]

5. a securities undertaking, as provided for in Point 6 of the first paragraph of Art. 3;

6. [a securities broker, as provided for in subparagraph a and/or subparagraph d of Point 6 of the first paragraph of Art. 3;][3)]

7. [a management company of a UCITS, as provided for in subparagraph c of Point 6 and Point 7 of the first paragraph of Art. 3.][4)]

A financial undertaking which has been licensed to operate as provided for in Points 1-4 of the first paragraph shall be considered a credit institution in the understanding of this Act.

[A financial undertaking which is not permitted to deal on own account may still invest in non-trading book financial instruments for the purpose of investing its own funds. The Financial Supervisory Authority may adopt detailed rules in accordance with this provision.][3)]

[1)] Act No. 47/2013, Art. 2. [2)] Act No. 17/2013, Art. 47. [3)] Act No. 111/2007, Art. 2. [4)] Act No. 144/2007, Art. 2.

Art. 5 *Application*

An application for an operating license must be made in writing and shall be accompanied by:

1. Information on the type of operating license applied for, cf. Art. 4, on activities subject to license, cf. the first paragraph of Art. 3, and other proposed activities, cf. Chapter IV.

2. The company's Articles of Association.

3. Information on the structure of the organisation, including information, for instance, on how the proposed activities are to be pursued.

4. Information on the internal organisation of the undertaking, including rules on supervision and work procedures.

5. A business plan and budget, indicating for instance the expected growth and composition of own funds.

6. Information on founders, shareholders or guarantee capital owners, cf. Chapter VI.

7. Information on the Board of Directors, managing director and other managers.

8. Auditor's confirmation that share capital or guarantee capital has been paid up.

9. Information on close links between the undertaking and individuals or legal entities, cf. Art. 18.

10. Other relevant information as determined by the Financial Supervisory Authority.

Art. 6. *Granting of an operating license*

A decision by the Financial Supervisory Authority on the granting of an operating licence must be notified to the applicant in writing as promptly as possible and no later than three

months after receipt of a complete application. The Financial Supervisory Authority must notify an applicant when an application is considered to be satisfactory.

The operating license must state what types of authorisation it covers, cf. Art. 4, what activities subject to license may be pursued based upon it, and what other activities are to be pursued as provided for in Chapter IV. [An operating license may not be granted which applies only to ancillary services as referred to in Art. 25. A financial undertaking, intending to expand its activities so as to include other activities referred to in Chapter IV which are not covered by its operating license, must apply to the Financial Supervisory Authority for a license to pursue those services.][1)]

A financial undertaking may not commence activities until its share capital or guarantee capital has been paid up in full in cash.

The Financial Supervisory Authority must publish notifications of licenses granted to financial undertakings in the Legal Gazette (Icel. *Lögbirtingarblaðið*).

[1)] *Act No. 111/2007, Art. 3.*

Art. 7 *Refusal of an operating license*

If an application does not fulfil the requirements of this Act, in the estimation of the Financial Supervisory Authority, the Authority shall refuse to grant an operating license.

If the Financial Supervisory Authority refuses an application, grounds must be given and the applicant informed thereof within three months of receipt of a complete application. A refusal must, however, always be received by the applicant within 12 months from the receipt of an application.

Art. 8 *Register of financial undertakings*

The Financial Supervisory Authority shall keep a register of financial undertakings and their branches, including all the principal details of the undertakings concerned. [The Financial Supervisory Authority shall be notified, in advance as applicable, of any changes in previously submitted information, including information concerning the Board of Directors or managing director, any increase or decrease in the number of branches, and if the financial undertaking no longer fulfils the requirements for granting an operating license.][1)]

[1)] *Act No. 111/2007, Art. 4.*

B. Withdrawal of an operating license

Art. 9 *Grounds for withdrawal*

The Financial Supervisory Authority may withdraw a financial undertaking's operating license in full or in part if:

1. the undertaking has obtained the operating license based on incorrect information or by other improper means;

2. the undertaking does not satisfy the provisions of this Act concerning initial capital, share capital, own funds or number of guarantee capital owners;

3. the undertaking does not make use of its operating license within 12 months of its granting, expressly relinquishes the license or ceases operations for a continuous period of over six months;

4. the undertaking's shareholders, directors and management do not satisfy the eligibility requirements laid down in Articles 42 and 52;

5. there are close links between a financial undertaking and individuals or legal entities as referred to in Art. 18;

6. [measures taken on the basis of provisions concerning the intervention of the Financial Supervisory Authority with regard to assets, rights and obligations of a financial undertaking, as provided for in Art. 100 a, have not proven successful or a ruling has been issued for the company's winding-up, as provided for in Chapter XII];[1)]

7. the undertaking in other respects seriously or repeatedly violates this Act, rules, Articles of Association or regulations adopted by virtue of them.

Before a withdrawal is effected as referred to in the first paragraph, the undertaking shall be granted a suitable time limit to rectify the situation, if such is possible in the estimation of the Financial Supervisory Authority.

[Notwithstanding the withdrawal of an operating license, as provided for in Point 6 of the first paragraph [a provisional Board of Directors, Winding-up Board overseeing the winding-up proceedings of a financial undertaking or an administrator of the insolvent estate of a financial undertaking][2)] may, with the approval and under the supervision of the Financial Supervisory Authority, continue to pursue certain activities subject to license insofar as this is necessary for the administration of the estate and disposition of its interests.][3)]

The Financial Supervisory Authority may prohibit a financial undertaking from pursuing certain activities for which it is authorised in accordance with Chapter IV. The provisions of the first and second paragraphs shall apply to such a prohibition.

[1)] Act No. 125/2008, Art. 3. *[2)] Act No. 44/2009, Art. 1.* *[3)] Act No. 129/2008, Art. 1.*

Art. 10 *Notification of withdrawal of license and winding-up of a financial undertaking*

Withdrawal of a financial undertaking's operating license shall be notified to its Board of Directors and grounds provided in writing. The Financial Supervisory Authority shall publish the notification in the Legal Gazette (Icel. *Lögbirtingarblaðið*) and advertise it in the media. If the financial undertaking operates branches or provides services in another state such notification must be sent to the competent supervisory authorities in that state.

If the operating license of a financial undertaking is withdrawn, the undertaking must be wound up; the provisions of Chapter XII shall apply to the winding-up.

[Article 10 a *Restrictions on the activities of a financial undertaking*

The Financial Supervisory Authority may restrict the activities of individual establishments of financial undertakings if it sees specific reason to do so. In addition, the Authority may set special conditions for the continued operation of individual establishments of a financial undertaking. Furthermore, the Financial Supervisory Authority may restrict temporarily the activities that a financial undertaking may pursue, in part or in full, whether the activity is subject to license or not, if the Authority sees specific reason to do so.

Before imposing restrictions, as provided for in the first paragraph, the financial undertaking concerned shall be given the opportunity to rectify the situation, if this is possible in the estimation of the Financial Supervisory Authority. Grounds must be given in writing for decisions by the Financial Supervisory Authority pursuant to this Article. If the financial undertaking provides services in another Member State, a notification of the substance of the decision and reasoning shall be sent to the competent regulatory authority in that state.][1)]

[1)] *Act No. 75/2010, Art. 6.*

Chapter III. Establishment and activities

Art. 11 *Residence requirements of founders*

Only individuals and legal entities resident in Iceland can be founders of financial undertakings.

[Nationals and legal entities of other states in the European Economic Area and member states of the European Free Trade Association, as well as nationals and legal persons in the Faroe Islands, are exempt from the residence requirements in the first paragraph.][1)] [The Minister][2)] may grant nationals of other states the same exemption.

[1)] *Act No. 108/2006, Art. 75.* [2)] *Act No. 126/2011, Art. 355.*

Art. 12 *Names*

Only financial undertakings may use in their firm name or as clarification of their activities the words "bank", "commercial bank", “investment bank”, “savings bank”, ... [1)] “securities undertaking”, “securities broker” or “management company of a UCITS”, either alone or linked to other words, in accordance with their operating license.

If there is a danger of confusion of the names of a foreign and a domestic financial undertaking operating in Iceland, the Financial Supervisory Authority may demand that one of the undertakings be identified specifically.

A financial undertaking may not identify its activities in such manner as might indicate that this could be the Central Bank of Iceland.

[1)] *Act No. 17/2013, Art. 47.*

Art. 13 *Legal form*

A financial undertaking must operate as a public limited company. The provisions of Chapter VIII shall apply to the legal form of savings banks.

Art. 14 *[Share capital and initial capital*

When an operating license is granted, the minimum paid-up initial capital of a financial undertaking shall be as specified in the second to eighth paragraphs. Initial capital as referred to in the first sentence shall include paid-up share capital, paid-up guarantee capital of a savings bank and cash funds.

[The share capital of a commercial bank and a credit undertaking and the guarantee capital or share capital of a savings bank must amount to a minimum of 5 million euros (EUR).

The guarantee capital or share capital of a savings bank operating in a delimited local operating district, licensed to operate as referred to in Points 1 and 2 of the first paragraph of Art. 3][1)] and holding authorisations as provided for in Points 1-6, 10, 13 and 14 of the first paragraph of Art. 20, must amount to a minimum of EUR 1 million. The Financial Supervisory Authority shall determine what comprises a delimited local operating district.][2)]

…[1)]

The share capital of a securities undertaking must amount to a minimum of EUR 730,000.

The share capital of a securities undertaking which is not licensed to trade on own account or to underwrite financial instruments, and is licensed to pursue at least one of the activities in subparagraphs a to c of this paragraph as well as to provide custody for clients' funds or financial instruments, must amount to a minimum of EUR 125,000:

a. receipt and transmission of client orders concerning one or more financial instruments,

b. execution of orders on behalf of clients or

c. asset management.

The share capital of a securities broker must amount to a minimum of EUR 50,000.

The share capital of the management company of a UCITS must amount to a minimum of EUR 125,000. The share capital shall be increased by an amount corresponding to 0.02% of the assets of UCITS and other funds for collective investment operated by the management company which exceed EUR 250 million. Share capital as referred to in the first and second sentences, however, need not exceed EUR 10 million. The assets of a management company as referred to in this paragraph shall include assets of UCITS and other funds for collective investment.

If share capital or guarantee capital as referred to in the second to eighth paragraphs is denominated in Icelandic *krónur* (ISK), the reference exchange rate shall be the current official quoted exchange rate (buying rate).

Should a financial undertaking request a new operating license, the book value of equity rather than its share capital or guarantee capital shall not amount to less than that provided for in the second to eighth paragraphs.

The capital base of a financial undertaking as provided for in Articles 84 and 85 may never amount to less than that provided for in the second to eighth paragraphs.

The Financial Supervisory Authority may adopt detailed rules in accordance with this Article.][3)]

[1)] *Act No. 17/2013, Art. 47.* [2)] *Act No. 77/2012, Art. 2.* [3)] *Act No. 75/2010, Art. 7.*

Art. 15 *Head offices*

A financial undertaking which has been licensed to operate as provided for in Art. 6 must have its headquarters in Iceland.

Art. 16 *Audit section*

[A financial undertaking must have an audit section to handle internal audit. The internal audit section shall operate independently of other departments in the financial undertaking's organisation; it is part of its organisational structure and an aspect of its internal system of controls. Employees of the internal audit section must jointly possess sufficient experience and expertise to handle the section's tasks and the number of employees shall reflect the size and activities of the financial undertaking. Employees of the internal audit section may not be shareholders of the financial undertaking concerned. More details of the activities of internal audit sections may be laid down in a Regulation.

The Board of Directors of a financial undertaking shall engage the director of the undertaking’s audit section, who shall be responsible for internal audit on its behalf. He/She must have special expertise in the field of internal audit, have completed a university degree relevant to the work and possess sufficient experience to carry out the task. The director may not have been declared bankrupt or been sentenced for any criminal action under the Penal Code, the Competition Act, the Acts on Public Limited Companies and Private Limited Companies, the Accounting Act, the Act on Annual Financial Statements, the Act on Bankruptcy etc. and provisions of the Act on Withholding Public Levies at Source, as well as special legislation applicable to parties subject to official supervision of financial activities. The Financial Supervisory Authority may at any time examine especially the eligibility of an internal audit section director if it sees reason to do so.

Internal audit shall report regularly to the Board of Directors and Audit Committee on its activities. Any comments considered important by the director of internal audit must be addressed at meetings of the Board of Directors and recorded in the minutes. The director of

the internal audit section is entitled to attend Board meetings where his/her comments are to be dealt with.

Internal audit must report on its conclusions to the Financial Supervisory Authority no less frequently than once each year. In addition, internal audit shall notify the Financial Supervisory Authority especially and without delay of any comments made and sent to the Board of Directors.

The Financial Supervisory Authority may, having regard to the nature and scope of operations of individual financial undertakings, grant an exemption from the operation of such an internal audit section, or individual aspects of its activities, and set special conditions for undertakings receiving such exemptions.][1)]

[1)] *Act No. 75/2010, Art. 8.*

Art. 17 *Risk management system*

[A financial undertaking must at all times have in place a secure risk management system for all its activities. Financial undertakings shall have in place adequate and documented internal processes to assess the necessary size, composition and internal distribution of the capital base in light of the risks entailed by the business activity at any time. The internal processes shall be reviewed regularly for the purpose of ensuring that they are adequate in the light of the nature, scope and diversity of the business activity.

[A financial undertaking is required to conduct regular stress tests and document their underlying assumptions and outcomes. The outcomes of stress tests shall be included on the agenda of the next meeting of the Board of Directors after the outcomes are available.

The Financial Supervisory Authority may adopt rules on the conduct of risk management, the positions of persons responsible for risk management in the financial undertaking's organisational chart and systems for monitoring of risk factors in the activities of financial undertakings and financial conglomerates.][1)]][2)]

[1)] *Act No. 75/2010, Art. 9.* [2)] *Act No. 170/2006, Art. 2.*

[Art. 17 a *Updated register of obligations*

A financial undertaking shall maintain a special list of all parties using its credit services. Credit as referred to in this Article includes direct lending to the party in question, purchases of bonds issued by the party, purchases of the portfolio of another lender containing a claim against the party and any other services which may be equated with credit, provided that the gross debt owed by the party to the financial undertaking amounts to a minimum of ISK 300 million.

The financial undertaking shall send the Financial Supervisory Authority an updated list as of the end of each month. The list shall be itemised by the name and Reg./Id. No. of the borrower. Furthermore, a similar list shall be submitted of parties with close links and groups of connected clients, to the extent that such parties are not included in the above-mentioned

list. In other respects, provisions of this Act and of the Act on Official Supervision of Financial Activities shall apply to the handling of information contained in this list.

The Financial Supervisory Authority may adopt detailed rules on the contents of the list.][1)]

[1)] *Act No. 75/2010, Art. 10.*

[Art. 17 b *Borrowers' information disclosure obligations*

Should the Financial Supervisory Authority be of the opinion that the borrowing of a single party included in the register of obligations referred to in Art. 17 a, which is not subject to official supervision of financial activities, could have a systemic impact the Authority may require information from the party in question concerning its obligations. Obligations as referred to in this Article include direct borrowings, drawn lines of credit, issues of debt instruments by the party, purchases of debt insurance or payment insurance for borrowings, call and put options and any other credit provision, on and off the balance sheet, that the party in question has used and may be equated with credit services or guarantees.

Should a party refuse to provide the Financial Supervisory Authority with information as referred to in the first paragraph the Authority may instruct regulated entities not to provide further credit to the party in question. The same shall apply if the party's information disclosure is unsatisfactory. Grounds must be given in writing for decisions by the Financial Supervisory Authority pursuant to this Article.][1)]

[1)] *Act No. 75/2010, Art. 10.*

Art. 18 *Close links*

An operating license shall not be granted if the close links of a financial undertaking [cf. Point 1 of Art. 1 a][1)] with individuals or legal entities impede supervision of the undertaking by the Financial Supervisory Authority. The same applies if Acts or Regulations which apply to such connected parties impede supervision.

…[1)]

[1)] *Act No. 75/2010, Art. 11.*

Art. 19 *Good business practices and customs*

[A financial undertaking shall operate in accordance with proper and sound business practices and customs on the financial market.

The Financial Supervisory Authority shall adopt rules[1)] as to what are considered proper and sound business practices as referred to in this Act.

Financial undertakings are required to observe recognised guidelines on corporate governance. To this end they shall, among other things, publish an annual statement concerning their corporate governance in a special chapter of their annual financial statements

or annual report, provide an account of corporate governance on the undertaking's website and publish on the same site a statement on their corporate governance.

[A financial undertaking shall specify on its website the names and proportional holdings of all parties owning more than 1% of share capital or guarantee capital in the undertaking at any given time. Financial undertakings have four days to update their website after ownership of holdings changes. If a legal entity owns more than 1% of share capital or guarantee capital the person or persons who are beneficial owners of the legal entity in question must also be disclosed. Beneficial owner as referred to in this provision means a person or persons whose direct or indirect holding in the company amounts to 10% or more of its share capital, guarantee capital or voting rights, or other involvement which enables that person or those persons to have a significant impact on the management of the company in question.[2)]][3)]

[1)] *Rules 670/2013*. [2)]*Act No. 47/2013, Art. 3.* [3)]*Act No. 75/2010, Art. 12.*

[Art. 19 a *Complaints Committee*

Financial undertakings shall make available information on the complaint and redress procedures of their clients if disputes arise between a client and a financial undertaking, including on referral to the Complaints Committee on Transactions with Financial Undertakings.

Financial undertakings must be party to the Complaints Committee on Transactions with Financial Undertakings. The Complaints Committee on Transactions with Financial Firms functions in accordance with an agreement between [the Minister][1)], the Consumers' Association and the Icelandic Financial Services Association, and its own Articles of Association. The chairman of the Committee must satisfy the requirements made of a District Court judge. The Committee shall issue reasoned rulings, which cannot be appealed to administrative authorities, although the parties to a case may refer their dispute to the courts through the usual procedure. The Minister shall see to the publication of the Committee's Articles of Association in Section B of the Official Journal of Iceland (Icel. *Stjórnartíðindi*).[2)]

[1)]*Act No. 126/2011, Art. 355.* [2)]*Act No. 75/2010, Art. 13.*

[Art. 19 b *Information on clients*

Financial undertakings shall establish rules on handling of information on individual clients. These shall state what employees shall have access to information for their work, how information is to be communicated to internal audit, supervisory authorities and the police, and how supervision of the implementation of the rules to be arranged. The rules shall be accessible to clients.][1)]

[1)]*Act No. 75/2010, Art. 14.*

Chapter IV. Authorised activities

A. Commercial banks, savings banks and credit undertakings

Art. 20 *Authorised activities of commercial banks, savings banks and credit undertakings*

The activities of commercial banks and savings banks may include the following:

1. Acceptance of deposits and other repayable funds from the public.

2. Lending activities, including:

a. consumer credit,

b. long-term mortgages,

c. factoring and purchase of debt instruments and

d. commercial credit.

3. Financial leasing.

[4. The provision of payment services as provided for in the Act on Payment Services.

5. Issuing and administering payment documents such as travellers' cheques and bills of exchange.][1)]

6. Providing guarantees and commitments.

7. Trading for own account or for account of customers in:

a. money market instruments (cheques, bills, other comparable payment instruments etc.),

b. foreign exchange,

c. forward contracts and swaps (options),

d. exchange rate and interest rate instruments and

e. transferable securities.

8. [Participation in placing securities, services related to such offerings and admission of securities to trading in a regulated securities market.][2)]

9. Providing advice to undertakings on capital structure, strategy and related issues, and advice as well as services related to mergers and acquisitions.

10. Money brokering.

11. Securities portfolio management and advice.

12. Safekeeping and administration of securities.

13. Credit reference (credit rating) services.

14. Rental of safety deposit boxes.

[Activities of savings banks operating in local, delimited operating districts as referred to in the third paragraph of Art. 14 may include Points 1, 2, 4-6, 10, 13 and 14 of the first paragraph.][3)]

The activities of credit undertakings may include Points 1-14 of the first paragraph with the exception that credit undertakings may not accept deposits.

Commercial banks, savings banks [which fulfil the provisions of the second paragraph of Art. 14][4)] and credit undertakings are authorised to trade in securities as provided for in Art. 25.

[1)] *Act No. 120/2011, Art. 81.* [2)] *Act No. 75/2010, Art. 15.* [3)] *Act No. 47/2013, Art. 4.* [4)] *Act No. 77/2012, Art. 3.*

Art. 21 *Other services and ancillary activities*

Commercial banks, savings banks and credit undertakings may pursue other activities naturally linked to their authorised activities as provided for in Art. 20.

In addition to services as provided for in Art. 20, commercial banks, savings banks and credit undertakings may pursue ancillary activities, provided this is a normal extension of the undertaking's financial services. The provisions of the first sentence of this paragraph shall also apply when a financial undertaking has a holding in or participates in other business activities. Notification must be sent to the Financial Supervisory Authority of any intention to pursue the activities provided for in this Article. Such notification must be accompanied by information on the proposed activities deemed satisfactory by the Financial Supervisory Authority. If the Financial Supervisory Authority raises no objection to the proposed activity within one month of receiving satisfactory notification, this shall be interpreted as authorisation for commencing the activities. The Financial Supervisory Authority may require that a separate company pursue these activities, in which case it must notify the party concerned of its decision within the time limit specified above. Failure to send a notification in accordance with this paragraph may result in the Financial Supervisory Authority prohibiting the activities or requiring that the activities be pursued by a separate company.

Commercial banks, savings banks and credit undertakings may, pursuant to special agreement upon receiving the authorisation of the Financial Supervisory Authority, undertake to provide postal services on behalf of a party authorised to provide such services. [They are furthermore permitted to provide services as agents for other entities, such as insurance companies, pension funds and other financial undertakings, provided that the Financial Supervisory Authority does not consider such activities to prejudice their ability to provide services pursuant to their operating licenses or prejudice its own ability to regulate the activities. The Financial Supervisory Authority shall be notified in advance of the intentions of the entity in question so that its assessment will be available before provision of the services commences.][1)]

[1)] *Act No. 76/2009, Art. 1.*

Art. 22 *Temporary activities and takeover of assets*

Commercial banks, savings banks and credit undertakings may only pursue activities other than those listed in this Chapter on a temporary basis and for the purpose of completing transactions or restructuring clients' operations. [A notification, together with the grounds, in this regard must be sent to the Financial Supervisory Authority. If a commercial bank, savings bank or credit institution, or their subsidiary, has had to take measures as referred to in the first sentence and taken over at least a 40% holding in a client, the provisions of Chapters VII and VIII of the Act on Securities Transactions, No. 108/2007, shall apply to the client as applicable. The Financial Supervisory Authority may grant an exemption from the provisions of the third sentence, provided that financial restructuring is completed within six months from the time that the commercial bank, savings bank or credit undertaking, or their subsidiary, commenced the operation. The Financial Supervisory Authority shall assess whether the financial conditions in the first sentence are met, and reorganisation shall be completed before twelve months have passed from the time that operations referred to in the first sentence began. The Financial Supervisory Authority may extend the time limit referred to in the fifth sentence; an application for such must explain what circumstances prevent a sale.][1)]

Commercial banks, savings banks and credit undertakings may acquire without limits assets to secure enforcement of claims. The assets must be sold as promptly as is feasible.

[1)] *Act No. 75/2010, Art. 16.*

Art. 23 *Authorisation for insurance activities*

Commercial banks, savings banks [which fulfil the provisions of the second paragraph of Art. 14][1)] and credit undertakings may operate an insurance company as a separate company.

[1)] *Act No. 77/2012, Art. 4.*

B. Other financial undertakings

Art. 24 …[1)]

[1)] *Act No. 17/2013, Art. 47.*

Art. 25 *Authorised activities of securities undertakings*

[Activities of a securities undertaking may include the following aspects in connection with trading in financial instruments:

1. Services:

   a. Reception and transmission of client orders concerning one or more financial instruments.

   b. Order execution on behalf of clients.

c. Trading in financial instruments on own account.

d. Asset management.

e. Investment advice.

f. Underwriting in connection with the issue and/or placing of financial instruments.

g. [Co-ordinating offerings of financial instruments without underwriting and admission of securities to trading on a regulated securities market.][1)]

h. Operation of a multilateral trading facility (MTF).

2. Ancillary services:

a. Safekeeping and administration of one or more financial instruments for the account of clients, including custodianship of financial instruments and related services, such as cash/collateral management.

b. Granting of credits, guarantees or loans to an investor, enabling him/her to carry out transactions with one or more financial instruments if the securities undertaking granting the credit or loan handles the transaction.

c. Providing advice to undertakings on capital structure, strategy and related issues, and advice as well as services related to mergers and acquisitions.

d. Services in connection with underwriting.

e. Foreign-exchange services where these form a part of the provision of investment services.

f. Investment research and financial analysis or other forms of general recommendations relating to transactions in financial instruments.

g. Services related to the underlying assets of derivative contracts as provided for in subparagraphs e and h of Point 2 of the first paragraph of Art. 2 of the Act on Securities Transactions where these are connected to services provided as referred to in Points 1 and 2.

A securities undertaking covered by [the sixth paragraph of Art. 14][2)] authorised to execute orders concerning financial instruments on behalf of clients may preserve such financial instruments on its own account if the following conditions are met:

a. Such positions in financial instruments can only be the result of a situation where it was not possible to carry out a client's orders precisely.

b. The total market value of financial instruments as referred to in this paragraph may not exceed 15% of the share capital of the securities undertaking.

c. The provisions of Chapter IV C and Chapter X are satisfied.

d. The measures in question must be temporary and restricted to the time limits necessary to execute the orders.][3)]

[1)] *Act No. 75/2010, Art. 17.* [2)] *Act No. 17/2013, Art. 47.* [3)] *Act No. 111/2007, Art. 6.*

Art. 26 *Authorised activities of a securities broker*

[The activities of a securities broker shall include acting as an intermediary in buying and selling financial instruments and/or providing investment advice on securities trading in return for remuneration. A securities broker is not authorised to trade on own account and may only accept clients' funds or securities in its activities for a limited period, provided that this is necessary to conclude transactions where the undertaking has served as an intermediary.][1)]

…[1)]

Securities brokers must provide insurance against losses they may cause their clients through their activities. Detailed provisions on the amount of insurance and minimum conditions in other respects shall be laid down in a regulation.[2)]

[1)] *Act No. 111/2007, Art. 7.* [2)] *Reg. 320/2013.*

Art. 27 *Authorised activities of a management company*

The authorised activities of a management company shall always include the operation of UCITS and other funds for collective investment. A management company may also pursue the following activities:

1. Asset management.

2. Investment advice.

3. Custody and management of financial instruments in collective investment.

A management company authorised to manage assets must seek a client's approval before investing in UCITS and other funds for collective investment.

A management company may not acquire securities with voting rights which will enable it to significantly influence the management of the securities issuer.

C. Holdings in enterprises and large exposures

Art. 28 *Maximum qualifying holdings*

A financial undertaking may not own qualifying holdings in individual undertakings which are not financial undertakings or undertakings connected with the financial sector, amounting to more than 15% of the [capital base][1)] of the financial undertaking concerned, before regard is had for deductions provided for in the fifth paragraph of Art. 85. Undertakings connected with the financial sector refers to undertakings which are not credit institutions and whose activities are in particular acquiring holdings or any of the activities referred to in Points 2 to 12 of the first paragraph of Art. 20.

Total qualifying holdings as referred to in the first paragraph may not amount to over 60% of the [capital base][1)] of a financial undertaking, before regard is had for deductions provided for in the fifth paragraph of Art. 85. The total book value of holdings acquired by a financial undertaking may not exceed 100% of its [capital base].[1)] Holdings to be deducted when calculating the [capital base][1)], and holdings in undertakings forming a group, shall not be included in the calculation of the ratios referred to in the first paragraph and the first and second sentence of this paragraph. [A temporary holding of a financial undertaking, excluding trading book holdings, in a company in connection with financial restructuring aimed at protecting the claims of the financial undertakings shall be excluded in the calculations referred to in the first paragraph and the first and second sentence of this paragraph.][1)]

Holdings of financial undertakings may exceed the ratios laid down in the first paragraph or the first sentence of the second paragraph, provided the excess amount is deducted when calculating the [capital base][1)] of the undertaking concerned. If holdings concurrently exceed the ratios referred to in the first paragraph and the first sentence of the second paragraph, the greater of the excess amounts shall be deducted in calculating the [capital base][1)] of the undertaking concerned.

Financial undertakings must provide the Financial Supervisory Authority with an itemised statement of holdings in other financial undertakings which they have acquired or accepted as collateral …[2)]

In calculating the ratios referred to in the first and second paragraphs ...[3)] regard shall be had for forward contracts and other derivative contracts which a financial undertaking has concluded for its own shares. The Financial Supervisory Authority may adopt detailed rules on this point.

…[1)]

[1)]Act No. 170/2006, Art. 3. [2)]Act No. 76/2009, Art. 2. [3)]Act No. 75/2010, Art. 18.

Art. 29 *Own shares*

[The aggregate holdings of a financial undertaking and its subsidiaries may not amount to over 10% of the nominal price of the paid-up share capital or guarantee capital of the undertaking. Should an undertaking acquire more of the share capital or guarantee capital in connection with concluding a transaction, cf. Art. 22, the Financial Supervisory Authority shall be notified without delay. The Financial Supervisory Authority may grant a time limit of up to three months to reduce the holdings to within the limits prescribed by law. The provisions of Chapter VIII of the Act on Public Limited Companies shall apply in other respects on the authorisations of financial undertakings to acquire own shares.

In calculations as referred to in the first sentence of the first paragraph regard shall be had for forward contracts and other derivative contracts which a financial undertaking has concluded for its own shares.][1)]

[1)]Act No. 75/2010, Art. 19.

[Art. 29 a *Lending*

A financial undertaking or its subsidiaries may not grant loans secured by a mortgage on shares or guarantee capital certificates issued by the undertaking. The same applies to other contracts where the underlying exposure is to own shares. The Financial Supervisory Authority may issue rules excepting specific contracts from the prohibition of the second sentence, provided that they do not increase the financial undertaking's credit risk.

A financial undertaking may not grant a director, managing director, key employee or party who owns a qualifying holding in it, or party with close links to the afore-mentioned, loans or other credit considered an exposure except against secure collateral. The amount of exposures as referred to in the first sentence may not exceed 1% of the capital base, but may amount, however, to up to ISK 100 million.

The Financial Supervisory Authority shall adopt rules[1)] on the calculation of the amounts of exposures as referred to in the second paragraph and what is considered secure collateral.

The Financial Supervisory Authority shall adopt rules on how loans secured by shares or guarantee capital certificates of another financial undertaking should be included in calculations of the risk and capital base and the assessment of capital requirements to ensure that the lending does not create a systemic risk in the financial system. The rules should also cover the procedures for assessing loans secured by a mortgage on asset portfolios, such as custody accounts and UCITS, which include shares or guarantee capital certificates, whether they are issued by the financial undertaking itself or other financial undertakings, so that such procedures comply with the provisions of the first paragraph and the first sentence of this paragraph.

The provisions of the first and second paragraph shall apply to lending of subsidiaries as applicable.][2)]

1) *Reg. 162/2011*. *2)* *Act No. 75/2010, Art. 20.*

[Art. 29 b *Transfer of credit risk*

In calculating its capital requirements, a commercial bank, credit institution, savings bank or electronic money undertaking, which is neither the originator, sponsor nor original lender, shall not bear credit risk in the form of securitisation, unless the securitisation satisfies rules set by the Financial Supervisory Authority.

In calculating its capital requirements, an originator, sponsor or original lender may not exclude securitisation which has been sold to other parties, unless the originator, sponsor or original lender retains a certain portion of the risk in accordance with rules of the Financial Supervisory Authority.][1)]

1) *Act No. 119/2011, Art. 3.*

[Art. 29 c *Information disclosure regarding securitisation*

An originator or sponsor shall disclose to investors its commitment with regard to securitisation as referred to in Art. 29 b. It must ensure that possible future investors have access to all relevant information concerning the quality and default status of the underlying assets, cash flows and collateral, as well as information considered necessary for the purpose of carrying out comprehensive and sound stress tests on cash flows and the value of the collateral underlying the assets. For this purpose suitable information shall be given as of the date of the securitisation, and later if appropriate, given the nature of the securitisation.][1)]

[1)] *Act No. 119/2011, Art. 3.*

[Art. 29 d *Rules of the Financial Supervisory Authority on securitisation*

The Financial Supervisory Authority shall adopt detailed rules on securitisation, including rules on implementation of provisions of Articles 29 b and 29 c, among other things stating how high a proportion of the risk the originator, sponsor or original lender shall retain and on response to a protracted liquidity shortage on the financial market.

Should the rules of the Financial Supervisory Authority be violated, the Authority shall demand at least a 250% increase of the risk weighting in calculating capital requirements. If the violation is insignificant, in the estimation of the Financial Supervisory Authority, increased capital requirements may be waived.][1)]

[1)] *Act No. 119/2011, Art. 3.*

[Art. 29 e *Publication of examinations by the Financial Supervisory Authority*

Once each year the Financial Supervisory Authority shall publish the results of its examinations of compliance with the rules as provided for in Articles 29 b and 29 d. If an originator, original lender or sponsor has violated its obligations as provided for in Art. 29 b or the Financial Supervisory Authority's rules referred to in Art. 29 d, the Authority shall publish a summary indicating what actions have been taken.][1)]

[1)] *Act No. 119/2011, Art. 3.*

Art. 30 *Limits on large exposures*

[Exposure to one client or a group of connected clients may not exceed 25% of the capital base of a financial undertaking, cf. Articles 84 and 85. [Provisions of the first sentence shall not, however, apply to securities undertakings which are not licensed for activities referred to in subparagraphs c and f of Point 1 of the first paragraph of Art. 25, securities brokers and UCITS management companies.][1)] Aggregate large exposures may not exceed [400%][1)] of the capital base; large exposures shall mean exposures equivalent to 10% or more of the capital base.

[If there is doubt as to who should be included in a group of connected clients, a financial undertaking is obliged to connect parties unless the financial undertaking concerned can provide evidence to the contrary.][1)]

An exposure as referred to in the first paragraph shall include loans, securities assets, holdings and guarantees provided by a financial undertaking as well as other obligations towards the financial undertaking.

If a financial undertaking's exposures exceed the limits referred to in the first paragraph, this must be notified to FME without delay. FME may grant the undertaking a time limit for reducing its exposures to within the lawful limits. FME shall adopt detailed rules[2)] on the large exposures of financial undertakings and financial conglomerates.][3)]

[1)] *Act No. 119/2011, Art. 4*. [2)] *Rules 625/2013*. [3)] *Act No. 75/2010, Art. 21*.

Chapter V. Cross-border activities of financial undertakings

A. Activities of foreign financial undertakings in Iceland

Article 31 *Branches of financial undertakings in the EEA*

A foreign financial undertaking, which is established and licensed to operate in another member state of the European Economic Area (EEA), may establish a branch in Iceland two months after receipt by the Financial Supervisory Authority of notification of the proposed activity from the competent authority in the undertaking's home state The branch may pursue any of the activities covered by this Act, provided the undertaking is authorised to do so in its home state. [Swiss and Faroese financial undertakings may establish branches as referred to in this paragraph, provided the same requirements are made of them as of financial undertakings established in a state of the European Economic Area and a co-operation agreement has been concluded between the Financial Supervisory Authority and the competent Swiss or Faroese authorities.][1)]

A branch shall mean an establishment which by law is part of a financial undertaking and which handles directly, in full or in part, those activities pursued by financial undertakings.

The Financial Supervisory Authority shall verify that the foreign undertaking is subject to supervision in its home state and check its authorisations to operate and activities.

Provisions of the Public Limited Companies Act concerning branches of foreign limited companies shall not apply to branches as referred to in the first paragraph.

[1)] *Act No. 108/2006, Art. 76*.

Art. 32 *Services of a financial undertaking in the EEA without establishing a branch*

A foreign financial undertaking, which is established and licensed to operate in another state of the European Economic Area, may provide services pursuant to this Act in Iceland without establishing a branch. Such services may not commence until the Financial Supervisory Authority has received notification thereof from competent authorities in the undertaking's home state. Authorisations to provide services in Iceland from abroad in accordance with this Article may not, however, be more extensive than the operating authorisations held by the

undertaking in its home state. [Swiss and Faroese financial undertakings may provide services as referred to in this Article, provided the same requirements are made of them as of financial undertakings established in a Member State of the European Economic Area and a co-operation agreement has been concluded between the Financial Supervisory Authority and the competent Swiss or Faroese authorities.][1)]

[1)] *Act No. 108/2006, Art. 77.*

Art. 33 *Services or establishment of a branch of a financial undertaking outside the EEA*

The Financial Supervisory Authority may authorise a financial undertaking established in a state outside the European Economic Area to open a branch in Iceland or to provide services in Iceland without establishing a branch. The requirements for granting such authorisation is that the undertaking hold an operating license for activities in its home state similar to that which it intends to pursue in Iceland and that these activities are subject to similar supervision in its home state.

Art. 34 *[Remedies in connection with activities of foreign financial undertakings][1)]*

The Financial Supervisory Authority may prohibit a foreign financial undertaking from pursuing activities in Iceland if the undertaking in question has blatantly or repeatedly violated the provisions of this Act or Articles of Association and rules adopted in accordance with them, or violated the provisions of other Acts on financial undertakings, provided the remedies provided in this Act have not succeeded in putting a stop to the above-mentioned violations.

Before taking a decision on a prohibition as provided for in the first paragraph, the Financial Supervisory Authority may take temporary measures, if there is urgent cause for so doing, in order to protect the interests of depositors, investors and clients of a financial undertaking.

The procedure provided for in the first and second paragraphs shall accord with provisions of the EEA Agreement as appropriate.

[The Financial Supervisory Authority may require branches of foreign financial undertakings licensed to trade in securities to provide any information necessary to ascertain whether the branch complies with applicable rules on investor protection and transaction transparency.

If the Financial Supervisory Authority has reason to believe that a foreign financial undertaking operating in Iceland, with or without a branch, is in violation of the provisions of this or other Acts, the Authority shall notify the competent authority in the home country, provided that the violation involves provisions which are not subject to regulation by the Financial Supervisory Authority as a host state. If the actions taken by the competent authority in the home state are insufficient to stop the unlawful conduct of the undertaking, the Financial Supervisory Authority, following notification to the competent authority of the home state, may take the actions necessary to protect investors and the sound operation of financial markets in Iceland. This includes the authority to prevent the non-compliant

undertaking from conducting further business in Iceland. The Commission of the European Union shall be promptly notified of any such measures.

If the Financial Supervisory Authority has verified that the branch of a foreign financial undertaking with business operations in Iceland has violated the provisions of this Act or other legislation which the Financial Supervisory Authority is to oversee as host state, the Authority shall require the immediate cessation of the conduct in question. If the branch does not comply, the Financial Supervisory Authority shall take the measures necessary to prevent the unlawful conduct. The Financial Supervisory Authority shall notify the competent authority in the home state of such actions. If the branch nonetheless persists in its unlawful conduct, the Financial Supervisory Authority shall, following notification to the competent authority in the home state, take all necessary measures to prevent the conduct in question or impose appropriate sanctions and, as necessary, prevent the non-compliant undertaking from conducting further business in Iceland. The Commission of the European Union shall be promptly notified of any such measures.][1)]

[1)] *Act No. 111/2007, Art. 8.*

Art. 35 *Regulation*

The Minister shall issue a Regulation[1)] on authorisations of foreign financial undertakings to operate in Iceland and of Icelandic financial undertakings to operate abroad. The Regulation shall provide for supervision of and specific requirements for the branches and agents' offices of foreign financial undertakings, authorisations of undertakings connected with the financial sector and subsidiaries of financial undertakings to pursue financial activities in Iceland and authorisations for Icelandic undertakings connected with the financial sector to pursue financial activities abroad

[1)] *Reg. 307/1994; Reg. 308/1994, cf. 497/2004. Reg. 244/2004. Reg. 925/2009. Reg. 942/2011.*

B. Activities of Icelandic financial undertakings abroad

Art. 36 *Notification of establishment of a branch*

[Icelandic financial undertakings intending to operate a branch in another state of the EEA, a member state of the European Free Trade Association or the Faroe Islands shall notify the Financial Supervisory Authority of such intention in advance.][1)]

A notification as provided for in the first paragraph must include information as to the state in which a branch is to be established, a description of the activities of the branch, its structure and proposed activities, together with information on the address of the branch and the names of its managers.

No later than three months after receipt of information as referred to in the second paragraph, the Financial Supervisory Authority shall send confirmation to the competent authorities of the host state that the proposed activities are in accordance with the undertaking's operating license. Furthermore, the Financial Supervisory Authority must send the competent

authorities of the host state information on the undertaking's own funds, solvency, deposit guarantees and compensation scheme to protect branch customers. The undertaking in question must be notified concurrently that the above information has been sent.

The Financial Supervisory Authority may prohibit the establishment of a branch as referred to in the first paragraph if it has legitimate reason to expect that the [management or financial situation][2] of the financial undertaking concerned is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible and no later than three months after receipt of satisfactory information as provided for in the second paragraph.

A financial undertaking must notify the Financial Supervisory Authority ...[3] of any changes which may occur to information previously provided as referred to in the second paragraph no later than one month before the proposed changes take effect. [The Financial Supervisory Authority shall notify the competent authorities of the state where a financial undertaking operates a branch of changes to information previously provided.][3] [Furthermore, the Financial Supervisory Authority shall be notified of any proposed closure of the branch within the same time limit.][2]

[1] *Act No. 108/2006, Art. 78.* [2] *Act No. 75/2010, Art. 22.* [3] *Act No. 47/2013, Art. 5.*

Art. 37 *Notification of services without the establishment of a branch*

[A financial undertaking intending to provide services pursuant to this Act in another state of the EEA, a member state of the European Free Trade Association or the Faroe Islands, without establishing a branch, shall notify the Financial Supervisory Authority thereof in advance.][1] Such notification must include what state is concerned and what the proposed services will involve.

No later than one month after receiving a notification as provided for in the first paragraph, the Financial Supervisory Authority will forward the notification to the competent supervisory authority in the state concerned together with confirmation that the operating license of the financial undertaking authorises the proposed activities.

The Financial Supervisory Authority may prohibit the activities provided for in this Article if it has legitimate reason to expect that the [management or financial situation][2] of the financial undertaking concerned is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible.

Any changes to aspects previously notified in accordance with this Article must be notified to the Financial Supervisory Authority ... [3] no later than one month before they take effect. [The Financial Supervisory Authority shall notify the competent authorities of the state where the financial undertaking provides services of changes to information previously provided.][3]

[1] *Act No. 108/2006, Art. 79.* [2] *Act No. 75/2010, Art. 23.* [3] *Act No. 47/2013, Art. 6.*

Art. 38 *Activities outside the EEA*

If a financial undertaking intends to commence activities in a state outside of the EEA it must notify the Financial Supervisory Authority in advance thereof, providing a description of the proposed activities together with other information which the Financial Supervisory Authority regards as necessary in this connection

The Financial Supervisory Authority may prohibit activities as referred to in the first paragraph if it has legitimate reason to expect that the [management or financial situation][1)] of the financial undertaking concerned is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible.

[1)] *Act No. 75/2010, Art. 24*.

Art. 39 *Purchase of shares in a foreign financial undertaking*

If a financial undertaking intends to purchase or exercise a qualifying holding in a foreign financial undertaking, it must notify the Financial Supervisory Authority thereof in advance The Financial Supervisory Authority may prohibit such actions if it has legitimate grounds to presume that information disclosure for this activity or for the group will not be sufficiently [reliable or that supervision][1)] of it could be impeded. The undertaking shall be notified of the Financial Supervisory Authority's decision and the grounds for such as promptly as possible.

[1)] *Act No. 75/2010, Art. 25*.

Chapter VI. Holdings and treatment of holdings

Art. 40 *[Notification to the Financial Supervisory Authority*

A party intending to acquire, alone or in concert with others, a qualifying holding in a financial undertaking must notify the Financial Supervisory Authority in advance of its plans. The same applies if a party, alone or in concert with others, increases its holding so that the qualifying holding exceeds 20%, 25%, 33% or 50%, or becomes so large that the financial undertaking can be considered its subsidiary.][1)]

[1)] *Act No. 75/2010, Art. 26.*

[Art. 40 a …[1)]][2)]

[1)] *Act No. 75/2010, Art. 27*. [2)] *Act No. 67/2006, Art. 12.*

Art. 41 *[Information in a notification*

Notification to the Financial Supervisory Authority as provided for in Art. 40 must include the following information:

1. the name and address of the party intending to acquire or increase a qualifying holding;

2. the name of the financial undertaking which is the target of the investment;

3. the size of the holding or voting rights which is the target of the investment;

4. plans for changes in the pursuits or management of the financial undertaking;

5. financing of the investment;

6. the financial situation of the party intending to acquire or increase a qualifying holding;

7. the current and proposed business connections of the party intending to acquire or increase a qualifying holding;

8. the experience of the party intending to acquire or increase a qualifying holding;

9. the ownership, board membership or other participation by the party intending to acquire or increase a qualifying holding in the activities of other legal entities;

10. any punishment which the party intending to acquire or increase a qualifying holding has been sentenced to and whether the party concerned is the subject of an investigation;

11. close links of the party intending to acquire or increase a qualifying holding with other legal entities;

12. any other information which the Financial Supervisory Authority considers necessary and makes public.

If the party intending to acquire or increase a qualifying holding is a legal entity the information in the first paragraph shall apply to the legal entity itself, its directors and managing director and individuals and legal entities owning qualifying holdings in the legal entity. Information shall furthermore be provided on the auditor of the legal entity. This information shall be supported by documentation as appropriate. The Financial Supervisory Authority may grant exemptions from submission of this information if the legal entity does not have the means of obtaining it or if the party intending to acquire or increase a qualifying holding is subject to official financial supervision in another state and similar information can be obtained from the regulatory authority of that state. The same applies if the party is subject to regulation by the Financial Supervisory Authority.][1)]

[1)] *Act No. 75/2010, Art. 28*.

Art. 42 *Assessment of eligibility of an applicant*

[No later than two working days after receiving a notification as provided for in Art. 40, the Financial Supervisory Authority must confirm its receipt. If the Financial Supervisory Authority is of the opinion that more detailed information needs to be obtained than that listed in the first paragraph of Art. 41 from parties intending to acquire or increase a qualifying holding, it may request such information from the party in question. Such a request must be

made no later than 50 days after receipt of notification. The Financial Supervisory Authority has sixty working days to assess whether it considers the party intending to acquire or increase a qualifying holding eligible to exercise the holding. If additional information is requested from the party in question, as provided for in the second sentence, the time awaiting information is added to the number of days provided for in the fourth sentence, with an additional twenty working days as a maximum. The Financial Supervisory Authority may repeat its request for additional information. Such a request does not lengthen the above mentioned time limits.

The Financial Supervisory Authority shall assess whether a party intending to acquire or increase a qualifying holding is qualified to own the holding, having regard to the sound and prudent operation of the financial undertaking. The assessment of the Financial Supervisory Authority shall be based on all of the following aspects:

1. the reputation of the party intending to acquire or increase a qualifying holding;

2. the reputation and experience of the person who will direct the business of the financial undertaking if the proposed acquisition of or increase in the holding is effected;

3. the financial soundness of the party intending to acquire or increase a qualifying holding in the financial undertaking, in particular in relation to the type of business pursued or envisaged by the financial undertaking;

4. whether ownership by the party intending to acquire or increase a qualifying holding could be expected to impede supervision of the financial undertaking in question or influence whether the undertaking will comply with the laws and rules applicable to its activities. In making this assessment, consideration shall be given, for instance, to earlier dealings of the party intending to acquire or increase a qualifying holding with the Financial Supervisory Authority and/or other public authorities, to whether the position of the financial undertaking in the group of undertakings to which it will belong could, in the estimation of the Financial Supervisory Authority, obstruct its proper supervisory actions, and whether the laws or rules applicable to the party intending to acquire or increase a qualifying holding could obstruct proper supervision;

5. whether there are grounds to suspect that ownership by the party intending to acquire or increase a qualifying holding could lead to money laundering or terrorist financing or could increase the probability of such activities being allowed to occur in the financial undertaking in question.

If the party intending to acquire or increase a qualifying holding is a financial undertaking or insurance company licensed to operate in another Member State, or is the parent company of such a party or a natural person or legal entity controlling such a party, and if the company in which such party intends to acquire a qualifying holding would become its subsidiary or subject to its control following the acquisition of the holding, the Financial Supervisory Authority shall consult with the competent regulatory authorities in accordance with the third paragraph of Art. 2 in making its assessment.][1)]

[1)] *Act No. 75/2010, Art. 29.*

Art. 43 *[Notification to a party who is not considered eligible.*

Should the Financial Supervisory Authority conclude that a party intending to acquire or increase a qualifying holding is ineligible to exercise the holding, the party should be so notified. The Financial Supervisory Authority shall provide reasoning for its conclusion to the party in question.

The Financial Supervisory Authority's conclusion as referred to in the first paragraph shall be in writing and notified to the party intending to acquire or increase a qualifying holding no later than two working days after the conclusion was reached. Should the conclusion of the Financial Supervisory Authority not be available before the time limit provided for in Art. 42 it may be concluded that the Financial Supervisory Authority has no objections to the plans of the party intending to acquire or increase a qualifying holding in the financial undertaking in question.][1)]

[1)] *Act No. 75/2010, Art. 30.*

Art. 44 *[Delay. Renewal of notification*

If a party intending to acquire or increase a qualifying holding has not undertaken the investments notified to the Financial Supervisory Authority within six months from the time that the latter's conclusion was made available, such party shall notify the Authority once more of its proposed investment. The provisions of articles 40-43 shall then apply to that notification and the response of the Financial Supervisory Authority.][1)]

[1)] *Act No. 75/2010, Art. 31.*

Art. 45 *[Notification not sent*

If a party intending to acquire or increase a qualifying holding fails to notify the Financial Supervisory Authority of its proposed acquisition or increase of a qualifying holding, despite the requirement to do so pursuant to Art. 40, the voting rights attached to the shares exceeding its previous holding shall be invalid. The Financial Supervisory Authority shall notify the financial undertaking concerned of the cancellation of voting rights if the Authority receives knowledge of the acquisition or increase. The Financial Supervisory Authority shall require the party in question to submit a notification as provided for in Art. 41. Articles 41-43 shall apply to the procedure in other respects. If the Financial Supervisory Authority does not object to the acquisition or increase in qualifying holding by the party in question, the party shall acquire voting rights in proportion to its holding. If notification from the party in question is not received within four weeks from the time that the Financial Supervisory Authority requested notification the Authority may require such party to sell that part of its holding which exceeds its previous holding. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months.][1)]

[1)] *Act No. 75/2010, Art. 32.*

Art. 46 *[Ineligible party acquires a holding*

If a party acquires or increases a qualifying holding despite the conclusion of the Financial Supervisory Authority that it was not eligible to acquire or increase its holding, the voting rights of the party in excess of the minimum holding constituting a qualifying holding shall be cancelled. The party in question is required to sell that part of its holding which is in excess of its previous holding and to which the conclusion of the Financial Supervisory Authority applies. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months. The party will acquire its previous voting rights following the sale.][1)]

[1)] *Act No. 75/2010, Art. 33*.

[Art. 46 a *Restrictions on the exercise of a holding until the time limit expires*

The acquisition of a qualifying holding shall not take effect for the financial undertaking in question until the time limit provided for the Financial Supervisory Authority to consider the matter in Art. 42 has passed or the conclusion of the Financial Supervisory Authority is available, if the Authority has undertaken further examination of the notification of the proposed acquisition or increase. While the Financial Supervisory Authority has not given notice of its conclusion, or the time limit provided for in Art. 42 has not expired, the party intending to acquire or increase a qualifying holding is not permitted to participate in decisions on changes in financial position, asset structure, operation, business activities and internal rules, except with the express consent of the Financial Supervisory Authority. The provisions of the second sentence shall not apply, however, to exercise of a holding previously owned by the party or which does not exceed a qualifying holding.][1)]

[1)] *Act No. 75/2010, Art. 34*.

Art. 47 *[Notification by an owner of change in ownership*

Should the owner of a qualifying holding intend to reduce its shareholding or guarantee capital holding or voting rights so that the owner will no longer own a qualifying holding, the owner shall notify the Financial Supervisory Authority in advance, indicating what its holding will be. If the holding falls below 20%, 25%, 33% or 50%, or to such an extent that the financial undertaking ceases to be a subsidiary of the undertaking concerned this must also be notified. The same shall apply if a proportional holding or voting rights decreases due to an increase in share capital or guarantee capital.][1)]

[1)] *Act No. 75/2010, Art. 35*.

Art. 48 *[Notification by a financial undertaking of a change in ownership*

When holdings of share capital or guarantee capital in a financial undertaking exceed or fall below the limits stated in Art. 40, the Board of Directors of the undertaking shall notify the Financial Supervisory Authority thereof without undue delay.

At least once a year, each financial undertaking must notify the Financial Supervisory Authority of shareholders who have qualifying holdings in the undertaking and of the holding of each of them. The same applies to guarantee capital holders.][1)]

[1)] *Act No. 75/2010, Art. 36*.

Art. 49 *[Information disclosure*

The Financial Supervisory Authority may request documentation and information of any kind from natural or legal persons owning or exercising holdings in financial undertakings in order to evaluate whether they are subject to disclosure obligations as provided for in Art. 40 and whether they are eligible to exercise a qualifying holding as provided for in this Chapter. The Financial Supervisory Authority may require the same information from natural persons or legal persons who have sold a holding or intermediated in transactions with holdings. The legal provision on confidentiality does not limit the obligation to provide information and access to data.][1)]

[1)] *Act No. 75/2010, Art. 37.*

[Art. 49 a *Beneficial owner*

If there is any doubt, in the opinion of the Financial Supervisory Authority, as to who is or will be the beneficial owner of a qualifying holding, the Authority shall notify the party who sent notification as provided for in Art. 40, or the financial undertaking itself if the former cannot be reached, that the Authority does not consider the party in question eligible to exercise the holding.][1)]

[1)] *Act No. 75/2010, Art. 38.*

[Art. 49 b *Close links*

The provisions of Articles 40-49 shall apply to close links, as applicable. No close links may be formed unless it is clear that they will not obstruct supervision of the company's activities.][1)]

[1)] *Act No. 75/2010, Art. 38.*

Chapter VII. Board of Directors and employees

Art. 50 *General provision*

Unless otherwise provided for in this Act, the provisions of the Act on Public Limited Companies shall apply to the Board of Directors of a financial undertaking.

Art. 51 *Number of directors*

The Board of Directors of a financial undertaking must be comprised of at least three persons. Boards of commercial banks, savings banks and credit undertakings must, however, be comprised of no less than five persons.

[Alternates shall be appointed to the Board of Directors of the financial undertaking. There must be at least two alternates for the Board of Directors of a financial undertaking.][1)]

[1)] *Act No. 47/2013, Art. 7.*

Art. 52 *Eligibility requirements of the Board of Directors and managing director*

[Directors shall be resident in a Member State or a state party to the Organisation for Economic Co-operation and Development (OECD). The managing director shall be resident in a Member State. The Financial Supervisory Authority may grant an exemption from the residence requirements.

Directors and the managing director must be competent to manage their own affairs, have an unblemished reputation and may not have been declared bankrupt during the past five years. They may not have been sentenced in connection with business operations during the past 10 years for any criminal action under the Penal Code, the Competition Act, Acts on Public Limited Companies and Private Limited Companies, the Accounting Act, the Act on Annual Financial Statements, the Act on Bankruptcy etc. and provisions of the Act on Withholding Public Levies at Source, as well as special legislation applicable to parties subject to official supervision of financial activities.

Directors and managing directors shall be financially independent and shall have completed a university degree which is relevant to their work. The Financial Supervisory Authority may grant an exception from the educational requirements as provided for in the first sentence in light of the experience and expertise of the person concerned. Furthermore, directors and managing directors must possess sufficient work experience to be able to fulfil their position in a satisfactory manner, including knowledge of the activities carried out by the financial undertaking in question. They may not have conducted themselves in such a manner as would give cause to doubt their ability to pursue sound and prudent operations, or make it likely that they would conceivably abuse their position or damage the company. The Financial Supervisory Authority shall adopt rules[1)] on the financial independence of directors and managing directors and how their eligibility shall be assessed.

[Directors of a financial undertaking may not serve as directors of another regulated entity or entity closely related to the latter, nor may they be employees or auditors of another regulated entity or entity closely related to it. [Directors of a financial undertaking may only undertake such legal work for another financial undertaking as cannot create a risk of conflicts of interest between the two companies or on the financial market. If a director intends to undertake legal work for another financial undertaking, he/she must obtain the written consent of the Board of Directors of the financial undertaking where he/she is a director to undertake the said work, notify the Financial Supervisory Authority of the work he/she intends to undertake and disclose to the Financial Supervisory Authority the nature and scope of the

work. A director bears the onus of proof to demonstrate that legal work which he/she undertakes for another financial undertaking does not violate these provisions. The Financial Supervisory Authority may demand any sort of documentation and information from a director in order to assess whether there has been a violation of this provision.][2] Employees of a financial undertaking may not sit on the Board of the financial undertaking concerned.][3]

Notwithstanding the provisions of the fourth paragraph, a director or employee of a financial undertaking may take a seat on the Board of another financial undertaking, insurance company or financial conglomerate, if the company concerned is partly or fully owned by the financial undertaking or a company which is partly or fully owned by a company controlling the financial undertaking. The same shall apply to an attorney of the parent company.

Serving as director as referred to in the fifth paragraph, shall be subject to the conditions that it does not, in the estimation of the Financial Supervisory Authority, create a risk of conflicts of interest on the financial market. In this context, consideration shall be given, among other things, to the holdings of the parties and the links of the company in question with other parties in the financial market, and whether the links could harm the sound and prudent operation of the financial undertaking.

A financial undertaking must notify the Financial Supervisory Authority of the composition of and subsequent changes in its Board of Directors and managing director; such notifications must be accompanied by adequate information to enable an assessment as to whether the requirements of the Article are satisfied.][4]

[1] *Rules 887/2012*. [2] *Act No. 47/2013, Art. 8*. [3] *Act No. 119/2011, Art. 5*. [4] *Act No. 75/2010, Art. 39.*

[Art. 52 a *The Board of Directors of a financial undertaking shall convene its Annual General Meeting (AGM).*

The financial undertaking's Board of Directors shall convene the AGM as provided for by law, its Articles of Association or decision of its AGM. If the Board of Directors does not convene a meeting in accordance with the first sentence the Financial Supervisory Authority shall convene the meeting at the request of a director, the managing director, an auditor or a party entitled to vote at the AGM. The Financial Supervisory Authority shall appoint a chairman for the meeting in such circumstances, and the Board of Directors shall provide the chairman with a list of parties with voting rights, the minutes of AGMs, and the auditors' records. The company shall pay the cost of the AGM.][1]

[1] *Act No. 75/2010, Art. 40.*

[Art. 52 b The Board of Directors of a parent company shall notify the Financial Supervisory Authority when a group of companies is formed or a financial undertaking gains control of another company. Substantial changes in the organisation of a group of companies shall also be notified when they take effect.][1]

[1] *Act No. 75/2010, Art. 40*.

[Art. 52 c The Board of Directors and managing director shall alert the Financial Supervisory Authority without delay should they acquire knowledge of issues of decisive importance for the company's continuing activities.][1)]

[1)] *Act No. 75/2010, Art. 40.*

Art. 53 *Eligibility of personnel in securities trading*

Personnel of a financial undertaking who are responsible for day-to-day activities connected with transactions in financial instruments, as provided for in Point 6 of the first paragraph of Art. 3, must have passed an examination in securities trading. In connection with the granting of an operating license and as soon as any changes occur, the financial undertaking must send the Financial Supervisory Authority notification of employees referred to in this paragraph. The Financial Supervisory Authority may adopt detailed rules on implementation of this provision.

The examination committee on securities trading shall be responsible for an examination in securities trading which shall be normally held once each year. [The Minister][1)] shall appoint the examination committee for a four-year term. To cover the costs of holding the examination, examinees shall pay a fee as determined by the Minister. Decisions of the examination committee are final administrative rulings.

The examination committee on securities trading may entrust an independent party with grading the examination results. In addition, the examination committee on securities trading may appoint external examiners to review examinees' results. Details on the holding of the examination in securities trading, including the examination requirements and authorisation for granting exemptions from specific sections of such an examination or from the examination as a whole, shall be laid down in a Regulation.[2)]

[1)] *Act No. 126/2011, Art. 355.* [2)] *Reg. 633/2003, cf. 521/2007.*

Art. 54 *Division of responsibility between the Board of Directors and managing director. Carrying out the Board's tasks*

The Articles of Association of a financial undertaking must provide for the division of responsibility between the Board of Directors and managing director, based on the provisions of the Act on Public Limited Companies.

The Board shall adopt its own rules and procedures, prescribing the implementation of its tasks in detail. These rules shall discuss in particular the authorisation of the Board to take decisions on individual transactions, the implementation of rules on special eligibility of directors, handling of information on individual clients by the Board, membership of directors on the Boards of subsidiaries and affiliated companies, and the implementation of rules on handling of business dealings with directors. [These rules shall be confirmed by the Financial Supervisory Authority.][1)]

[The chairman of the Board of Directors of a financial undertaking may not undertake other duties for the company than those which constitute a normal part of his/her work as chairman, with the exception of individual tasks assigned to him/her by the Board.][1)]

[1)] *Act No. 75/2010, Art. 41.*

Art. 55 *Participation of directors in handling issues*

The Board of Directors of a financial undertaking may not involve itself in decisions on individual transactions, unless their scope is substantial in relation to the size of the undertaking. Individual directors must not involve themselves in decisions on specific transactions.

Directors of a financial undertaking may not be involved in handling a question if it concerns:

1. dealings with themselves or undertakings where they are directors, hold responsible positions or in other respects have substantial interests at stake, or

2. dealings with competitors of the parties referred to in Point 1.

The same shall apply to dealings with parties personally or financially connected to directors.

Commercial dealings of directors, and of undertakings where they hold responsible positions, must be placed before the Board of the financial undertaking, or the chairman of a company's board, for approval or refusal. The Board of Directors of a financial undertaking may, however, adopt general rules on handling of such cases, prescribing in advance what business proposals require, or do not require, special discussion by the Board before they can be dealt with, cf. Art. 54.

Art. 56 *Involvement of employees in business operations*

The managing director of a financial undertaking may not sit on the Board of Directors of a commercial undertaking or participate in business operations in other respects. The Board of Directors may grant authorisation for such on the basis of rules adopted by it and approved by the Financial Supervisory Authority. A holding in an undertaking is deemed to be participation in business operations, except in the case of an insubstantial holding which confers no direct influence on the management of the undertaking. Rules adopted in accordance with the provisions of Art. 54 shall apply to board membership of managing directors in a financial undertaking's subsidiaries or affiliated companies, and on the authorisation of other employees to participate in business operations

Art. 57 *Dealings of employees with financial undertakings*

[The Board of Directors of a financial undertaking shall adopt rules, which shall be approved by the Financial Supervisory Authority, on its dealings with the managing director and key employees. An agreement by a financial undertaking concerning loans, guarantees, options or similar dealings with a managing director shall be subject to the approval of its Board of Directors. Any decision on such must be recorded in the minutes and notified to the Financial

Supervisory Authority. The provisions of this Article apply also to parties with close links to the managing director of a financial undertaking.

Business dealings between a financial undertaking and its employees shall be subject to rules adopted by the Board of Directors of the financial undertaking, which shall be publicly disclosed. Such dealings should, to the extent possible, be subject to the same rules as transactions with regular customers in similar dealings.][1)]

[1)] *Act No. 75/2010, Art. 42.*

[Art. 57 a *Bonus schemes*

Taking into account the total financial performance of a financial undertaking over the longer term, underlying risk and cost of capital, a financial undertaking may offer stock options or bonus payments in accordance with rules[1)] set by the Financial Supervisory Authority The earned entitlements of employees under a bonus scheme shall be expensed in the accounts each year to the extent that accounting rules will permit, and shall be specifically explained in the notes to the annual financial statements.][2)]

[1)] *Reg. 700/2011*. [2)] *Act No. 75/2010, Art. 43, cf. also Temporary Provision III of the same Act*.

[Art. 57 b *Severance agreements*

A financial undertaking is not permitted to conclude a severance agreement with a managing director or key employee unless the undertaking has shown a profit over the last three years of his/her term of employment. A severance agreement in this Article refers to any type of agreement made between a managing director or key employee, on the one hand, and a financial undertaking, on the other hand, which might confer on the person ending his/her employment benefits or rights in excess of normal wage payments during a notice period.

If an undertaking has returned a profit over the last three consecutive years, severance agreements may be concluded with the persons specified in the first paragraph. Such agreements shall take the form of direct wage payments and shall not have a term of more than 12 months following termination of employment. The provisions of this Article shall apply to severance agreements which have been concluded prior to the entry into force of this Act, but which have not taken effect.

Further details of the conditions and implementation of severance agreements may be set in a Regulation. Such agreements shall be specifically accounted for in the notes to the annual financial statements.][1)]

[1)] *Act No. 75/2010, Art. 43*.

Art. 58 *Confidentiality*

The Board of Directors of a financial undertaking, managing directors, auditors, employees and any persons undertaking tasks on behalf of the undertaking shall be bound by an obligation of confidentiality concerning any information of which they may become aware in

the course of their duties concerning business or private concerns of its clients, unless obliged by law to provide information. The obligation of confidentiality remains even after employment ceases.

Anyone receiving information of the sort referred to in the first paragraph shall be bound by an obligation of confidentiality in the same manner as described therein. The party providing information shall remind the recipient of the obligation of confidentiality.

Art. 59 *Exemption from the obligation of confidentiality due to risk management and supervision on a consolidated basis*

Notwithstanding the provisions of Art. 58, information may be communicated to the parent company of a financial undertaking if the parent company is also a financial undertaking in the understanding of this Act or a holding company in the financial sector, cf. the fourth paragraph of Art. 97. Such communication of information may, however, only take place to the extent necessary for risk management and may not include the private affairs of individual clients. The same shall apply to communication of information due to supervision on a consolidated basis.

The Financial Supervisory Authority shall adopt detailed rules authorising information communication as provided for in the first paragraph.

Art. 60 *Client consent for communication of confidential information*

The information on clients referred to in Art. 58, may be communicated to outside parties after receiving the written consent of the client involved. The consent must state what information it applies to, to what parties information on this basis may be communicated and for what purpose the information is to be communicated.

Chapter VIII. Savings banks

[A. Savings banks – common provisions][1)]

[1)] *Act No. 77/2012, Art. 5*.

[Art. 61 *Savings bank*

In order to obtain a license to operate as a savings bank and co-operate on common marketing activities, a financial undertaking must in its Articles of Association define its social role and comply with provisions of Art. 63 on disposition of profit and dividends. A savings bank shall limit its social role to a specific geographical area, referred to in this Act as its operating district.

Only a financial undertaking licensed to operate as a savings bank may use the words "savings bank" in its firm name or as an explanation of its activities.][1)]

[1)] *Act No. 77/2012, Art. 5.*

[Art. 62 *Legal form*

A savings bank may be a self-governing foundation, as provided for in this Chapter, or a public limited company. A savings bank must specify its legal form in its name. It is sufficient to specify the legal form with an abbreviation; the Icelandic abbreviation “ses.” shall be used for a self-governing foundation and the provisions of the Public Limited Companies Act shall apply concerning specification of the legal form of a public limited company.][1)]

[1)] *Act No. 77/2012, Art. 5.*

[Art. 63 *Disposition of profit*

A savings bank must dispose of a minimum of 5% of its pre-tax profit of the preceding year, [excluding profit created by the writing-down of debt in financial restructuring],[1)] to social projects in its operating district. A breakdown shall be given of the projects supported by the savings bank in the annual financial statements of the year the distribution is made and the recipients of contributions specified.

The Minister responsible for financial market affairs may issue a Regulation explaining in detail what are considered social projects as referred to in this Article.][2)]

[1)] *Act No. 47/2013, Art. 9.* [2)] *Act No. 77/2012, Art. 5.*

[Art. 64 *Transactions with holdings in a savings bank*

A savings bank must adopt rules on transactions with holdings in the savings bank, guarantee capital certificates or shares, which must be approved by the Financial Supervisory Authority. The Authority may issue guidelines on such transactions.][1)]

[1)] *Act No. 77/2012, Art. 5.*

[Art. 65 *Co-operation of savings banks*

Savings banks may co-operate, for instance, on the following tasks, provided this is done on general commercial premises:

1. advice on risk management,
2. operation of IT systems,
3. security,
4. internal audit activities,
5. back-office processing, accounting, research and reporting to regulators,
6. legal advisory, contracts and relations with suppliers,
7. product development and marketing co-operation on common trademarks,
8. instruction and information disclosure,

9. domestic and foreign payment mediation and services for foreign transactions.

In those cases where more than one savings bank has entrusted a single party with tasks as referred to in the first paragraph, contracts shall be concluded between each individual savings bank and the party providing the services. Such contracts do not set aside those obligations which each individual savings bank has regarding Acts and rules, regulators, guarantee capital owners, shareholders or others.

Should disagreement arise as to whether activities are covered by the first paragraph, the Icelandic Competition Authority shall decide the question.][1)]

[1)] *Act No. 77/2012, Art. 5.*

[B. A self-governing foundation as a savings bank][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 66 *Self-governing foundation*

A self-governing foundation which is a savings bank shall be subject to provisions of the Act on Public Limited Companies, No. 2/1995, to the extent specific rules are not laid down in this Act. Statutory provisions on self-governing foundations engaging in commercial operations do not apply to a foundation which is a savings bank.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 67 *Articles of Association*

The Articles of Association of a self-governing foundation which is a savings bank shall include provisions specifically concerning the savings bank in question, such as:

1. the name of the savings bank,

2. domicile of the savings bank and legal venue,

3. its purpose,

4. its social role and operating district,

5. the total amount of guarantee capital and division into guarantee capital shares,

6. election of the savings bank's Board of Directors, its work and term of office,

7. how a meeting of guarantee capital owners is to be convened,

8. what matters are to be dealt with at the Annual General Meeting,

9. the savings bank's financial year,

10. how amendments are to be made to the Articles of Association,

11. whether guarantee capital owners shall be subject to redemption of their shares, in part or in full, and according to what rules,

12. whether guarantee capital owners enjoy pre-emptive rights to subscribe for a guarantee capital increase,

13. winding-up of the savings bank and disposition of own funds in connection with it.

Certain guarantee capital owners may not be granted preferential rights.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 68 *Management and financial rights connected to guarantee capital*

The meeting of guarantee capital owners has supreme authority in a savings bank's affairs and elects its Board of Directors. Guarantee capital owners exercise votes reflecting their share of issued guarantee capital net of any guarantee capital which the self-governing foundation may itself own.

The Board of Directors shall engage the manager of the savings bank who shall be its managing director and responsible for its day-to-day operations.

Guarantee capital owners are not liable for obligations of the savings bank in excess of their guarantee capital and are not entitled to a share of other own funds of the savings bank than the book value of its guarantee capital at any given time. Guarantee capital owners may not deplete its retained earnings in determining dividends, cf. Art. 63, or expend the retained earnings of the self-governing foundation by other means, such as redemption or purchase by the foundation of its own guarantee capital shares at a value higher than nominal value.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 69 *Guarantee capital and guarantee capital certificates*

The Board of Directors of a savings bank which is a self-governing foundation shall issue guarantee capital certificates to persons subscribing for guarantee capital shares. Guarantee capital certificates may not be delivered until shares are fully paid up.

Guarantee capital certificates shall be issued in the name of the owner, specifying:

1. name and domicile of the savings bank,

2. number and amount of the holding,

3. the name, address and Id. No. of the guarantee capital owner,

4. date of issue of the guarantee capital certificate,

5. specific details regarding the guarantee capital owner's rights and obligations.

The Board of Directors shall keep a register of guarantee capital owners which shall be available to all. The savings bank's Board of Directors shall update the register when changes occur to the ownership of guarantee capital certificates. A guarantee capital owner acquires rights conveyed by a guarantee capital certificate upon registration in the register of guarantee capital owners.

Guarantee capital certificates may, by a decision of the Board of Directors, be issued as de-materialised shares registered in a central securities depository as provided for in the Act on Electronic Registration of Title to Securities.

No restrictions apply to transfer or other disposition of a savings bank's guarantee capital certificates, cf. however the provisions of Chapter VI.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 70 *Increase in guarantee capital and revaluation*

A meeting of guarantee capital owners can approve an increase in the guarantee capital of the savings bank concerned through the issue of new guarantee capital shares. To be authorised to discuss an increase in guarantee capital, an Annual General Meeting or extraordinary meeting of guarantee capital owners must have been announced with at least two weeks' notice. The meeting announcement must give an account of the Board's motion to issue new guarantee capital shares, including the total number of shares, the nominal value of shares and offer price, terms of payment, if any, subscription period and subscription rights. The minimum price for new guarantee capital shares shall be equivalent to the nominal value of guarantee capital shares in the savings bank in question.

An Annual General Meeting of guarantee capital owners may approve, acting on a motion of the savings bank's Board of Directors, that a dividend to guarantee capital owners shall be used in part or in full to increase the nominal value of guarantee capital shares in the savings bank. The nominal value of guarantee capital shares, however, may not be increased in excess of price level changes as reflected in the CPI since the issue of the guarantee capital shares.

If the savings bank has issued new guarantee capital for which a price higher than nominal value was paid, the funds paid in excess of nominal value, net of the savings bank's cost of the issue, shall be recognised in a guarantee capital premium account. This shall be included with the savings bank's retained earnings.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 71 *Write-down of guarantee capital*

A meeting of guarantee capital owners, acting on a motion from the savings bank's Board of Directors, may decide to write down its guarantee capital to meet a loss which cannot be offset by other means. To be authorised to discuss a write-down of guarantee capital, a meeting of guarantee capital owners must have been announced with at least two weeks' notice. The announcement of the meeting must give an account of the motion to write down

guarantee capital. Adoption of such a motion requires the consent of $^{2}/_{3}$ of the votes represented at a meeting of guarantee capital owners. The meeting announcement must explain the reasons for the write-down and how it is to be carried out. The Financial Supervisory Authority must be notified in advance of a proposed write-down of guarantee capital.

A decision of a meeting of guarantee capital owners on a write-down, as referred to in the first paragraph, shall take effect once approved by the Financial Supervisory Authority.

No invitation need be issued to creditors to lodge claims when a write-down of guarantee capital is made as provided for in this Article.][1)]

[1)] *Act No. 77/2012, Art. 6.*

■**[Art. 72** *Merger*

A savings bank which is a self-governing foundation may be merged with another savings bank or financial undertaking with the winding-up of the self-governing foundation.

If a savings bank which is a self-governing foundation is merged with another self-governing foundation, reimbursement to its guarantee capital owners shall be in accordance with the share of guarantee capital in the savings bank's own funds according to the balance sheet upon the merger. If the savings bank has own funds exceeding its guarantee capital, here referred to as retained earnings, this shall be used in full to augment the retained earnings of the merged savings bank. In a case where a savings bank which merges with another self-governing foundation has negative own funds, its guarantee capital shall be written down to offset this before the merger is effected. Upon the merger, the retained earnings of the merged savings bank may not be less than the combined positive retained earnings of these savings banks prior to the merger.

If a savings bank which is a self-governing foundation is merged with a public limited company through a takeover, where the public limited company is the takeover company, the self-governing foundation shall be wound up. Reimbursement to the guarantee capital owners of the acquired savings bank shall be in accordance with the share of guarantee capital in the savings bank's own funds. If the savings bank taken over has positive retained earnings, reimbursement for this shall be placed in a special self-governing foundation. Reimbursement for the savings bank taken over shall then be divided between guarantee capital owners and the self-governing foundation based on the proportion of their holdings in the savings bank's total own funds. Reimbursement to the self-governing foundation shall be in the form of a monetary payment or a bond with a maturity of no more than 10 years. An independent party shall evaluate the reimbursement to be made to the self-governing foundation, having regard to whether this is fair, normal and proportional to the value of the reimbursement to be made to guarantee capital owners. The Financial Supervisory Authority shall confirm the valuation. The Board of Directors of a savings bank shall look after the establishment of the self-governing foundation provided for in this Article and draft a charter for it, which shall be confirmed jointly by the Minister responsible for municipal affairs and the Minister

responsible for education. The purpose of this self-governing foundation shall be to encourage and support those social projects referred to in the Articles of Association of the savings bank taken over. The directors of the self-governing foundation provided for in this paragraph shall include one representative of local authorities in the savings bank's operating district, one representative appointed by the Minister responsible for municipal affairs and one representative appointed by the Minister responsible for education. The Minister responsible for municipal affairs may appoint the local authorities' representative if no joint nomination is received from them within the time limit he/she has set for nominating a joint director.

The Board of Directors of a savings bank which has been taken over may, instead of establishing a self-governing foundation, propose a disposition of the reimbursement of the savings bank's retained earnings directly to the savings bank's social projects. A proposal by the Board for such disposition must be confirmed jointly by the Minister responsible for municipal affairs and the Minister responsible for education.

The merger and winding-up of the savings bank taken over cannot be approved until the Board of the self-governing foundation has been appointed or a proposal for the disposition of retained earnings has been confirmed.

In other respects the merger of savings banks shall be governed by the provisions of Art. 106, including cases where a savings bank which is a self-governing foundation takes over a financial undertaking which is a public limited company.][1)]

[1)] *Act No. 77/2012, Art. 6.*

[Art. 73 *Conversion of a self-governing foundation to a public limited company*

Acting on a motion from the Board of Directors, a meeting of guarantee capital owners may decide, with a $^{2}/_{3}$ majority of votes cast, and the consent of guarantee capital owners controlling at least $^{2}/_{3}$ of the guarantee capital represented at the meeting, to change the legal form of a savings bank from a self-governing foundation to a public limited company.

The conversion of the self-governing foundation to a public limited company shall be effected by the former merging with a public limited company which it has previously established for the purpose. Upon the merger the public limited company shall take over the savings bank's operations, all its assets and liabilities, rights and obligations and the self-governing foundation shall be wound up.

The public limited company established by the savings bank as referred to in the second paragraph must fulfil the provisions of Art. 61. The provision in the first sentence of the second paragraph of Art. 3 of Act No. 2/1995, on Public Limited Companies, shall not apply regarding the number of founders of a public limited company as referred to in the second paragraph. The provision of the first paragraph of Art. 20 of the same Act on the minimum number of shareholders shall not apply to a limited liability company as referred to in the second paragraph until the conversion of the savings bank to a limited liability company as referred to in the second paragraph has taken place.

When a self-governing foundation is converted to a public limited company as provided for in this Article, the savings bank's operating license shall remain valid.

A merger in connection with the conversion of a self-governing foundation to a limited liability company shall in other respects be subject to the provisions of the third paragraph of Art. 72 and Art. 106.][1)]

[1)] *Act No. 77/2012, Art. 6.*

Articles 74-76 …[1)]

[1)] *Act No. 76/2009, Art. 12.*

Art. 77 …[1)]

[1)] *Act No. 75/2010, Art. 44.*

Chapter IX …[1)]

[1)] *Act No. 17/2013, Art. 47.*

Chapter X. Liquid Assets and Own Funds

Art. 83 *Liquid assets*

Financial undertakings must at all times strive to have sufficient liquid assets available to be able to cover withdrawals of deposit funds and other payments involved in the activities of the undertaking concerned.

Art. 84 *Definition of own funds*

[The capital base of a financial undertaking as defined in the fourth paragraph shall at any time amount to a minimum of 8% of its risk base. The Board of Directors and managing director of a financial undertaking shall regularly assess the equity requirements of the undertaking taking into account its level of risk, and the conclusion of such assessment, which shall not fall below the amount in the first sentence of this paragraph, shall constitute the ratio of the capital base to the risk base. The Financial Supervisory Authority may require a financial undertaking which does not meet the provisions [of this Act and regulations and rules adopted by virtue of it][1)] to take necessary improvements in a timely manner. In order to ensure compliance, the Financial Supervisory Authority may require:

a. a capital base higher than 8% of the risk base,

b. improvements to internal processes,

c. a write-down of assets in calculation of the capital base,

d. restrictions or limits to a financial undertaking's activities,

e. reduction of the risks entailed by the financial undertaking's activities.

The risk base is the aggregate of weighted risk factors, such as credit risk, equity risk, interest rate risk, currency risk, commodity risk and operating risk, entailed by the financial undertaking's activities. The Financial Supervisory Authority shall adopt detailed rules[2)] on risk factors, risk weightings and the calculation of the risk base. Exempt from assessment of operational risk provided for in this Article are securities undertakings which are not licensed for activities [referred to in subparagraphs c and f of Point 1 of the first paragraph of Art. 25, securities brokers][3)] and management companies of UCITS. Financial undertakings are permitted, with the approval of the Financial Supervisory Authority, to employ the Internal Ratings Based (IRB) approach in assessing risk factors in the calculation of their risk base. The Financial Supervisory Authority shall adopt detailed rules on requirements which financial undertakings must satisfy to apply the IRB approach.

The capital base as provided for in the first paragraph shall also apply to consolidated financial statements. The Financial Supervisory Authority shall adopt rules[4)] on calculation of the capital base and risk base for financial conglomerates based on Council Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

The capital base as provided for in the first paragraph shall consist of three factors, Tier 1 capital, Tier 2 capital and Tier 3 capital, and deductible items as provided for in Art. 85. If asset items are based on [annual results or][5)] interim results, the report shall be endorsed as audited or examined by an auditor. The following restrictions shall apply to individual tiers:

1. Tier 1 capital shall comprise a minimum of one-half of the capital base prior to deductions as provided for in Art. 85.

2. Tier 2 capital shall amount to a maximum of 50% of Tier 1 capital.

3. Tier 3 capital shall amount to a maximum of 50% of Tier 1 capital. Furthermore, Tier 3 capital may not exceed 4.8% of the risk-weighted base with respect to market exposures of trading book items, as provided for in Art. 28, and exchange rate risk.][6)]

[Tier 1 capital is comprised of paid-up share capital, paid-up guarantee capital, reserves, share premium account, guarantee capital premium account, the revaluation account pursuant to inflation accounting principles, and retained earnings, net of the book value of own shares or guarantee capital certificates, goodwill, deferred tax credit and other intangible assets, as well as any loss and approved dividend allocations. In addition, account shall be taken of minority interests in the equity of subsidiaries in accordance with consolidated accounting principles. If discounting obligations leads to the formation of equity, such equity shall be deducted from Tier 1 capital. [Own funds items shall only be included in Tier 1 capital if they can be written down to offset operating losses of financial undertakings continuing in operation. Upon

insolvency or winding-up, paid-up share capital and the share premium account shall be paid after all other claims.][5)]][1)]

Tier 2 capital shall be the total of Points 1 and 2:

1. Subordinated loans taken by a financial undertaking against the issue of special debt instruments which state clearly that the repayment period of the loan is not less than five years and that, in the event of the insolvency of the financial undertaking concerned or its winding-up, repayment can be obtained after all claims against the financial undertaking other than the repayment of share capital or guarantee capital. When five years of the loan term remain, the amount of the loan shall be scaled down by 20% for each of the years, or proportionally for part of a year, passing of these five years. In the case of a loan to be repaid in instalments over the loan term, the outstanding balance for each year shall be scaled down in a similar manner. Only paid-up amounts may be included.

2. The revaluation account, according to cost-basis accounting principles.

Tier 3 capital is comprised of short-term subordinated loans taken by a financial undertaking against the issue of special debt instruments which state clearly that the repayment period of the loan is not less than two years and that, in the event of the insolvency of the financial undertaking concerned or its winding-up, repayment can be obtained after all claims against the financial undertaking other than the repayment of share capital or guarantee capital. [Furthermore, there must be a provision that payments may neither be made nor interest paid on the loan if the capital adequacy ratio of the financial undertaking concerned falls below the required minimum provided for in the first paragraph or if repayment of principal or payment of interest results in the capital adequacy ratio falling below the stated minimum. The Financial Supervisory Authority shall be notified if such payment causes the capital base as a ratio of the risk base to fall below a limit which is 2 percentage points above the minimum provided for in the first paragraph.][6)] The Financial Supervisory Authority may authorise particular financial undertakings to include profits from trading book transactions during the period in Tier 3 capital, net of foreseeable charges and net losses on other activities, provided none of these amounts has been included in Tier 1 capital.

The accelerated repayment of subordinated loans is authorised if a borrower so requests, provided the approval of the Financial Supervisory Authority has been obtained and that such repayment will not unacceptably affect the [borrower's] capital adequacy ratio in the estimation of the Financial Supervisory Authority.

Notwithstanding the provisions of the first to seventh paragraphs, the [capital base][6)] of a securities undertaking, securities broker or UCITS management company shall never amount to less than the equivalent of 25% of its fixed operating expenses for the preceding financial year. The Financial Supervisory Authority may grant an exemption from this requirement if the operations of the undertaking have changed fundamentally from one year to the next. During its first year of operation, the [capital base][6)] of a securities undertaking, securities broker or UCITS management company shall never amount to less than the equivalent of 25% of its budgeted fixed operating expenses. The Financial Supervisory Authority may require a

change to be made to the operating budget if it is of the opinion that the budget does not properly reflect the activities proposed.

The Financial Supervisory Authority may prescribe in its rules[7)] that items other than those listed in the fifth to seventh paragraphs may be included in a financial undertaking's [capital base.][6)]

[The Financial Supervisory Authority may prescribe in its rules that items other than those listed in the fifth paragraph should be deducted from a financial undertaking's capital base.][1)]

[Financial undertakings shall publicly disclose their risks, risk management and capital adequacy. The Financial Supervisory Authority shall adopt detailed rules on such information disclosure.

The Financial Supervisory Authority may establish rules on disclosures by financial undertakings to clients concerning the client's credit rating when a decision on lending is based on such a rating and the rating is also used to assess credit risk in the risk base using the IRB approach.][6)]

[1)] Act No. 75/2010, Art. 45. [2)] Rules 215/2007, cf. Rules 1167/2008, Rules 378/2011, Rules 222/2012 and Rules 232/2012. [3)] Act No. 111/2007, Art. 10. [4)] Rules 920/2008. [5)] Act No. 119/2011, Art. 6. [6)] Act No. 170/2006, Art. 6, cf. also Temporary Provision I of the same Act. [7)] Rules 1250/2012.

Art. 85 *Deductions from own funds*

[The book value of equity holdings and subordinated claims [on any other financial undertakings, undertakings connected to the financial sector [electronic money undertakings][1)] or payment institutions shall be deducted from the capital base provided for in the fourth paragraph of Art. 84.][2)] …[3)]][4)]

[If an investment in holdings in another financial undertaking, undertaking connected to the financial sector, an insurance company or a holding company in the insurance sector is a temporary measure and intended as financial assistance in reorganisation or to save the undertaking concerned, the Financial Supervisory Authority may grant an exemption from the provisions ... [3)] of the first paragraph.

Holdings and subordinated claims [on other financial undertakings, undertakings connected to the financial sector, [electronic money undertakings][1)] or payment institutions],[2)] cf. the first paragraph, or in insurance companies or holding companies in the insurance sector, cf. the fourth paragraph, which are included in the consolidated financial statements of the financial undertaking in question or in the exercise of provisions on supervision of financial conglomerates, shall not be deducted from the [capital base][4)] of the undertaking in question.

Holdings and subordinated claims in insurance companies and holding companies in the insurance sector, as well as items listed in points 4 and 5 of the first paragraph of Art. 29 of Act No. 60/1994, which the financial undertaking owns as a result of holdings in the above companies, shall be deducted from [the capital base as provided for in Art. 84.][4)] However,

the deduction relating to holdings in insurance companies shall be limited to an amount corresponding to the share in the minimum solvency margin of the insurance company in question. In the case of financial conglomerates, however, the provisions of the third paragraph of Art. 84 on calculation of capital adequacy ratio shall apply.][5)]

Holdings in companies exceeding the limits stated in the first paragraph and the first sentence of the third paragraph of Art. 28 [shall be deducted from the capital base provided for in Art. 84].[4)]

[Any negative difference between a financial reporting result and a result according to the IRB approach, cf. the second paragraph of Art. 84, on expected loss on assets and liabilities other than securitised positions shall be deducted from the capital base provided for in Art. 84.

Furthermore, the part of the securitised positions accorded a risk weighting of 1.250% in the calculation of the risk base shall be deducted from the capital base provided for in Art. 84.

Of the total of deduction items provided for in this Article, 50% shall be subtracted from the outcome of calculation of Tier 1 capital as provided for in Art. 84 and 50% from the outcome of calculation of Tier 2 capital as provided for in Art. 84. If the deduction referred to in the first sentence exceeds the amount of Tier 2 capital, any excess amount shall be deducted from Tier 1 capital.][4)]

[1)]Act No. 17/2013, Art. 47. [2)]Act No. 120/2011, Art. 81. [3)]Act No. 75/2010, Art. 46. [4)]Act No. 170/2006, Art. 7. [5)]Act No. 130/2004, Art. 7.

Art. 86 *Initial measures due to insufficient own funds*

If the Board of Directors or managing directors of a financial undertaking have reason to expect that its [capital base][1)] is less than the statutory minimum they must immediately notify the Financial Supervisory Authority thereof. A similar obligation rests with the auditor of the undertaking concerned if he/she has reason to expect that its management has not fulfilled their obligation as provided for in the first sentence of this paragraph.

If the Financial Supervisory Authority receives a notification as referred to in the first paragraph or has other reason to expect that the [capital base][1)] of a financial undertaking may be less than the minimum provided for in Art. 84, the Authority shall call for a financial statement immediately from the Board of Directors of the undertaking, which must submit this within a reasonable time limit. The Financial Supervisory Authority may decide that such a financial statement must be endorsed by an auditor.

If a financial statement as mentioned in the second paragraph reveals that the [capital base][1)] of a financial undertaking does not meet the requirements of Art. 84, the undertaking's Board of Directors shall immediately convene a meeting of shareholders or guarantee capital holders for a decision, and shall then submit to the Financial Supervisory Authority a report stating the measures the Board proposes in response to the situation. The report shall be submitted within a time limit set by the Financial Supervisory Authority.

Once the Financial Supervisory Authority has received the documentation referred to in the third paragraph, it may grant the financial undertaking concerned a time limit of up to six months to increase its [capital base][1)] to the minimum provided for in Art. 84. If there are cogent reasons for so doing, the Financial Supervisory Authority may extend this period by up to an additional six months. If the report referred to in the third paragraph is not received within the specified time limit, if the remedies proposed in the report are not satisfactory in the opinion of the Financial Supervisory Authority, or if the time limit provided for in this paragraph expires, the operating license shall be withdrawn, cf. Art. 9.

[1)] *Act No. 170/2006, Art. 8.*

Chapter XI. Annual financial statements, auditing and consolidated financial statements

Art. 87 *Preparation and endorsement of annual financial statements*

The Board of Directors and managing director of a financial undertaking shall prepare its annual financial statements for each financial year. The annual financial statements must include a profit and loss account, balance sheet, statement of cash flow and explanatory notes. Furthermore, the Board must prepare a report which shall accompany the annual financial statements. The financial year of financial undertakings shall be the calendar year.

Annual financial statements must be signed by the Board of Directors and managing directors of financial undertakings. If a director or managing director of a financial undertaking has objections concerning the annual financial statements he/she must provide an account of this in his/her endorsement.

[The annual financial statements must include the following information:

a. salary payments and any type of payments or benefits provided by the company to each individual director and the managing director;

b. total payments and benefits of key employees, as well as information on their number;

c. the names and nationalities of all parties who own more than 1% of share capital or guarantee capital at the end of the a financial year. If the party concerned is a legal entity, it must also be stated who is the beneficial owner of the legal entity in question, cf. the fourth paragraph of Art. 19.][1)]

[1)] *Act No. 47/2013, Art. 10*.

Art. 88 *Good accounting practice*

The annual financial statements must give a clear picture of the financial undertaking's financial position and operating performance. They must be compiled in accordance with law, rules and good accounting practices and include, among other things, a profit and loss account, a balance sheet, explanatory notes and information on off-balance-sheet items.

The Financial Supervisory Authority shall, after consultation with the Icelandic Accountancy Council, set rules[1)] on the form of annual accounts, the contents of individual items of the profit and loss account and the balance sheet and off-balance-sheet items and on the notes and assessment of individual items.

In consultation with the Icelandic Accountancy Council, the Financial Supervisory Authority shall ensure that a definition of current good accounting practice in compiling annual financial statements and interim financial statements of a financial undertaking is always available.

[1)] *Rules 834/2003. Rules 97/2004, cf. Rules 1065/2009. Rules 102/2004.*

Art. 89 *Report of the Board of Directors*

The report of the Board of Directors must include an overview of the financial undertaking's activities during the year, as well as information on aspects of importance in assessing the financial position of the undertaking concerned and its performance during the financial year which do not appear in the annual accounts.

The Board's report shall, in addition, disclose the following:

1. information on events of significance following the end of the reporting period,

2. expected future development of the undertaking and

3. actions which are of significance for its future development.

The Board's report must also provide information on the average number of employees during the financial year, total wages, commissions or other remuneration to employees, the managing director, Board of Directors and others in the service of the financial undertaking in question. If a share of the profits is paid to the Board of Directors or managing director this shall be specifically indicated. The report of the Board of Directors must disclose the number of shareholders or guarantee capital owners at the end of the financial year. In other respects the provisions of the Act on Public Limited Companies shall apply as appropriate.

In their report Boards shall make proposals on the disposition of profits of the undertaking concerned or measures to meet losses.

Art. 90 *Auditing*

The annual financial statements of a financial undertaking shall be audited by an auditor or audit firm. [The auditor or audit firm shall not perform other functions for the financial undertaking.][1)]

[An auditor or audit firms as referred to in the first paragraph shall be elected for a five-year term at the financial undertaking's AGM. The same auditor or audit firm shall not be re-elected until five years have passed from the time that its term pursuant to the first sentence concluded. Notwithstanding the provisions of the first sentence, a financial undertaking may dismiss an auditor or audit firm before the conclusion of the five-year term after seeking an opinion from the Auditors' Council.][1)]

If at all possible, the same party shall be elected as auditor of a parent company, affiliate and subsidiary. The auditor of parent company shall, in addition, audit the consolidated financial statements.

[The company's auditors shall be entitled to attend Board and shareholders' meetings of a financial undertaking and are obliged to attend its AGM.][1)]

[1)] *Act No. 75/2010, Art. 48, cf. also Temporary Provision I of the same Act.*

Art. 91 *Eligibility of auditors*

An auditor may not be a director or an employee of the financial undertaking or work on its behalf in any respect except auditing.

An auditor may not be in debt to the undertaking whose accounts he/she audits, neither as principal debtor nor as loan guarantor. The same shall apply to the auditor's spouse.

Art. 92 *Information disclosure by auditors*

[Should an auditor become aware of substantial flaws in operations or matters concerning internal control, loan collateral, or other matters which could weaken the financial position of the undertaking in question, or aspects which could result in his/her refusal to endorse the accounts, or endorse them with reservations, or if an auditor has reason to believe that any laws, regulations or rules which apply to the undertaking have been violated, the auditor must alert its Board of Directors and the Financial Supervisory Authority. This applies also to comparable issues of which an auditor becomes aware in the course of auditing a company with close links to the financial undertaking in question. ...[1)]

A notification as provided for in the first paragraph does not infringe against confidentiality, whether statutory or contractual. A notifier shall not be subject to any liability in connection with the notification.][2)]

[1)] *Act No. 75/2010, Art. 49.* [2)] *Act No. 111/2007, Art. 11*.

Art. 93 *Good auditing practice*

In consultation with the Association of Certified Public Accountants and other parties concerned, the Financial Supervisory Authority shall ensure that a definition of current good auditing practice in auditing financial undertakings is always available. The Financial Supervisory Authority shall adopt rules[1)] on auditing financial undertakings.

Apart from what is stated in this Act, the provisions of Chapter VII of Act No. 144/1994, on Annual Financial Statements, as subsequently amended, shall apply to auditing of financial undertakings.

The provisions of the first paragraph shall also apply to subsidiaries of a financial undertaking, as well as holding companies in the financial sector or mixed holding companies as referred to in Art. 97 and subsidiaries of such companies.

[1)] *Rules 532/2003*.

Art. 94 *Special auditing*

The Financial Supervisory Authority may have a special audit of a financial undertaking carried out if the Authority sees reason to expect that the audited accounts do not provide a clear picture of the undertaking's financial position and operating results. The Financial Supervisory Authority may require the undertaking concerned to bear the cost of such an audit.

The provisions of the first paragraph shall also apply to subsidiaries of a financial undertaking, as well as holding companies in the financial sector or mixed holding companies as referred to in Art. 97 and subsidiaries of such companies.

Art. 95 *Submission and publication of annual accounts*

The audited and endorsed annual financial statements of a financial undertaking, together with the report of the Board of Directors, shall be sent to the Financial Supervisory Authority within ten days of their signing and no later than three months after the end of the financial year.

If the AGM has adopted amendments to the endorsed annual financial statements, the amended statements must be submitted to the Financial Supervisory Authority within ten days of the AGM with an explanation of the amendments made.

A financial undertaking's annual financial statements, together with the report of the Board of Directors, shall be available at the place of business of the undertaking concerned and provided to any customer who so requests within two weeks of their approval by the AGM.

Art. 96 *Interim financial statements*

A financial undertaking shall prepare and publish interim financial statements as provided for in rules[1)] adopted by the Financial Supervisory Authority.

The Financial Supervisory Authority may grant exemptions from provisions on preparing interim financial statements.

[1)] *Rules 834/2003*.

Art. 97 *Consolidated accounting*

An undertaking shall be considered as a parent undertaking if it:

1. controls the majority of votes in another undertaking;

2. has holdings in another undertaking and the right to appoint or dismiss the majority of directors or managers;

3. has holdings in another undertaking and the right to exercise decisive influence on its activities based on the undertaking's Articles of Association or an agreement with it;

4. has holdings in another undertaking and controls the majority of votes in that undertaking on the basis of an agreement with other shareholders or owners; or

5. has holdings in another undertaking and holds a dominant position in it.

Undertakings which are connected to a financial undertaking or holding company in the financial sector as described in the first paragraph shall be regarded as subsidiaries. An undertaking which is a subsidiary of a subsidiary shall also be regarded as a subsidiary of the parent company.

The parent undertaking and its subsidiaries form a group or consolidation.

[A holding company in the financial sector shall mean an undertaking linked to the financial sector, which is not a mixed holding company with financial activities, whose subsidiaries are either exclusively or principally financial undertakings or undertakings linked with the financial sector and at least one subsidiary is a financial undertaking.

A mixed holding company shall mean a parent company which is not a holding company in the financial sector, a financial undertaking or mixed holding company with financial activities, having at least one subsidiary which is a financial undertaking.][1)]

[A mixed holding company with financial activities shall mean a parent company which is not subject to supervision but which together with its subsidiaries, at least one of which is subject to supervision and has its head office in a Member State, and other entities forms a financial conglomerate.][1)]

In assessing voting rights and rights to appoint or dismiss directors or managers, rights controlled by both the parent undertaking and subsidiaries shall be combined.

In assessing voting rights in a subsidiary, voting rights deriving from the own shares of the subsidiary and its subsidiaries shall not be included.

Provisions of Articles 87-92 and 95-96 shall apply as appropriate to both a consolidation where the parent company is a financial undertaking or holding company in the financial sector and to individual undertakings of the consolidation.

The Financial Supervisory Authority shall, after consultation with the Icelandic Accountancy Council, set detailed rules[2)] on the preparation of consolidated accounts for consolidations where the parent company is a financial undertaking or holding company in the financial sector.

The Financial Supervisory Authority may adopt rules on consolidated accounts for a group of undertakings where the parent undertaking is a mixed holding company.

[1)] *Act No. 130/2004, Art. 8.* [2)] *Rules 834/2003.*

Chapter XII. [Financial reorganisation, winding-up and merger of financial undertakings][1)]

[1)] *Act No. 130/2004, Art. 12.*

[A. Financial reorganisation of credit institutions][1)]

[1)] *Act No. 130/2004, Art. 9.*

[Art. 98 *Financial reorganisation*

Financial reorganisation of credit institutions shall mean measures intended to maintain the credit institution's financial position or to restore it to normal and which could affect prior rights of third parties, including measures which could conceivably involve a moratorium, postponement of enforcement measures or reduction of claims. If a credit institution has its head office in Iceland financial reorganisation shall mean granting of a moratorium and authorisation to seek composition as provided for in the Act on Bankruptcy etc., No. 21/1991.

The Act on Bankruptcy etc., No. 21/1991, shall apply concerning a credit institution's moratorium and authorisation to seek composition and to the implementation of such measures, unless otherwise provided for by this Act.

[If a financial undertaking has been granted a moratorium it is sufficient to publish the announcement of a meeting, as provided for in the second paragraph of Art. 13 and the fifth paragraph of Art. 17 of the Act on Bankruptcy etc., with an advertisement published in at least two daily newspapers in Iceland and in each of those states where branches were operated.[1)]

…[1)]][2)]

[1)] *Act No. 44/2009, Art. 3. Notwithstanding the provisions of subparagraph a of that Article, the third paragraph of Art. 98 of Act No. 161/2002, cf. Art. 2 of Act No. 129/2008, shall continue to apply in their original form towards financial undertakings which benefit from a moratorium upon the entry into force of Act No. 44/2009, including an extension of the moratorium, cf. Act No. 44/2009, Art. 10.* [2)] *Act No. 130/2004, Art. 9.*

[Art. 99 *Financial reorganisation of a credit institution with head offices in Iceland and branches in another EEA state.*

[If a court in Iceland grants a credit institution a moratorium or the right to seek composition, such authorisation shall automatically apply to all branches which the credit institution operates in another Member State.][1)]

The legal effect, procedure and implementation of the decision shall be governed by Icelandic law, with the following exceptions:

a. An employment contract shall be governed by the law of the state which applies to the employment contract and employment relationship.

b. A contract for the use or purchase of real property shall be governed by the law of the state where the property is located.

c. Rights of a credit institution in respect of real property, a vessel or aircraft shall be governed by the law of the state where official registration has been effected.

d. [Authorisation of the financial reorganisation of a financial undertaking shall not affect the property rights, including lien rights, of creditors or others to assets located in another Member State. The same shall apply to the right to dispose of a mortgaged property, either by assignment or other means, and the right to receive dividends on the property. All rights which are recorded in an official registry and enjoy legal protection against a third party shall be regarded as property rights in the understanding of this provision.][2)]

e. If a credit institution has acquired an asset with a reservation concerning title to ownership, the credit institution's authorisation for financial reorganisation shall not affect the seller's right based on the reservation of title, provided the asset is situated in another Member State.

f. If a credit institution has sold an asset, the authorisation for financial reorganisation shall not affect the buyer's rights, provided the asset is in another Member State and delivery has already taken place when the authorisation is granted.

g. The legitimacy of a credit institution's disposal of real property, a vessel or an aircraft which is subject to official registration, as well as of transferable securities or other securities registered in a central securities depository, shall be governed by the law of the state where the asset is located or where official registration has been effected.

h. The legal effect of a ruling on financial reorganisation on lawsuits concerning an asset or other right which a credit institution has disposed of, [initiated before the ruling on financial reorganisation was pronounced],[3)] shall be governed by the law of the state where the lawsuit was initiated.

i. The enforcement of right to title, including rights to mortgaged financial instruments which are electronically registered, shall be governed by the law of the state where the registration is effected.

j. A netting agreement shall be governed by the law of the state which applies to such agreement.

k. A repurchase agreement shall be governed by the law of the state which applies to such agreement, cf. however, provisions of subparagraph i.

l. Transactions on a regulated securities market shall be governed by the law of the state which applies to such transactions, cf. however, provisions of subparagraph i.

m. Payment and settlement instructions in payment and settlement systems shall be governed by the law of the state which applies to the system concerned.

n. Notwithstanding the provisions of subparagraphs d and e the provisions of Chapter III of the Act on Conclusion of Contracts, Power of Attorney and Invalid Legal Instruments, No. 7/1936, shall apply concerning invalid legal instruments, unless unauthorised under the

law of the host state. [A legal instrument may not, however, be invalidated if the party benefiting from the continuing validity of such a legal instrument provides satisfactory evidence that the law of another state should apply to the legal instrument and that this does not include an invalidating rule which applies to the instance in question.][2)]

The court shall ensure that the Financial Supervisory Authority is notified immediately of any request received from a credit institution for a moratorium or to seek composition with creditors. The Financial Supervisory Authority shall forward information on the request and the response to it to the competent authorities and creditors of the credit institution in the states concerned, as provided for in rules[4)] set by the Minister.

Mandatory notifications to known foreign creditors of a credit institution in connection with a moratorium or composition with creditors shall be as provided for in rules[4)] set by the Minister.][5)]

[1)]Act No. 108/2006, Art. 80. [2)]Act No. 78/2011, Art. 1. [3)]Act No. 32/2011, Art. 1. [4)]Reg. 872/2006, cf. 747/2013. [5)]Act No. 130/2004, Art. 9.

[Art. 100 *Financial reorganisation of a credit institution with its head office abroad and a branch in Iceland*

[A branch which is operated in Iceland by a credit institution with a head office in another Member State will not be automatically granted authorisation for financial reorganisation in Iceland. If the competent authority in another Member State decides on the financial reorganisation of a credit institution licensed to operate and established in that state, the decision will automatically apply to branches operated by the institution in Iceland.][1)]

[If financial reorganisation of the Icelandic branch of a credit institution established in another Member State is considered necessary, notice of such reorganisation shall be sent to the Financial Supervisory Authority.][1)] The Financial Supervisory Authority shall forward the notification to the supervisory authorities of the home state.

The legal effect, procedure and implementation of the decision shall be governed by the law of the home state, with those restrictions listed in the second paragraph of Art. 99.

It may occur that a request is made for a moratorium or the right to seek composition based on the second paragraph of Art. 6 of the Act on Bankruptcy etc. for a branch which a credit institution established in a state outside the European Economic Area operates in Iceland. In such case the District Court judge shall alert the Financial Supervisory Authority of the request. If the credit institution concerned operates branches in other states of the European Economic Area, the Financial Supervisory Authority shall notify the supervisory authorities in those states of the request. The courts shall endeavour to co-ordinate actions with the authorities of other host states.][2)]

[1)]Act No. 108/2006, Art. 81. [2)]Act No. 130/2004, Art. 9.

[Art. 100 a *[Delivery of a financial undertaking to a provisional Board of Directors*

If a financial undertaking is in such financial and operating difficulties that it is unlikely to be able to fulfil its obligations or satisfy minimum capital requirements, its Board of Directors may on its own initiative request that the Financial Supervisory Authority take over control of the undertaking. The Financial Supervisory Authority shall take a decision on such a request without delay. If the Financial Supervisory Authority agrees to the request, the mandate of the financial undertaking's Board of Directors is cancelled and the rights of shareholders or guarantee capital owners to take decisions on its affairs by virtue of their holdings shall furthermore become inactive. At the same time, the Financial Supervisory Authority shall appoint the financial undertaking a provisional Board of Directors of three to five persons which alone shall exercise the same rights by law and in accordance with the undertaking's Articles of Association as the Board of Directors and shareholders' meeting, or meeting of guarantee capital owners, would otherwise have exercised, cf. however Point 4 of the second paragraph of Art. 101.

The provisional Board of Directors shall, as soon as possible, take the necessary measures to obtain an overview of the financial undertaking's financial situation. While it controls the undertaking, the same restrictions shall apply concerning authorisation to apply execution or other enforcement remedies against the undertaking as would apply under a moratorium. The provisional Board of Directors shall only take measures concerning major interests of the financial undertaking in cases of urgency.

The provisional Board's control of the financial undertaking automatically concludes once three months have elapsed since its appointment unless:

1. the provisional Board of Directors has already submitted a petition to a District Court that the undertaking be placed in winding-up, as provided for in Point 3 of the second paragraph of Art. 101; if such has been done the Board's mandate shall continue until a final decision is taken on the petition;

2. the undertaking was granted a moratorium or authorised to seek composition; in such case the provisional Board's mandate shall continue until one month after such authorisation expires; or

3. the provisional Board of Directors has already, with the approval of the Financial Supervisory Authority, held a shareholders' meeting or meeting with guarantee capital owners where a new Board of Directors has been elected to replace the provisional Board.

If the control of the provisional Board of Directors of a financial undertaking concludes automatically when its term expires, without it having been placed in winding-up, its operating license shall be revoked immediately unless a new Board of Directors has previously been elected, as provided for in Point 3 of the third paragraph.][1)]][2)]

[1)] Act No. 44/2009, Art. 4. If the Financial Supervisory Authority has, prior to the entry into force of Act No. 44/2009, appointed a Resolution Committee for a financial undertaking on the basis of Art. 5 of Act No. 125/2008, and such Committee is still at work but the undertaking has not been granted a moratorium, the Resolution Committee shall thereafter automatically become the undertaking's provisional Board of Directors as referred to in Article 100 a, cf. Act No. 44/2009, Temporary Provision I. [2)] Act No. 125/2008, Art. 5.

[B.][1)] Winding-up

[1)] *Act No. 130/2004, Art. 9.*

[Art. 101][1)] *[Conditions for and commencement of winding-up proceedings*

The estate of a financial undertaking cannot be liquidated according to general rules.

A financial undertaking must be wound up:

1. at the demand of the Financial Supervisory Authority if it has revoked the undertaking's operating license or refused to grant it a time limit as provided for in the fourth paragraph of Art. 86, or the time limit provided for there has expired without the undertaking having increased its capital above the minimum required in Art. 84;

2. at the demand of the Financial Supervisory Authority, the undertaking's Board of Directors or provisional Board of Directors, if it must be wound-up according to its Articles of Association;

3. at the demand of the undertaking's Board of Directors or provisional Board of Directors if the company can no longer meet all obligations to creditors when their claims fall due and it is considered unlikely that the company's payment difficulties will be alleviated in the short term;

4. at the demand of the undertaking's Board of Directors and with the approval of the Financial Supervisory Authority, if a decision has been taken by a shareholders' meeting or meeting of guarantee capital owners to wind up the undertaking, provided a motion on winding-up has been adopted by at least $^{2}/_{3}$ of votes cast and by shareholders or guarantee capital owners who control at least $^{2}/_{3}$ of the share capital or guarantee capital represented by votes at the meeting.

A petition for the winding-up of a financial undertaking shall be directed to the District Court where civil proceedings could be brought against the undertaking in its legal venue. The request shall be prepared and handled by the Court like a petition for winding-up in insolvency.

Once a court has ordered that a financial undertaking shall be wound up, a District Court judge will appoint a Winding-up Board, comprised of up to five persons. Upon its appointment, the Board shall assume the rights and obligations held by the undertaking's Board of Directors and shareholders' meeting or meeting of guarantee capital owners, cf. however, the third paragraph of Art. 103. Unless otherwise provided for in this Act, the rules concerning administrators in liquidation proceedings shall apply to the Winding-up Board, its tasks and the members of the Board. Persons appointed to a Winding-up Board or provisional Board of Directors must also fulfil the qualification requirements of the second paragraph, the fourth sentence of the third paragraph and the [fourth to sixth paragraphs of Art. 52.][2)]][3)]

The reference date in the winding-up of a financial undertaking shall be determined according to the same rules as apply to liquidation, however, it may furthermore be determined by the

date the Financial Supervisory Authority granted the undertaking a time limit, as provided for in the fourth paragraph of Art. 86, or appointed for it a provisional Board of Directions, as provided for in Art. 100 a, or otherwise by the receipt by a District Court of a petition for winding-up, as referred to in the second paragraph, if nothing has previously occurred to set a reference date.][4)]

[1)]Act No. 130/2004, Art. 9. [2)]Act No. 47/2013, Art. 12. [3)]Act No. 78/2011, Art. 2. [4)]Act No. 44/2009, Art. 5. Notwithstanding the fifth paragraph, the reference date in a financial undertaking's winding-up proceedings shall be determined by the second paragraph of the Temporary Provision of Act No. 129/2008 if applicable, cf. Act No. 44/2009, Temporary Provision III.

[Art. 101 a *Special supervision by the Financial Supervisory Authority.*

The Financial Supervisory Authority shall supervise the operations of a financial undertaking managed by a Winding-up Board, regardless of whether the undertaking concerned has an operating license or limited license to operate, or its operating license has been revoked. A subsidiary of a financial undertaking in winding-up proceedings, which is administering its assets, shall furthermore be subject to supervision by the Financial Supervisory Authority. The supervision shall include, for instance, its business practices, which implies that its actions towards customers shall accord with the normal practices of financial undertakings with a valid operating license.

Transactions and disposition of assets of a financial undertaking managed by a Winding-up Board or transactions by the Winding-up Board with individual members of the Winding-up Board, or with parties closely connected with such parties, shall comply with rules on normal and sound business practices and customs. The Financial Supervisory Authority shall, on its own initiative or acting on a creditor's suggestion, monitor such transactions.

Refusal to comply with a request from the Financial Supervisory Authority for delivery of documentation may be liable to dismissal from a Winding-up Board. The same shall apply if a person appointed to a Winding-up Board does not satisfy the general eligibility requirements which apply to him/her. The Financial Supervisory Authority shall refer such a request to a District Court which shall admit the case for a ruling immediately.

The Financial Supervisory Authority may direct a request to a District Court to dismiss all or part of a Winding-up Board in cases where the Winding-up Board concerned is considered not to have carried out its tasks in accordance with the first and second paragraph of this Article or, as the case may be, in accordance with other legal provisions. The case shall be admitted by a District Court for a ruling immediately.

The provisions of this Article shall apply to operations of a financial undertaking which is managed by a provisional Board of Directors or a Resolution Committee as appropriate.][1)]

[1)]Act No. 78/2011, Art. 3.

[Art. 102][1)] *[Processing of claims etc.*

The same rules shall apply to the winding-up of a financial undertaking as apply generally to insolvency liquidation concerning reciprocal contractual rights and claims against it, with the exception that a court order for its winding-up shall not automatically result in claims against it falling due. [Upon the winding-up of a financial undertaking the rules of Art. 74 of the Act on Bankruptcy etc. shall apply, for instance, providing that any person who neither knew nor should have known of the winding-up can acquire rights against the financial undertaking in connection with dispositions made prior to the publication of an announcement of winding-up. The party concerned shall be deemed to have been unknowing of the commencement of winding-up, if such an announcement has not been made, unless otherwise demonstrated. The party concerned shall furthermore be deemed to have known of the commencement of winding-up, if such an announcement has been made, unless otherwise demonstrated.][2)]

Once a Winding-up Board has been appointed for a financial undertaking, the Board shall without delay publish an invitation to lodge claims in the winding-up in the Legal Gazette (Icel. *Lögbirtingarblaðið).* The same rules shall apply concerning the contents of the invitation to lodge claims, the time limit for submitting claims and notices or advertisements for foreign creditors as apply to insolvency liquidation.

In the winding-up of a financial undertaking the same rules shall apply as apply to priority of claims against any estate under liquidation, with the exception that claims for deposits, as defined in the Act on Deposit Guarantees and an Investor Compensation Scheme, shall be included in claims which are ranked with reference to the first and second paragraphs of Article 112 of the Act on Bankruptcy etc. To the extent that the priority of claims can be determined under that Act by the time a court ruling on liquidation is issued, the date of the court ruling on the winding-up of a financial undertaking shall apply.

Provisions of Chapter XVIII and of Part 5 of the Act on Bankruptcy etc. shall apply to handling of claims against a financial undertaking in its winding-up, including regarding the effect of not lodging a claim; meetings of the Winding-up Board to discuss recognition of claims lodged shall be called creditors' meetings. If the Winding-up Board is of the opinion, upon the expiration of the time limit for lodging claims, that it is likely that the undertaking's assets will suffice to cover its debts in full, then it is not obliged at that time to take decisions on the ranking of individual claims in priority.

Once the time limit for lodging claims has expired, the Winding-up Board shall assess whether it appears that a financial undertaking’s assets will suffice to cover its obligations. A report on this assessment must be submitted and presented to the first creditors’ meeting held after the expiry of the time limit for lodging claims.

The Winding-up Board may, after the expiration of the time limit for lodging claims, pay in one or more payments recognised claims [with reference to Articles 109-112 of the Act on Bankruptcy etc., No. 21/1991],[2)] in part or in full, to such extent as the assets of the financial undertaking will assuredly cover payments of at least as much towards all other claims of equal ranking in priority which have not been finally rejected in the winding-up. It shall be ensured that all creditors holding recognised claims ranked with the same priority receive payment at the same time; however, derogations may be made from this with the approval of

those who do not receive payment or pursuant to a decision by the Winding-up Board if a creditor offers to waive its claim in return for partial payment thereof, the amount of which is regarded as definitely lower than other equally ranked creditors will receive at a later stage, taking into consideration for instance whether their claims will bear interest until paid. [If the Winding-up Board exercises its authority pursuant to the above to pay claims in part or in full, but a dispute on recognition has not been resolved regarding a claim which could rank equally in priority, the Winding-up Board shall deposit in a special escrow account an amount corresponding to the payment of that claim or toward the maximum amount possible according to the claim lodged by the creditor in question. [Once a final conclusion has been reached on the dispute, the share of this claim of the amount on deposit in the escrow account, together with accrued interest, shall be paid to the creditor to the extent the claim has been recognised; any funds remaining shall revert to the financial undertaking. If interim distributions are made in more than one currency, a special escrow account may be established for each currency. Upon each interim distribution which is made with a deposit into special escrow accounts, creditors receiving payment shall be sent notification; by deposit to such an account an interim distribution shall be deemed to have been made to the creditor concerned. A special escrow account in the understanding of the provision shall refer to a custody deposit account in the name of the financial undertaking, opened for the purpose of depositing interim distributions.]2)]3)]4)

1) *Act No. 130/2004, Art. 9.* 2) *Act No. 78/2011, Art. 4.* 3) *Act No. 75/2010, Art. 50.* 4) *Act No. 44/2009, Art. 6.*

[Art. 103]1) *[Disposition of the interests of a financial undertaking etc.*

In winding-up a financial undertaking, the Winding-up Board shall dispose of its interests following the same rules as apply to administration of an estate under liquidation, with the exceptions resulting from provisions of this Article. Any disputes which may arise concerning such measures shall be resolved in accordance with the directions of the Act on Bankruptcy etc.

The objective of the Winding-up Board shall be to obtain the maximum possible for the financial undertaking's assets, for instance, by waiting if necessary for outstanding claims to mature rather than realising them at an earlier date, unless it is deemed evident that the interests of creditors and, as the case may be, of shareholders or guarantee capital owners are better served by disposing of such rights at an earlier stage to enable the conclusion of winding-up proceedings. To this end the Winding-up Board may, for instance, disregard a resolution by a creditors' meeting which it considers contrary to this objective.

The Winding-up Board shall call a creditors' meeting for the same purpose as an administrator holds a meeting with creditors of an estate in insolvency proceedings. If the Winding-up Board has reached the conclusion in its report, as referred to in the fifth paragraph of Art. 102, that it appears that the financial undertaking's assets will suffice for its obligations, the Winding-up Board shall, in tandem with creditors' meetings, hold meetings with shareholders or guarantee capital owners to seek their opinions on disposition of the undertaking's assets. [A Winding-up Board or Resolution Committee is furthermore obliged to inform creditors of

all major actions involving the sale or disposition of assets or other rights of a financial undertaking at meetings convened by the Winding-up Board in the normal manner.][2)]

[If it is not evident that the assets of a financial undertaking will be sufficient to fully satisfy its obligations, voiding may be demanded according to the same rules as apply to voiding of measures in liquidation. All the provisions of Chapter XX of the Act on Bankruptcy etc., No. 21/1991, shall then apply to the winding-up proceedings in the same manner as in liquidation, with the exception that the time limit to bring suit for voiding as provided for in the first paragraph of Art. 148 of the same Act shall be [30 months][3)] instead of six months. [Cases brought by a Winding-up Board on the basis of this provision shall be filed with the District Court where the financial undertaking was placed in winding-up, as referred to in the third and fourth paragraphs of Art. 101.]][3)]][4)]][5)]

[1)]Act No. 130/2004, Art. 9. [2)]Act No. 78/2011, Art. 5. [3)]Act No. 146/2011, Art. 1. [4)]Act No. 132/2010, Art. 1. [5)]Act No. 44/2009, Art. 7.

[Art. 103 a. *Conclusion of winding-up proceedings*

If a Winding-up Board has concluded payment of all recognised claims against a financial undertaking and, as the case may be, put aside funds for payment of disputed claims and realised its assets as necessary, it shall conclude the winding-up proceedings either by:

1. returning the undertaking to its shareholders or guarantee capital owners, if a meeting of these parties called by the Winding-up Board has, with the votes of parties controlling at least $^{2}/_{3}$ of its share capital or guarantee capital, approved the recommencement of the undertaking's activities and a new Board of Directors has been elected to take over from the Winding-up Board, provided that the Financial Supervisory Authority has given its approval thereto and that the undertaking satisfies other statutory requirements to recommence its activities; or

2. paying to shareholders or guarantee capital owners their portion of the remaining value of assets, in accordance with a scheme for distribution which shall comply with the provisions of Chapter XXII and Part 5 of the Act on Bankruptcy etc.; in the case of a savings bank, however, assets remaining following payment of guarantee capital shall be disposed of in accordance with its Articles of Association and these assets may not be distributed to guarantee capital owners ...[1)]

Winding-up proceedings may be concluded as provided for in Point 1 of the first paragraph even if payment of all recognised claims has not been made if those creditors who have not yet received satisfaction agree to such.

If the financial undertaking's assets do not suffice for full payment of claims which have not been finally rejected in the winding-up proceedings, the Winding-up Board may, when it considers the time ripe to do so, seek composition with creditors to conclude the proceedings. The Winding-up Board shall then draft a scheme of arrangements following the rules of Art. 36 of the Act on Bankruptcy etc., and call a creditors' meeting to put it to a vote. [Efforts to seek composition shall be governed in other respects by the provisions of the second

paragraph of Art. 149 and Articles 151-153 of the same Act, however with the difference that the time limit provided for in the first paragraph of Art. 51 of the same Act shall be eight weeks; the Winding-up Board shall perform the tasks otherwise incumbent upon an administrator and hold meetings with creditors concerning these endeavours.][2)] If a scheme of arrangements is approved, the Winding-up Board shall request confirmation of the proposal in accordance with the rules of Chapter IX of the same Act. If composition is confirmed the Winding-up Board shall, as necessary, fulfil any obligations to creditors it involves and conclude the winding-up proceedings as provided for in the first and second paragraphs. [A scheme of arrangements for a financial undertaking shall be considered to be approved if it receives the same proportion of votes, weighted with the claims amounts of voters, as the proportional reduction of contractual claims proposed under the scheme, but no less than a minimum of 60% of these votes. Furthermore, it must be approved by 70% of the votes of those voters exercising their voting rights on the composition.][2)]

If it is established that a financial undertaking's assets are insufficient to fulfil its obligations completely, and the Winding-up Board considers it evident that there will be no basis for seeking composition with creditors, as referred to in the third paragraph, or if a scheme of arrangements has not been approved or a request for its confirmation has been refused, the Winding-up Board shall request of the District Court which appointed it that the undertaking's estate be placed in liquidation. A creditor may do the same if its claim has been recognised in winding-up proceedings and either attempts by the Winding-up Board to seek composition with creditors have been unsuccessful or the creditor demonstrates that the legal conditions for seeking composition with creditors do not exist, or such a large number of creditors are opposed to composition that there is no possibility of achieving composition based on available information on the undertaking's financial situation. To advance such a claim, however, a creditor must demonstrate that it has legally sanctioned interests in achieving liquidation rather than allowing the undertaking to continue in winding-up proceedings.

If the estate of a financial undertaking is placed in liquidation, all actions taken during the winding-up proceedings concerning claims against the undertaking, including the invitation to lodge claims and the processing of claims lodged, shall remain unaltered but the administrator shall have an advertisement published in the Legal Gazette stating that the estate has been placed in liquidation. In other respects the general rules on insolvency proceedings shall apply, with the exceptions that provisions of the second paragraph of Art. 103 shall apply *mutatis mutandis*, and that the date the court ruling on the winding-up of the financial undertaking was issued shall replace, with regard to legal effect, the date the ruling on insolvency was issued.][3)]

[1)]Act No. 76/2009, Art. 14. [2)]Act No. 78/2011, Art. 6. [3)]Act No. 44/2009, Art. 8.

[Art. 104 *Winding-up of a credit institution with head offices in Iceland and branches in another EEA state*

[Should an Icelandic court decide on the winding-up of a credit institution which is established and licensed to operate in Iceland, this authorisation shall automatically apply to any branches operated by the credit institution in other Member States.][1)] The legal effect,

procedure and implementation of the decision shall be governed by Icelandic law, with those exceptions listed in the second paragraph of Art. 99.

The court shall ensure that the Financial Supervisory Authority is notified immediately of the decision on winding-up.

[If a credit institution operates branches in other Member States, the Financial Supervisory Authority shall forward information on the request to the competent authorities in the states concerned, as provided for in rules[2)] set by the Minister.][1)]

[If a known creditor of the credit institution is resident in another Member State, the administrator shall, without delay, inform the creditor of the commencement of winding-up.][1)] The notification shall state the time limits for lodging claims, where claims are to be lodged and the consequences of failure to lodge claims, as provided for in rules[2)] set by the Minister.][3)]

[1)] *Act No. 108/2006, Art. 82.* [2)] *Reg. 872/2006*; [3)] *Act No. 130/2004, Art. 11*.

[Art. 105 *Winding-up of a credit institution with its head office abroad and a branch in Iceland*

[A branch which is operated in Iceland by a credit institution with a head office in another Member State will not be granted independent authorisation for winding-up in Iceland. If the competent authority in another Member State decides on the winding-up of a credit institution located and established in that state, the decision will automatically apply to branches operated by the institution in Iceland. The winding-up of a credit institution as provided for in this Article shall mean collective proceedings opened and supervised by an administrative or judicial authority in another Member State, intended to realise assets under the supervision of those authorities.][1)]

The legal effect, procedure and implementation of the decision shall be governed by the law of the home state, with those exceptions listed in the second paragraph of Art. 99

Should a petition for bankruptcy proceedings be advanced based on the second paragraph of Art. 6 of the Act on Bankruptcy etc. for a branch which a credit institution established in a state outside the European Economic Area operates in Iceland the District Court judge shall alert the Financial Supervisory Authority of such petition. If the credit institution concerned operates branches in other states of the European Economic Area, the Financial Supervisory Authority shall notify the supervisory authorities in those states of the petition.][2)]

[1)] *Act No. 108/2006, Art. 83*. [2)] *Act No. 130/2004, Art. 11*.

[C.][1)] Merger

[1)] *Act No. 130/2004, Art. 9.*

[Art. 106][1)] [A merger of a financial undertaking with another undertaking is permitted only with the consent of the Financial Supervisory Authority The transfer of individual operating units of financial undertakings to other undertakings by other means, such as sale, is also subject to the consent of the Financial Supervisory Authority. For the purposes of this provision, operating units shall mean viable units of a financial undertaking, e.g. branches.

A merger of a financial undertaking with another undertaking is only authorised if a decision thereto has been approved by a shareholders' meeting or meeting of guarantee capital owners in the undertaking taken with at least $^{2}/_{3}$ of the votes cast, and furthermore the approval of shareholders or guarantee capital owners in the undertaking taken over controlling at least $^{2}/_{3}$ of the share capital or guarantee capital represented at the meeting of shareholders or guarantee capital owners. If the undertaking taken over is completely owned by the company taking it over, voting as provided for in the first sentence of this paragraph in the company taken over is not required.][2)]

…[3)]

In other respects mergers of financial undertakings are subject to provisions of the Act on Public Limited Companies, as appropriate, and agreements between the parties concerned.

A financial undertaking which is wound up as the result of a merger is not obliged to issue an invitation to creditors to lodge claims or to keep its assets separate. Changes in ownership in mortgage registers resulting from mergers of financial undertakings shall be exempt from stamp duties

[The Financial Supervisory Authority shall announce mergers or transfer of operating units of financial undertakings in the Legal Gazette. The announcement must specify when the merger or transfer takes effect, the names of the undertakings concerned, the time limit for submitting objections to the transfer of deposits, conceivable changes to the payment locations for debt instruments and other aspects which need be made known to customers in particular.][2)]

Upon the merger of two or more financial undertakings the own funds formed by the merger shall not be less than the combined own funds of the undertakings concerned at the time the merger took place, if the minimum provided for in Art. 14 has not been reached. …[3)]

[1)] Act No. 130/2004, Art. 11. [2)] Act No. 96/2008, Art. 11. [3)] Act No. 77/2012, Art. 7.

Chapter XIII. Supervision

A. General authorisations for supervision

[Art. 107][1)] *Financial Supervisory Authority*

[The Financial Supervisory Authority shall supervise the activities of financial undertakings and undertakings connected to the financial sector to which the provisions of this Act apply,

as well as activities of Icelandic financial undertakings abroad, unless otherwise provided for by law or international agreements to which Iceland is a party. Furthermore, the Financial Supervisory Authority shall supervise subsidiaries, affiliated undertakings and funds pursuing the activities listed in Chapter IV, to the extent required for regulated activities, in addition to supervising the owners of qualifying holdings as provided for in Chapter VI. Supervision shall be as provided for in this Act and the Act on Official Supervision of Financial Activities.

…[2)]][3)]

The Financial Supervisory Authority may demand any sort of data or information from subsidiaries or affiliates, or from other parties regarded as having close connections with a financial undertaking, which the Financial Supervisory Authority regards as necessary in the course of its supervision of the financial undertaking concerned.

The Financial Supervisory Authority may demand any sort of data or information from holding companies in the financial sector or mixed holding companies, provided the Financial Supervisory Authority deems such information to be necessary for its supervision of financial undertakings which are subsidiaries of these holding companies.

[The Financial Supervisory Authority shall oversee dealings by a financial undertaking with its subsidiaries and affiliated companies, companies which control or have holdings in the financial undertaking, and other subsidiaries and affiliated companies of such companies. Furthermore, the Financial Supervisory Authority shall oversee transactions between a financial institution and individuals with holdings of 20% or more in the above-mentioned companies. Financial undertakings shall provide the Financial Supervisory Authority with a report on such transactions in accordance with its specific decision. Where the transactions are with enterprises or individuals in other states, co-operation between supervisory authorities shall be as provided for in international agreements to which Iceland is a party and co-operation agreements concluded by the Financial Supervisory Authority on their basis.

The Financial Supervisory Authority may, at the request of supervisory authorities in another state, verify information from parties in Iceland subject to supplementary supervision of financial conglomerates. The supervisory authorities concerned may participate in efforts to verify such information.][4)]

If the Financial Supervisory Authority is of the opinion that activities covered by this Act are being carried out without the required authorisation, it may demand documentation and information from the parties concerned or from regulated entities, as necessary to determine whether this is the case. It may demand that such activities cease immediately. Furthermore, the Authority may make public the names of parties considered to be offering services without the required authorisations.

Provisions of the Act on the Official Supervision of Financial Activities on daily fines and on searches and seizure of documents may be applied for obtaining information and carrying out supervision as provided for in this Article.

[1)]*Act No. 130/2004, Art. 11*. [2)]*Act No. 75/2010, Art. 51*. [3)]*Act No. 67/2006, Art. 14*. [4)]*Act No. 130/2004, Art. 13*.

[Art. 108][1)] *Assistance to authorities of other EEA states*

Supervisory authorities in a state of the European Economic Area shall be authorised to carry out checks in Icelandic branches of undertakings established in their countries upon prior notification of such to the Financial Supervisory Authority.

If a financial undertaking licensed to operate in Iceland which pursues activities in another state of the European Economic Area violates the laws of that state and the competent authorities of that state take measures comparable to those listed in Art. 34, the Financial Supervisory Authority shall assist the competent authorities in that state in their exchanges with the management of the financial undertaking concerned.

[The provisions of the first and second paragraphs shall apply to Swiss and Faroese supervisory authorities, as applicable, provided that a co-operation agreement has been concluded between the Financial Supervisory Authorities and the competent Swiss or Faroese authorities.][2)]

[The Financial Supervisory Authority shall notify the appropriate foreign authorities of a moratorium, composition with creditors or insolvency of domestic credit institutions operating branches in other states of the European Economic Area.][3)]

[If an Icelandic financial undertaking operates a branch in another state of the European Economic Area the competent authorities of that state may submit a reasoned request to the Financial Supervisory Authority that the branch be considered especially significant to that state. For the branch to be considered especially significant, regard shall be had as to whether deposits in the branch are at least a 2% market share of total deposits in that state and whether the branch has a very large group of customers and the temporary closure or suspension of the financial undertaking's activities would have a very serious impact on payment systems in the state. If the Financial Supervisory Authority is of the opinion that the branch does not satisfy the conditions laid down in the second sentence, the Financial Supervisory Authority shall refuse the request and send the competent authorities in the other state grounds for its refusal. If the Financial Supervisory Authority agrees to the request, it is authorised to provide the competent authorities in the other state with additional information on the activities of the branch in that country. The Financial Supervisory Authority may adopt rules providing in more detail for the procedure in handling such a request and what information the Financial Supervisory Authority may provide to other competent authorities on activities of the branch.

The provisions of the fifth paragraph shall also apply *mutatis mutandis* to a securities undertaking which holds an operating license under this Act and operates a branch in another state of the European Economic Area.][4)]

[1)]*Act No. 130/2004, Art. 11*. [2)]*Act No. 108/2006, Art. 84*. [3)]*Act No. 130/2004, Art. 14*. [4)]*Act No. 47/2013, Art. 11*.

B. Supervision on a consolidated basis

[Art. 109][1)] The provisions of Part C of Chapter IV and of Chapter X shall apply to consolidations where the parent company is a financial undertaking or a holding company in the financial sector. The parent company shall be responsible for implementation of this provision. [Provisions of Art. 52 on eligibility of directors and managing directors, and of Articles 84 and 85 on own funds shall also apply to holding companies in the financial sector.][2)] [Provisions of Art. 30 and Articles 84-86 shall also apply to financial conglomerates, as referred to in the third paragraph.][2)]

If a financial undertaking or holding company in the financial sector, alone or jointly with other undertakings in the consolidation, owns a holding in an affiliated company, which is a financial undertaking or undertaking in the financial sector, and that undertaking is operated in co-operation with other undertakings which are not part of the consolidation, in applying the provisions of the first paragraph on own funds a proportional consolidation method shall be used, having regard for the share in the undertaking in question. If the liability of the financial undertaking or holding company for the affiliated company in question is not limited to the share of its holding or voting rights the provisions of traditional consolidated accounting shall apply. An affiliated company as referred to in this paragraph shall mean a company, not a subsidiary, in which another company and its subsidiaries own a holding and have substantial influence on, or in which the direct or indirect holding amounts to 20% or more of own funds or voting rights.

[The Financial Supervisory Authority shall monitor compliance of financial conglomerates with the provisions of this Act. A financial conglomerate shall mean a group of companies, or companies which have close connections, cf. Art. 18, where a regulated entity heads the group and at least one entity within in the group operates in the financial sector and another entity operates in the insurance sector and where the consolidated and/or aggregated activities in the financial sector, on the one hand and, on the other hand, comparable activities in the insurance sector are each considered significant according to rules set by the Financial Supervisory Authority. Where there is no regulated entity at the head of the group, but the group's activities are primarily within the financial or insurance sector, as defined in rules set by the Financial Supervisory Authority, the group shall be considered a financial conglomerate. Each sub-group which fulfils the conditions of the second sentence shall be regarded as a financial conglomerate. The Financial Supervisory Authority shall set detailed rules[3)] on the definition of financial conglomerates and their supervision.][2)]

☐The Financial Supervisory Authority may decide that the provisions of the first paragraph of this Article and [the ninth and tenth paragraphs of Art. 97][2)] shall also apply in other instances involving a financial undertaking which alone or jointly with another party has such ownership links to an undertaking that it is deemed necessary to apply these provisions.

☐Provisions of the first paragraph of this Article and [the ninth and tenth paragraphs of Art. 97][2)] shall not apply to undertakings in which a financial undertaking has temporarily acquired a holding, either to ensure the enforcement of a claim or due to reorganisation of the

undertaking, nor to enterprises pursuing insurance activities. The Financial Supervisory Authority may, however, decide that the said provisions shall apply.

The Financial Supervisory Authority may grant an exemption from the provisions of the first paragraph of this Article and [the ninth and tenth paragraphs of Art. 97.][2)]

[1)] *Act No. 130/2004, Art. 11*. [2)] *Act No. 130/2004, Art. 15*. [3)] *Rules 920/2008.*

Chapter XIV. Penalties

[Art. 110][1)] *[Administrative fines*

[The Financial Supervisory Authority may levy administrative fines on any party violating [the following provisions of this Act and rules adopted on their basis]:[2)]

1. Art. 3, prohibiting pursuit of activities subject to license without an operating license;

2. Art. 8, on notification of changes to previously submitted information on a financial undertaking;

3. the first paragraph of Art. 12, on the exclusive right of financial undertakings to use in their company name, or as a clarification of their activities, the name of the type of financial undertaking for which the undertaking has been granted an operating license;

4. [Art. 17, on the implementation of risk management];[2)]

5. Art. 17 a, on the obligation to maintain a special register of obligations and information disclosure to the Financial Supervisory Authority;

6. the second paragraph of Art. 17 b, on compliance by a regulated party with the instructions of the Financial Supervisory Authority;

7. the first and second paragraphs of Art. 19, on operating in accordance with proper and sound business practices and customs in the financial market ...[2)] and making accessible information on regulatory and legal remedies [and the fourth paragraph of Art. 19, on not publishing or not updating information on the website on the names and nationalities of parties holding over 1% of share capital or guarantee capital in the undertaking];[3)]

8. the second paragraph of Art. 21, on the obligation to report ancillary activities;

9. Art. 22, on temporary activities and takeover of assets;

10. the third paragraph of Art. 27, prohibiting a management company from acquiring securities with voting rights enabling it to significantly influence the management of a securities issuer;

11. Art. 29, on ownership and the obligation to report to the Financial Supervisory Authority;

12. the first and second paragraphs of Art. 29 a, prohibiting granting of loans or other credit;

[13. Art. 29 b on transfer of credit risk;

14. Art. 29 c on disclosure requirements concerning securitisation];[2)]

[15.][2)] …[2)] Art. 30, on limits to large exposures;

[16.][2)] the first paragraph of Art. 31, Articles 32 and 33, on activities of foreign financial undertakings in Iceland;

[17.][2)] the first and fifth paragraphs of Art. 36, the first and fourth paragraphs of Art. 37, the first paragraph of Art. 38 and Art. 39, on activities of domestic financial undertakings abroad;

[18.][2)] Art. 40, on notification of a qualifying holding;

[19.][2)] Art. 46, on restrictions on exercising a holding;

[20.][2)] Art. 47, notification by an owner;

[21.][2)] Art. 48, notification by a financial undertaking;

[22.][2)] Art. 49, on information disclosure;

[23.][2)] the second, third, fourth and seventh paragraphs of Art. 52, on eligibility criteria, directors serving on the Board of another financial undertaking and notification of the Financial Supervisory Authority;

[24.][2)] Art. 52 b, on notification by the Board of Directors of a parent company;

[25.][2)] Art. 52 c, on notification by the Board of Directors and managing director to the Financial Supervisory Authority;

[26.][2)] the first and second sentences of the first paragraph of Art. 53, on eligibility requirements of employees of financial undertakings responsible for day-to-day activities in trading in financial instruments and reporting of changes in personnel;

[27.][2)] the second and third paragraphs of Art. 54, on procedural rules and prohibition against an executive chairman of the Board of Directors;

[28.][2)] the second and third paragraphs of Art. 55, on participation of directors in handling issues;

[29.][2)] Art. 56, on participation of employees in business operations;

[30.][2)] Art. 57, on rules on working procedures;

[31.][2] Art 57 a, on bonus schemes;

[32.][2] Art. 57 b, on severance agreements;

[33.][2] Art. 58, on confidentiality;

[34.][2] [Art. 63, on disposition of dividends];[4]

[35.][2] [Art. 64, on adopting and complying with rules on transactions with holdings in a savings bank];[4]

[36.][2] [the second paragraph of Art. 65, on obligations of a savings bank];[4]

[37.][2] [the third paragraph of Art. 69, on maintaining and updating a register of guarantee capital owners];[4]

[38.][2] …;[5]

[39.][2] …;[5]

[40.][2] the third sentence of the seventh paragraph of Art. 84, on the obligation to report to the Financial Supervisory Authority;

[41.][2] the first paragraph of Art. 86, on initial measures due to insufficient own funds;

[42.][2] Art. 87, on preparation and signing of annual financial statements;

[43.][2] the first paragraph of Art. 88, on good accounting practice;

[44.][2] Art. 89, on the report of the Board of Directors;

[45.][2] Art. 91, on eligibility of auditors;

[46.][2] Art. 92, on information disclosure by auditors;

[47.][2] Art. 95, on submission of annual financial statements to the Financial Supervisory Authority;

[48.][2] Art. 106, on merger of a financial undertaking with another undertaking or its individual operating units;

[49.][2] Art. 107, on supervisory powers of the Financial Supervisory Authority;

[50.][2] settlement between the Financial Supervisory Authority and parties, cf. Art. 111.

Fines which are levied on individuals may amount from ISK 100,000 to ISK 20 million. Fines which are levied on legal entities may be from ISK 500,000 to ISK 50 million. In determining the fine, regard shall be had, among other things, for the seriousness of the offence, how long it has continued, the readiness of the offending party to co-operate and whether the offence has been repeated. Decisions on administrative fines shall be taken by the Board of Directors

of the Financial Supervisory Authority and are enforceable by execution. After deducting the cost of collection, fines shall accrue to the Treasury. If administrative fines are not paid within a month of a decision by the Financial Supervisory Authority, penalty interest shall be paid on the amount of the fine. The Act on Interest and Indexation shall apply to a decision on and calculation of penalty interest.

Administrative fines may be applied regardless of whether violations are committed deliberately or through negligence.][6)]][7)]

[1)] *Act No. 130/2004, Art. 11*. [2)] *Act No. 119/2011, Art. 7*. [3)] *Act No. 47/2013, Art. 13*. [4)] *Act No. 77/2012, Art. 8.* [5)] *Act No. 17/2013, Art. 47*. [6)] *Act No. 75/2010, Art. 52*. [7)] *Act No. 55/2007, Art. 7*.

[Art. 111][1)] [If a party has violated the provisions of this Act or decisions by the Financial Supervisory Authority based upon it, the Financial Supervisory Authority may conclude the case with a settlement with the party's consent, provided no major offence is involved subject to criminal punishment. A settlement is binding upon a party to the case once the party has approved and confirmed its substance with his/her signature. The Financial Supervisory Authority shall adopt detailed rules[2)] on the implementation of the provision.][3)]

[1)] *Act No. 130/2004, Art. 11*. [2)] *Rules 1245/2007*. [3)] *Act No. 55/2007, Art. 8*.

[Art. 112][1)] [In a case directed against an individual, which may conclude with the levying of an administrative fine or charges laid with the police, a person who there is reasonable grounds to suspect is guilty of an offence has the right to refuse to answer questions or deliver data or articles unless the possibility can be excluded that this may be of significance for determining his/her offence. The Financial Supervisory Authority shall inform the suspect of this right.][2)]

[1)] *Act No. 130/2004, Art. 11*. [2)] *Act No. 55/2007, Art. 9.*

[Art. 112 a The authorisation of the Financial Supervisory Authority to levy administrative fines under this Act shall expire once five years have elapsed from the time the behaviour concluded.

Calculation of the time limit provided for in the first paragraph shall be suspended when the Financial Supervisory Authority notifies a party of the initiation of an investigation of an alleged offence. Suspension of the time limit shall have legal effect on all parties involved in an offence.][1)]

[1)] *Act No. 55/2007, Art. 10*.

[Art. 112 b *Fines or imprisonment*

[[Violations of the following provisions of this Act and rules adopted on their basis shall be liable to fines or imprisonment of up to two years, unless more severe punishment is provided for in other Acts:][1)]

1. Art. 3, prohibiting pursuit of activities subject to license without an operating license;

2. the second paragraph of Art. 17 b, on information provided to the Financial Supervisory Authority;

3. the second paragraph of Art. 19, on compliance with rules of the Financial Supervisory Authority;

4. the second paragraph of Art. 21, on the obligation to report ancillary activities;

5. Art. 22, on temporary activities and takeover of assets;

6. the third paragraph of Art. 27, prohibiting a management company from acquiring securities with voting rights enabling it to significantly influence the management of a securities issuer;

7. Art. 29, on ownership and the obligation to report to the Financial Supervisory Authority;

8. the first and second paragraphs of Art. 29 a, prohibiting granting of loans or other credit;

[9. Art. 29 b on transfer of credit risk;

10. Art. 29 c on disclosure requirements concerning securitisation];[1)]

[11.][1)] Art. 30, on limits to large exposures;

[12.][1)] the first paragraph of Art. 31, Articles 32 and 33, on activities of foreign financial undertakings in Iceland;

[13.][1)] Art. 40, on notification of a qualifying holding;

[14.][1)] Art. 46, on restrictions on exercising a holding;

[15.][1)] Art. 49, on information disclosure;

[16.][1)] the second and third paragraphs of Art. 54, on procedural rules and prohibition against an executive chairman of the Board of Directors;

[17.][1)] the second and third paragraphs of Art. 55, on participation of directors in handling issues;

[18.][1)] Art. 56, on participation of employees in business operations;

[19.][1] the first paragraph of Art. 57, on employees' transactions with a financial undertaking;

[20.][1] Art 57 a, on bonus schemes;

[21.][1] Art. 57 b, on severance agreements;

[22.][1] Art. 58, on confidentiality;

[23.][1] [Art. 63, on disposition of dividends];[2]

[24.] [1] …;[3]

[25.][1] the first paragraph of Art. 86, on initial measures due to insufficient own funds;

[26.][1] Art. 87, on preparation and signing of annual financial statements;

[27.][1] the first paragraph of Art. 88, on good accounting practice;

[28.][1] Art. 89, on the report of the Board of Directors;

[29.][1] Articles 91 and 92, on eligibility of auditors and their obligation to give notice of flaws in operations;

The same penalties also apply to deliberate provision of incorrect or misleading information on the circumstances of a financial undertaking or other information concerning it, either publicly or to the Financial Supervisory Authority, other public entities or its clients.][4]][5]

[1] *Act No. 119/2011, Art. 8.* [2] *Act No. 77/2012, Art. 9.* [3] *Act No. 17/2013, Art. 47.* [4] *Act No. 75/2010, Art. 53.* [5] *Act No. 55/2007, Art. 10.*

[Art. 112 c Violations of this Act which are liable to fines or imprisonment shall be subject to punishment whether committed deliberately or through negligence.

Any direct or indirect gain acquired through a violation of the provisions of this Act liable to fines or imprisonment may be confiscated by a court judgement.

An attempt to commit or participation in a violation of this Act is liable to punishment as prescribed by the Criminal Code.][1]

[1] *Act No. 55/2007, Art. 10.*

[Art. 112 d [Violations against this Act shall only be subject to police investigation following a complaint from the Financial Supervisory Authority.][1]

If an alleged violation of this Act is liable to both administrative fines and punishment, the Financial Supervisory Authority shall assess whether to lay charges with the police or conclude the case with an administrative decision by the Authority. In the case of major violations, the Financial Supervisory Authority should refer these to the police. A violation is

considered major if substantial amounts are involved or if the violation has been committed in an especially reprehensible manner or under circumstances which greatly increase the culpability of the violation. Furthermore the Financial Supervisory Authority may, at any stage of the investigation, refer violations of this Act for [police investigation].[1)] Care shall be taken to ensure consistency in resolving comparable cases.

Charges laid by the Financial Supervisory Authority shall be accompanied by copies of the documentation supporting the suspicion of a violation. The provisions of Chapters IV-VII of the Public Administration Act shall not apply to a decision by the Financial Supervisory Authority to lay charges with the police.

The Financial Supervisory Authority may provide the police and prosecution with information and documentation which the Authority has acquired and is connected with the violations referred to in the second paragraph. The Financial Supervisory Authority may participate in actions by the police concerning their investigation of violations referred to in the second paragraph.

The police and prosecution may provide the Financial Supervisory Authority with information and documentation which they have acquired and is connected with the violations referred to in the second paragraph. The police may participate in actions by the Financial Supervisory Authority concerning their investigation of violations referred to in the second paragraph.

If the prosecution is of the opinion that there is insufficient cause for bringing suit concerning alleged punishable behaviour which furthermore is liable to administrative penalties, it may send or return the case to the Financial Supervisory Authority for handling and a decision.][2)]

[1)] Act No. 88/2008, Art. 234. [2)] Act No. 55/2007, Art. 10.

Chapter XV. Miscellaneous provisions

[Art. 113][1)] *Registration of accounts by name*

All deposit accounts, custody accounts and safety deposit boxes must be registered in the name of the customer together with his/her address and Id. No.

[1)] Act No. 130/2004, Art. 11.

[Art. 114][1)] *Lost documents*

If a deposit document or acceptance receipt issued by a financial undertaking for a pledge or assets taken into custody is lost, the Board of Directors of the financial undertaking may summon the bearer of the said documents with three months' notice from the final publication of such a summons, which must be published in the Legal Gazette three times.

If no one answers the summons before the time limit elapses, all claims on the financial undertaking based on the deposit document or acceptance receipt shall be cancelled. The financial undertaking shall then, at the request of the person who formerly received the

deposit certificate or acceptance receipt from the undertaking in question, issue the person or such party who proves his/her legal right derived from this person, with a new one with the same terms and conditions as the previous one.

[1] *Act No. 130/2004, Art. 11.*

[Art. 115][1] *Exemption from stamp duty*

Deposit documents, cheques and any type of obligation issued in the name of financial undertakings, obligations entitling them to a pledge, dividend coupons of their bonds and assignments shall be exempt from stamp duties.

[1] *Act No. 130/2004, Art. 11*.

[Art. 116][1] *Exempted funds and exemption from legal form*

Notwithstanding the authorisations of the Harbours Improvement Fund, as provided for in Act No. 23/1994, the Harbours Act; of the Housing Financing Fund, as provided for in Act No. 44/1998, on Housing Affairs; and the Tourism Fund, as provided for in Act No. 117/1994, on the Organisation of Tourism; these funds shall not be considered financial undertakings in accordance with this Act.

Public investment funds in operation upon the entry into force of this Act shall be exempt from the requirements of Art. 13 on operating as a limited-liability company.

[1] *Act No. 130/2004, Art. 11*.

Chapter XVI. Entry into force, etc.

[Art. 117][1] *Transposition*

This Act transposes into Icelandic law provisions of the Directives of the European Parliament and the Council 2000/12/EC, relating to the taking up and pursuit of the business of credit institutions, 93/6/EEC, on the capital adequacy of investment firms and credit institutions, [2004/39/EC on markets in financial instruments],[2] 86/635/EEC, on the annual accounts and consolidated accounts of banks and other financial institutions, 107/2001/EC, amending Directive 85/611/EEC on undertakings for collective investment in transferable securities (UCITS), 95/26/EC, amending various Directives in the field of financial services, with a view to reinforcing prudential supervision, 2000/28/EC, amending Directive 2000/12/EC concerning the definition of a credit institution, and 2000/46/EC, on the taking up and pursuit of the business of electronic money institutions, [Directive 2001/24/EC of the European Parliament and of the Council],[3] [Directive 2006/48/EC of the European Parliament and of the Council, Directive 2006/49/EC of the European Parliament and of the Council, [Directive 2007/44/EC of the European Parliament and of the Council, [Directive 2009/111/EC of the European Parliament and of the Council and Directive 2010/76/EU of the European Parliament and of the Council].[4]][5]][6]

[1)] *Act No. 130/2004, Art. 11*. [2)] *Act No. 111/2007, Art. 12*. [3)] *Act No. 78/2011, Art. 7*. [4)] *Act No. 47/2013, Art. 14*. [5)] *Act No. 119/2011, Art. 9*. [6)] *Act No. 75/2010, Art. 54*.

[Art. 118][1)] *Entry into force*

This Act shall enter into force on 1 January 2003. … The words financial instrument in this Act shall mean securities as defined in Act No. 13/1996, on Securities Transactions.

[1)] *Act No. 130/2004, Art. 11*.

[Art. 119][1)]

[1)] *Act No. 130/2004, Art. 11*.

[Art. 120][1)]

[1)] *Act No. 130/2004, Art. 11*.

Temporary Provisions

I-IV …[1)]

[1)] *Act No. 75/2010, Art. 55.*

[V. The following special rules shall apply to financial undertakings which benefit from a moratorium upon the entry into force of this Act:

1. The moratorium shall continue in effect despite the entry into force of this Act and may be extended as provided for in those rules referred to in the [third paragraph of Art. 98.][1)]

2. [With regard to the moratorium, the provisions of the first paragraph of Art. 101 and Articles 102, 103 and 103 a of the Act shall be applied as if the undertaking had been placed in winding-up with a court ruling on the date Act No. 44/2009 entered into force; the winding-up shall, however, continue to be referred to as a moratorium as long as this exists, cf. Point 1. The provisions of Chapter IV of the Act on Bankruptcy etc. shall not apply to a moratorium of the kind concerned here; the appointee shall, however, oversee dispositions of the Resolution Committee as provided for in Art. 103 of the Act. Before the undertaking's moratorium expires, the Resolution Committee and the Winding-up Board may jointly petition for the undertaking to be placed in winding-up proceedings under general rules, cf. however Points 3 and 4, by a court ruling, provided that the substantive conditions of Point 3 of the second paragraph of Art. 101 of the Act are fulfilled. Such petition shall be submitted at the latest on the day that the undertaking's moratorium expires. The handling of such a petition shall in other respects be governed by the third paragraph of Art. 101 of the Act. If the court approves the petition, measures taken during the undertaking's moratorium after the entry into force of Act No. 44/2009 shall remain unaltered. To the extent that the ranking of claims and other

legal effects are determined by the date that a ruling on winding-up proceedings is pronounced, the reference date shall similarly be determined by the date of entry into force of that Act. From the time that a petition for winding-up proceedings under general rules is received by a judge and until a ruling is pronounced the rules on winding-up proceedings shall apply provisionally to the undertaking. The moratorium shall expire automatically when a final ruling placing the undertaking in winding-up proceedings is pronounced.][2)]

3. The Resolution Committee of a financial undertaking, appointed by the Financial Supervisory Authority prior to the entry into force of this Act, based on Art. 5 of Act No. 125/2008, shall continue its work with its name unaltered and fulfil the role intended for the Winding-up Board in the third paragraph of Article 9, the second sentence of the fourth paragraph of Article 101, the first sentence of the fifth paragraph of Article 102, and the first to third paragraphs of Art. 103 of the Act ...[1)] [Unless otherwise provided for in this Act, the rules concerning administrators in liquidation proceedings shall apply to the Resolution Committee, its tasks and the members of the Committee. Persons appointed to a Resolution Committee must also fulfil the qualification requirements of the second paragraph, the fourth sentence of the third paragraph and the fourth paragraph of Art. 52 of the Act. This provision shall be cancelled as of 1 January 2012, after which time the tasks handled by Resolution Committees shall be assumed by Winding-up Boards. Once a Winding-up Board has taken over the tasks of a Resolution Committee a District Court judge may, at the request of the Winding-up Board, appoint additional members to the Winding-up Board, but they may never exceed five, however.][3)]

4. To carry out tasks of the Winding-up Board, other than those referred to in Point 3, a District Court judge shall, following a written request from the Resolution Committee, appoint such a Board for the undertaking in accordance with the instructions in the first and third sentences of the fourth paragraph. Art. 101 of the Act, cf. Art. 5 of this Act. The person serving as the undertaking's appointee during the moratorium shall also automatically take a seat on this Board and shall remain in this position even after the moratorium has concluded.

[5. The Financial Supervisory Authority's supervisory role, as provided for in Art. 101 a of the Act, shall also include the work of a Resolution Committee operating in accordance with this provision and the persons appointed to it.][3)]][4)]

[1)]Act No. 75/2010, Art. 55. [2)]Act No. 132/2010, Art. 2. [3)]Act No. 78/2011, Art. 8. [4)]Act No. 44/2009, Temporary Provision II.

[VI. In order to limit damage or risk of damage on financial markets, the Financial Supervisory Authority may take special measures in accordance with the instructions of this provision if it considers such necessary in view of exceptional circumstances or events. Exceptional circumstances or events refers to particular financial and/or operational difficulties experienced by a financial undertaking, including the probability that it will not be able to fulfil its commitments to customers or creditors, the probability that the premises for revocation of its operating license exist, or the likelihood that the undertaking cannot satisfy minimum capital requirements, and other remedies available to the Financial Supervisory

Authority are unlikely to prove successful. Exceptional circumstances shall also apply to instances where a financial undertaking has requested or been granted a debt moratorium or authorisation to seek composition with creditors.

In the circumstances or events specified in the first paragraph, the Financial Supervisory Authority may call a shareholders' meeting or a meeting of guarantee capital owners. A representative of the Financial Supervisory Authority shall chair the meeting and have the right to speak and submit proposals. Under these circumstances, the Financial Supervisory Authority is not obliged by provisions of the Public Limited Companies Act or of a financial undertaking's Articles of Association regarding calling meetings, advance notice of meetings or proposals to amend the Articles of Association.

If the situation is urgent, the Financial Supervisory Authority may assume the power of a shareholders' meeting or meeting of guarantee capital owners in order to take decisions on necessary actions, including limiting the decision-making powers of the Board of Directors, dismissing the Board in part or in full, taking over the assets, rights and obligations of a financial undertaking in full or in part, or disposing of such an undertaking in full or in part, including through its merger with another undertaking. Such measures shall not be subject to provisions of the Act on Securities Transactions on mandatory bid obligations, nor to the provisions of this Act concerning advertisement of financial undertakings' mergers in the *Legal Gazette*. The Financial Supervisory Authority may transfer all rights to the extent necessary in such instances. Should the Financial Supervisory Authority conclude that a merger of the financial undertaking concerned with another optimally safeguards the interests at stake, the provisions of the Competition Act and merger provisions of this Act shall not apply to such a merger. A decision by the Financial Supervisory Authority to take over the operations of a financial undertaking shall be notified to the undertaking's Board of Directors in writing and grounds given The Financial Supervisory Authority shall make the notification public. If the financial undertaking operates branches or provides services in another state such notification must be sent to the competent supervisory authorities in that state.

If the Financial Supervisory Authority dismisses the entire Board of Directors of a financial undertaking, a provisional Board of Directors must be appointed for the undertaking immediately. The provisions of Art. 100 a shall apply in other respects to such a Board of Directors and its work.

If necessary, the Financial Supervisory Authority may limit or prohibit disposal of the funds or assets of a financial undertaking. The Financial Supervisory Authority may take custody of assets that are to satisfy the financial undertaking's obligations, have their value assessed and dispose of them as necessary for payment of claims fallen due. The Financial Supervisory Authority may also void a sale of assets which took place up to one month before the Authority took special measures pursuant to this provision.

The provisions of Chapters IV-VII of the Public Administration Act shall not apply to the above-mentioned procedure and decision making by the Financial Supervisory Authority.

The Treasury shall be responsible for the cost of implementing actions by the Financial Supervisory Authority based on this provision.

This provision shall expire on [31 December 2013].[1)]][2)]

[1)] *Act No. 77/2012, Art. 10.* [2)] *Act No. 44/2009, Temporary Provision IV.*

[**VII.** Notwithstanding the provision of the sixth paragraph of Art. 102, the Resolution Committee of a financial undertaking which enjoyed a moratorium upon the entry into force of Act No. 44/2009, amending Act No. 161/2002, on Financial Undertakings, cf. Temporary Provision II, may during the period from the entry into force of this Act until the conditions are met for satisfying claims based on the sixth paragraph of Art. 102, pay debts due to salaries, including salaries during the notice period, and in connection with deposits which were given priority by Art. 6 of Act No. 125/2008, cf. the third paragraph of Art. 102 of the Act on Financial Undertakings, if it is certain that there are sufficient funds to pay in full or in the same proportion claims which could enjoy the same or higher ranking in priority. [Subject to the same conditions the Winding-up Board of a financial undertaking may pay debts due to salaries, including salaries during the notice period, from the entry into force of this Act until [31 December 2010].[1)]][2)]][3)]

[1)] *Act No. 127/2010, Art. 1.* [2)] *Act No. 74/2009, Art. 1.* [3)] *Act No. 61/2009, Art. 1.*

[VIII. Financial undertakings shall be allowed until their next AGM following the adoption of this Act to fulfil eligibility requirements of directors. Managing directors and heads of internal audit sections shall be allowed until 31 December 2010 to fulfil eligibility requirements under this Act.][1)]

[1)] *Act No. 75/2010, Art. 55.*

[IX. The provision of Art. 29 b shall apply to securitisation originating after the entry into force of this Act; after 31 December 2014, however, the provision shall also apply to all securitised positions taken before the adoption of this Act, provided assets have been replaced or assets added to the underlying asset pool after that time.

The Financial Supervisory Authority shall, before 31 December 2011, publish information on the general criteria and methods used in assessing whether the conditions of Art. 29 b or rules of the Financial Supervisory Authority as referred to in Art. 29 d are considered to be satisfied.][1)]

[1)] *Act No. 119/2011, Art. 10.*

[X Notwithstanding the second paragraph of Art. 22, financial undertakings and financial undertakings in winding-up proceedings may not appropriate assets to enforce a claim if the claim is disputed in light of Supreme Court judgements pronounced concerning the legality

and recalculation of exchange-rate-linked loans. A judge shall decide whether the right of a financial undertaking is so unequivocal that appropriation may be authorised.

The Financial Supervisory Authority may levy administrative fines on any party violating this provision, cf. Art. 110.

This provision shall apply until year-end 2013.][1)]

[1)] *Act No. 72/2012, Art. 8.*