

Act on the Central Bank of Iceland¹

CHAPTER I

Status, objectives and tasks.

Article 1

The Central Bank of Iceland is an independent institution owned by the State. Its governance is subject to the provisions of this Act.

All obligations of the Central Bank are guaranteed by the State Treasury.

Article 2

The domicile and venue of the Central Bank of Iceland is in Reykjavík.

Article 3

The main objective of the Central Bank of Iceland is to promote price stability. By agreement with the Prime Minister, the Central Bank can declare a numerical target for inflation.

The Central Bank shall promote the implementation of the economic policy of the government as long as it does not regard it to be inconsistent with its main objective as described in Paragraph 1 above.

Article 4

The Central Bank of Iceland shall undertake such tasks as are consistent with its role as a central bank, such as to maintain external reserves and promote an efficient and safe financial system, including payment systems domestically and with foreign countries.

CHAPTER II

The issue of notes and coins.

Article 5

The Central Bank of Iceland has the sole right to issue bank notes and mint and issue coins or other

currency which may circulate in place of banks notes or lawful coins.

The bank notes and coins issued by the Bank shall be legal tender for all payments at full nominal value.

Commemorative coins issued by the Central Bank shall be legal tender for all payments at full nominal value. The Central Bank is authorised to decide that commemorative coins are sold with a surcharge on their nominal value. Profits on the sale of commemorative coins shall be used to support art, culture or science as decided by the Prime Minister.

The Prime Minister decides, upon receiving proposals from the Central Bank, the form, appearance and denominations of the notes and coins issued by the Central Bank and has an announcement thereof published.

CHAPTER III

Domestic activities of the Central Bank.

Article 6

The Central Bank of Iceland accepts deposits from deposit institutions which consist of commercial banks, savings banks, branches of foreign deposit institutions and such other institutions and companies as may be authorised by law to accept deposits from the public for safe keeping and earning of interest. The Central Bank may also accept deposits from other credit institutions and securities companies.

The Central Bank lays down rules on its activities according to this Article including which credit institutions other than deposit institutions shall be allowed to maintain deposits in the Central Bank.

Article 7

The Central Bank of Iceland may advance loans to institutions referred to in Article 6 and engage in deposit transactions with them by way of the purchase of securities or in another manner against collateral which the Bank deems valid. These transac-

1. Adopted by the Parliament on May 18, 2001.

tions may be in domestic or foreign currency. The Central Bank lays down further rules with respect to its transactions pursuant to this Paragraph.

In special circumstances when the Central Bank deems it necessary in order to protect the safety of the domestic financial system the Bank may issue guarantees to credit institutions which are in liquidity difficulties or grant loans to them other than those covered in Paragraph 1 above on special terms and against other collateral than stipulated in Paragraph 1 above or against other conditions laid down by the Bank.

Article 8

For the purpose of pursuing its monetary policy objectives the Central Bank of Iceland is authorised to buy and sell government bonds and other sound securities at an organised securities market or in direct transactions with credit institutions.

Article 9

The Central Bank of Iceland is authorised to issue transferable securities in domestic or foreign currency for sale to credit institutions which may transact business with the Bank, cf. Article 6.

Article 10

The Central Bank of Iceland determines the rate of interest on deposits with the Bank, on credit advanced by the Bank and on securities issued by it.

Article 11

The Central Bank of Iceland may determine that credit institutions be obliged to maintain funds on reserve requirement accounts with the Bank. The Bank is also authorised to determine that a specific portion of the increase in deposits or disposable funds of each institution shall be placed as required reserves with the Bank provided that the total deposit funds which the institution concerned is obliged to have at the Central Bank shall not exceed the maximum laid down in the first sentence of the present paragraph. The Bank is furthermore authorised to determine that unit trusts shall maintain funds on reserve requirement accounts with the Bank.

The Central Bank lays down further rules with respect to the basis and implementation of reserve requirements pursuant to this Article, including to

which credit institutions this applies. The rules may determine that the reserve requirement ratio be variable depending upon the nature of credit institutions and unit trusts and classes of deposits and other obligations to which the reserve requirement extends. The principle of impartiality shall be applied in determining the reserve requirement so that it does not alter the relative competitive position of the domestic firms to which it is applied.

Article 12

The Central Bank of Iceland is authorised to lay down rules as to credit institutions' minimum or average liquid assets which must at all times be available for the purpose of meeting for stable and conceivable payment obligation in a certain period of time, cf. Article 4. In the rules it may be determined that different provisions apply to different classes of credit institutions.

Article 13

The Central Bank of Iceland is authorised to impose upon credit institutions rules relating to foreign exchange balance. Such balance shall, in addition to exchange rate linked assets and liabilities, cover off-balance sheet exchange rate linked assets and liabilities, such as forward and options contracts.

Article 14

The Central Bank of Iceland undertakes for the Treasury any kind of banking services other than the granting of credits as stipulated in Article 16. Unless special conditions warrant otherwise, the deposits of the Treasury shall be held on accounts with the Central Bank.

The Central Bank shall advise the Government on all matters pertaining to foreign exchange issues, including foreign borrowing, and undertake the administration of affairs in this field as may be agreed upon.

Article 15

The Government shall provide the Central Bank of Iceland with information on economic developments in general and on the finances of the Treasury, Treasury borrowing and payments forecasts of the Treasury that are necessary for the activities of the Bank.

Article 16

The Central Bank of Iceland may not grant credit to the State Treasury, municipalities or government institutions other than credit institutions.

Bonds listed on an official securities exchange and issued by those institutions referred to in Paragraph 1 above and which the Central Bank purchases in a securities market or in direct transactions with credit institutions in order to promote its monetary policy objectives shall not be deemed to be credit according to the stipulations of this Article.

Article 17

The Central Bank of Iceland engages in such other banking and securities transactions as are consistent with its role as a central bank. In this connection, the Central Bank may inter alia be a party to and own shares in firms and institutions engaged in securities exchange activities, securities listing or payments systems.

The Central Bank shall not engage in business transactions with the public or firms which on the basis of law, custom or the nature of the case are the appropriate function of others. The Central Bank is nevertheless authorised to undertake primary sale and redemption of securities issued by the Treasury.

CHAPTER IV

Exchange rate matters, the foreign exchange market and foreign transactions.

Article 18

The Central Bank of Iceland transacts in foreign currency, intermediates in foreign exchange transactions and engages in other foreign transactions consistent with its purpose and role as a central bank.

With the consent of the Prime Minister, the Central Bank determines the policy according to which the value of the Icelandic króna against foreign currencies is determined.

The Central Bank lays down rules on the operation of organised foreign exchange markets consistent with the provisions of the Foreign Exchange Act. Under special circumstances, the Central Bank may temporarily limit or halt business in an organised foreign exchange market.

Article 19

The Central Bank of Iceland shall during each day, when banking institutions are generally open for business, quote the rate of exchange of the króna against the principal foreign currencies. This rate shall be used as a standard for official agreements, court cases and other agreements between parties when an alternative standard for a rate of exchange is not specified. The Central Bank may also decide to quote the rate of exchange of the króna on days when organised foreign exchange markets are generally not operating. Under special circumstances, the Central Bank may temporarily suspend its own quotation of the rate of exchange of the króna.

Article 20

The Central Bank of Iceland shall maintain foreign exchange reserves in accordance with its objectives and role. The Board of Governors lays down rules on the management of the foreign reserves to be approved by the Supervisory Board, cf. Article 28.

The Central Bank is authorised to raise loans abroad for the purpose of strengthening its foreign exchange reserves. It is also authorised to participate in a co-operative effort among central banks and international banking or financial institutions for the purpose of strengthening the foreign exchange reserves of other participants.

Article 21

The Central Bank of Iceland co-operates and conducts business with international institutions on behalf of the Government or in line with provisions of law.

The Central Bank is, on behalf of the State, a financial agent of the International Monetary Fund. The Prime Minister appoints one person and one alternate for a period of five years at a time to the Board of Governors of the International Monetary Fund.

The Central Bank is also authorised to be a member of other international institutions provided that it is consistent with its role as a central bank.

CHAPTER V

Administration.

Article 22

Authority over the Central Bank of Iceland is vested in the Prime Minister and a Supervisory Board as provided in this Act. Otherwise the administration of the Bank is in the hands of a Board of Governors.

Article 23

The Board of Governors of the Central Bank of Iceland consists of three Governors, one of whom is Chairman of the Board of Governors. The Board of Governors is responsible for the operations of the Bank and has the authority to make decisions in all of its affairs that is not specifically assigned to others in this Act.

The Prime Minister appoints the Chairman of the Board of Governors and other Governors for a seven-year term at a time. A vacant post of Governor does not have to be advertised. A Governor can only be appointed for two consecutive terms. A Governor who is not the Chairman of the Board of Governors but is in his second term of office may be appointed Chairman of the Board of Governors for one seven-year term. The provisions of the Act on the Rights and Obligations of Government Employees do not apply to the reappointment of a Governor.

If a Governor becomes unable to perform his duties in such a way that the Board of Governors is not filled by three Governors, then the Prime Minister may temporarily appoint a Governor in his place.

The signatures of two Governors are required to commit the Bank. The Board of Governors may, however, grant powers to specific employees of the Bank to commit the Bank by their signature on specific matters subject to rules which it lays down and the Supervisory Board approves, cf. Article 28.

Article 24

The Chairman of the Board of Governors of the Central Bank of Iceland is the spokesman of the Bank and represents the Board of Governors. Otherwise, the Board of Governors decides on the division of tasks among the Governors, cf. the first paragraph of Article 23, including who shall represent the Chairman in his absence.

The Chairman of the Board of Governors calls meetings of the Board. The Board of Governors shall always meet at the request of either of the other Governors. A quorum is met when the majority of the Board of Governors attends a meeting. Decisions are made by majority vote. In the case of a tied vote, the Chairman of the Board of Governors casts the deciding vote.

Decisions of the Board of Governors shall be in writing and signed by the Board of Governors. The Board of Governors lays down internal rules to be approved by the Supervisory Board on the preparations of, arguments for and presentation of its monetary policy decisions. Monetary policy decisions of the Board of Governors shall be publicly presented along with the rationale behind them.

Article 25

The Governors of the Central Bank of Iceland are not permitted to be members of the boards of institutions or business firms outside the Bank or otherwise engage in business unless stipulated in law or if the institution or firm concerned is one to which the Central Bank is a party. In the event of a dispute over the provisions of this Article, the Prime Minister shall decide the issue. Subject to the approval of the Supervisory Board, the Board of Governors lays down rules on the participation of other employees of the Central Bank in the boards of institutions or businesses outside the Bank, cf. Article 28.

Article 26

The Supervisory Board of the Central Bank of Iceland shall be elected following elections to the Parliament. The Supervisory Board consists of seven members elected by the Parliament by proportional ballot and an equal number of alternates. Members of the management or employees of credit institutions or other financial institutions which do business with the Central Bank are automatically disqualified from membership of the Supervisory Board. The authority of the Supervisory Board expires once a new Board is elected by the Parliament. If a principal member of the Supervisory Board ceases to be a member during the elective term, then his seat shall be taken by his alternate until the Parliament has elected a new principal member for the remainder of the elective term of the Supervisory Board.

The Supervisory Board elects a Chairman and Vice Chairman from its own ranks. The Prime Minister determines the fee of the Supervisory Board which is to be paid by the Central Bank.

Article 27

The Chairman of the Supervisory Board of the Central Bank of Iceland calls meetings of the Board. The Supervisory Board shall meet when two members of the Board request a meeting. A quorum is met if the majority of the members attend the meeting. Decisions are made by majority vote. In the event of a tied vote, the Chairman casts the deciding vote. Minutes shall be kept of the meetings.

The Governors attend meetings of the Supervisory Board and participate in discussions. They shall, however, leave the meeting if the Supervisory Board so decides.

Article 28

The Supervisory Board is charged with observing whether the activities of the Central Bank of Iceland are consistent with the laws which govern its activities. The Board of Governors shall inform the Supervisory Board of the main elements of the Bank's monetary policy and of rules which the Bank lays down. Otherwise, the Supervisory Board is particularly charged with the following tasks:

- a. Confirm proposals of the Board of Governors of the main elements in the organisation of the Bank.
- b. Determine the salaries and salary-related benefits of the Governors, including their right to severance pay and pension and other issues that concern their financial interests.
- c. Be responsible for the internal auditing of the Bank and appoint the Chief Auditor.
- d. Confirm rules which the Board of Governors lays down on the preparation of, rationale for and presentation of monetary policy decisions, cf. Article 24.
- e. Confirm rules laid down by the Board of Governors relating to the authority of officials of the Bank to commit the Bank, cf. Article 23.
- f. Confirm the wage contracts for the employees of the Bank, consider rules concerning their pension fund and confirm the appointment of the representative of the Bank on the board of the pension fund when called for.

- g. Confirm the proposal of the Central Bank to the Prime Minister on the rules for the Central bank's accounting principles and annual accounts, cf. Article 32.
- h. Provide the Prime Minister with its opinion on the regulation on the implementation of individual aspects of this Act when called for, cf. Article 39.
- i. Confirm the annual accounts of the Central Bank, cf. Article 32.
- j. Confirm the operating budget for the Bank which the Board of Governors shall present to the Supervisory Board at the beginning of each year.
- k. Monitor the assets and operations of the Bank and confirm decisions on major investments.
- l. Confirm rules on per diem penalties laid down by the Board of Governors, cf. Article 37.
- m. Confirm rules on the participation of employees of the Bank on the boards of institutions or businesses outside the Bank, cf. Article 25.
- n. Confirm rules on the maintenance of the foreign exchange reserves, cf. Article 20.

Chapter VI

Collection of information, research and reports.

Article 29

To fulfil its main objectives as described in Articles 3 and 4 above, the Central Bank of Iceland can directly collect information from those institutions which engage in transactions with the Bank on the basis of Article 6 above, cf. Article 7 above, in addition to institutions and firms engaged in payments systems, and other firms or institutions subject to official supervision on the basis of the Act on the Official Supervision of Financial Activities.

The Central Bank shall be provided with the information which it needs for the purpose of compiling statistical reports. Failure to provide information to the Bank is subject to penalties, cf. Article 37.

Article 30

The Central Bank of Iceland compiles reports and prepares forecasts on monetary matters, the balance of payments and exchange rate and foreign exchange issues and other matters pertaining to the functions and policies of the Bank. The Central Bank shall, at

no less frequent than quarterly intervals, publish reports on its monetary policy and monetary, exchange rate and foreign exchange developments and its measures in these areas. The Central Bank shall also issue an annual report in which it explains in detail its activities.

Article 31

The Central Bank of Iceland engages in economic research related to the tasks of the Bank in the area of monetary policy and the financial system. The Bank is also authorised to promote research by others in these areas.

CHAPTER VII

Accounting and provision of profit.

Article 32

The fiscal year of the Central Bank of Iceland is the calendar year. Annual accounts shall be prepared for each fiscal year and shall be completed within three months after the close of the year. The preparations of the annual accounts shall be in accordance with the law and with recognised accounting principles.

The Prime Minister shall lay down further rules on the accounting principles and preparation of the annual accounts upon the recommendations of the Central Bank, cf. Article 28.

Article 33

Internal audit of the Central Bank of Iceland is the responsibility of the Chief Auditor, cf. Article 28. Furthermore, the State Auditor General shall audit the Central Bank.

Once auditing is completed, the annual accounts shall be signed by the Board of Governors and confirmed by the Supervisory Board, cf. Article 28. If a member of the Supervisory Board has any comments on the annual accounts, they shall be signed with a reservation, specifying the nature of the reservation.

The audited accounts shall be submitted to the Prime Minister for ratification not less than three months after the end of the fiscal year.

The annual accounts of the Central Bank shall be published in the annual report of the Bank, cf. Article 30. The Bank shall also publish a monthly balance sheet.

Article 34

In each year, an amount equal to two-thirds of the profit of the Central Bank in the preceding fiscal year shall be paid to the State Treasury. The payment shall be made not later than June 1 each year.

Notwithstanding the provisions of Paragraph 1 above, the Central Bank only pays one-third of its profit to the State Treasury if its capital and own reserves at the end of a fiscal year are less than 2.25% of the amount of lending and domestic securities assets of the credit system at the end of the preceding fiscal year.

CHAPTER VIII

Miscellaneous provisions.

Article 35

Members of the Supervisory Board, Governors and other employees of the Central Bank of Iceland are bound by secrecy concerning the affairs of the customers of the Bank, the affairs of the Bank itself and other matters of which they gain knowledge in the course of their work and which should be kept secret according to law or the nature of the case, except where a judge may decree that information must be provided in court or to the police or there is a duty to provide information according to law. The duty to secrecy shall prevail even though employment may cease.

Members of the Supervisory Board, Governors and other employees of the Central Bank are not allowed to use confidential information which they gain through their employment with the Bank for pecuniary gain or to avoid financial loss in business transactions.

Notwithstanding the provisions of Paragraph 1 above, the Central Bank may engage in mutual exchange of information with public authorities abroad relating to the items to which the present Act applies, provided that the party requesting information is subject to corresponding confidentiality.

The Central Bank of Iceland shall grant the Financial Supervisory Authority all the information held by the Bank and which may be utilised for the activities of the Financial Supervisory Authority. Information granted in accordance with the present Article is subject to confidentiality in accordance

with the present Act and the Act respecting the Official Supervision of Financial Activities. The Central Bank and the Financial Supervisory Authority shall conclude a special agreement on co-operation further stipulating the co-operation between the two institutions.

Article 36

The Central Bank of Iceland is exempt from income tax and property tax, cf. the Act on Income and Property Tax as it stands at any time.

Any obligations issued by the Bank and in its name as well as obligations giving the Bank title to a pledge, coupons of bonds issued by the Bank and transfers thereof shall be exempt from stamp duty.

Article 37

Any violations of the present Act shall be subject to penalty in the form of fines or imprisonment unless a heavier penalty is stipulated under another Act. Attempted violations of the present Act or participation in such violations is subject to penalties under the Penal Code.

The Central Bank of Iceland may levy per diem sanctions on credit institutions and mutual funds, subject to rules laid down by the Board of Governors and confirmed by the Supervisory Board, cf. Article 28, if they do not adhere to the Bank's rules on required reserves, liquid funds and foreign exchange balance. Per diem sanctions as decided pursuant to this Article may be collected by legal execution. The rules on sanctions shall be presented to the Financial Supervisory Authority and those institutions to which they apply. Decisions to levy per diem sanctions can be appealed to the Prime Minister. Three-quarters of the sanctions collected in accordance with the present Article shall be paid to the State Treasury before June 1st of each year for the preceding year.

The Central Bank is authorised to impose penalties in the form of per diem sanctions upon parties neglect to provide information to the Bank which the Bank is entitled to collect on the basis of the present Act, or that provide deliberately misleading information to the Bank. The Board of Governors lays down rules on these sanctions which shall be confirmed by the Supervisory Board.

Article 38

The Central Bank of Iceland is authorised to lay

down rules on its tasks according to the present Act as deemed necessary. The Central Bank publishes rules which it lays down on the basis of the present Act in such a manner that they are accessible by the public.

Chapter IX

Entry into force and other matters.

Article 39

Having received the opinion of the Supervisory Board, the Prime Minister may issue a regulation stipulating the implementation of individual provisions of this Act.

Article 40

This Act shall take immediate effect. At the same time, the Act number 36/1986 on the Central Bank of Iceland with all subsequent amendments is repealed. The stipulations of Article 5 of Act No. 54/1974 on the participation of the Central Bank of Iceland in the payment of the cost of the National Economic Institute is repealed on January 1st 2002. The Central Bank shall make its last contribution to the Science Fund of Iceland in the year 2001.

Temporary provisions.

I

Upon entry into force of this Act, the Parliament shall elect seven members of the Supervisory Board together with an equal number of alternates. As from the same date, the mandate of members then sitting on the Board shall expire.

II

Governors of the Central Bank of Iceland upon entry into force of this Act shall conduct their duties to the end of their respective appointment periods. The stipulations of Paragraph two of Article 25 on the appointment of Governors shall apply from the first appointment of Governor after the entry into force of this Act. Upon entry into force of this Act, the Prime Minister appoints the Chairman of the Board of Governors from the ranks of the Governors for the remainder of his term as Governor.