

*Preliminary Translation - August 22, 2016*

## **Bill of Legislation**

### **Amending the Foreign Exchange Act, no. 87/1992, with subsequent amendments (capital account liberalisation)**

**(Submitted to the 145<sup>th</sup> Legislative Session of Parliament 2015–2016.)**

#### *Article 1*

The following amendments shall be made to Article 13(b) of the Act:

a. Paragraph 2 shall read as follows:

All cross-border movement of capital in foreign currency according to Paragraph 1 is prohibited apart from movement of capital that is demonstrably due to:

1. Trade in goods and services.
2. Wages that a non-resident or a resident living abroad, such as for purposes of work or study, has acquired in Iceland in the past six months. Wage-related expenses, student loans, unemployment benefits, pension benefits (including old-age pensions, disability pensions, and social assistance benefits), and other comparable payments are considered wages in the sense of this Item.
3. Gifts and grants to non-residents, such as individuals, charitable institutions, or other comparable entities, up to a maximum of 6,000,000 kr. per calendar year. Movement of capital for gifts and grants shall be deposited to an account owned by the recipient, and the donor or grantor shall be the actual owner of the funds in question.
4. Interest, indexation, contractual instalments, and dividends according to Article 13(j).
5. Rental income from real estate acquired by a non-resident in Iceland.
6. Prepayment and retirement of loans and investments in securities, unit share certificates in UCITS and investment funds, money market instruments, other negotiable financial instruments, monetary claims and other comparable claims in foreign currency, importation and exportation of securities, or deposits to and withdrawals from accounts with financial undertakings, including withdrawals of cash pursuant to the fourth sentence of Article 13(c), Paragraph 2, for a combined

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maximum value equivalent to 100,000,000 kr. per party. Movement of capital or cash withdrawals on the basis of this provisions are subject to the following conditions:

- a. The party exercising the authorisation must be the actual owner of the funds.
  - b. An individual who exercises the authorisation must have reached the age of 18 years.
  - c. The asset position of a legal entity that exercises the authorisation must, as of 1 August 2016, be at least equal to the amount of the proposed movement of capital or cash withdrawal.
  - d. A financial undertaking that carries out movement of capital must have sent the Central Bank of Iceland a notification specifying the purpose of the transfer before it is carried out. The processing of a cash withdrawal must be reported by the financial undertaking in question to the Central Bank of Iceland in any form determined by the Central Bank of Iceland.
7. Outward foreign direct investment by residents. Movement of capital on the basis of this Item is subject to the requirement that the investor be the actual owner of the funds, that the investment entail a purchase of at least a 10% shareholding, and that the Central Bank have confirmed that the investment is foreign direct investment.
8. Importation of foreign currency to a deposit account with a domestic financial undertaking, but not when the payer is a resident and the recipient a non-resident.
9. Individuals' living expenses abroad.
10. Payment of taxes and public levies, legal fees pursuant to court order, accident benefits and compensatory damages accruing in Iceland, and inheritance payments due to a non-resident individual in accordance with an inheritance report confirmed by a Commissioner.
11. Purchase by an individual of one real property abroad per calendar year, subject to prior confirmation by the Central Bank of Iceland. An individual is authorised to pay a confirmation fee for a real estate transaction equalling up to 15% of the purchase price of the property without prior confirmation. If an individual sells or receives compensation for damage to a property abroad, he or she is authorised to use the sales proceeds or compensation to reinvest in another property abroad within six months.
12. Other movement of capital that is explicitly exempt pursuant to other provisions of this Act.
- b. Paragraph 3, Item 4 shall read as follows: Movement of capital for payment of legal fees pursuant to court order, accident benefits and compensatory damages, and inheritance payments in accordance with an inheritance report confirmed by a

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Commissioner, where payment takes place by withdrawal from the payer's account with a financial institution in Iceland.

c. A new numbered subparagraph shall be added to Paragraph 3, and it shall read as follows: Movement of capital for real estate transactions in Iceland and transactions with financial instruments issued in domestic currency according to rules set by the Central Bank of Iceland, where payment takes place by withdrawal from an account held by the purchaser in a financial undertaking in Iceland. The authorisation in the first sentence does not apply, however, when payment is made by withdrawal from an account subject to special restrictions in the sense of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions. Investments made by legal entities on the basis of this provision are subject to the requirement that the purchaser be the actual owner of the funds at the time this Act enters into force. Funds released upon the sale of the investments shall be returned to a domestic currency account owned by the seller with a financial undertaking in Iceland. The Central Bank of Iceland may set rules laying down further conditions for movement of capital according to this provision.

#### *Article 2*

The following amendments shall be made to Article 13(c) of the Act:

a. Four new sentences shall be inserted after the first sentence of Paragraph 2 and shall read as follows: It is prohibited to purchase foreign currency at a financial undertaking in Iceland when payment is remitted in domestic currency, unless it is demonstrated that the foreign currency purchase is in connection with cross-border movement of capital that is exempt pursuant to Article 13(b), Paragraph 2, Items 1-7 and 9-11. Foreign currency purchases according to the first sentence in connection with cross-border movement of capital pursuant to Article 13(b), Paragraph 2, Items 1, 3-7, and 10-11 are subject to the requirement that the payment be made to a non-resident. Notwithstanding the provisions of the first and second sentences, non-residents' foreign currency purchases on the basis of Article 13(b), Paragraph 2, Item 4, cf. Article 13(j), are subject to the requirement that the foreign currency purchase be in connection with such payments made in Iceland by a resident. It is prohibited to purchase foreign currency in cash or withdraw foreign currency in cash from a foreign currency account with a financial undertaking in Iceland except within the authorisation provided for in Article 13(b), Paragraph 2, Item 6.

b. The words "the third sentence" in the fourth sentence of Paragraph 2 shall be replaced by the words: the sixth sentence.

c. Paragraph 3 is deleted.

d. The words "Paragraphs 1-3" in the first sentence of Paragraph 5 shall be replaced by the words: Paragraphs 1-2.

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*Article 3*

Article 13(d) is deleted.

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#### *Article 4*

The following amendments shall be made to Article 13(e) of the Act:

- a. The words “prior to 28 November 2008” in the second sentence of Paragraph 1 are deleted.
- b. A new sentence shall be added to Paragraph 1 and shall read as follows: The sales proceeds of direct investment pursuant to Article 13(b), Paragraph 2, Item 7 are not reinvestable according to this provision.

#### *Article 5*

Article 13(f) is deleted.

#### *Article 6*

The following amendments shall be made to Article 13(j) of the Act:

The words “Paragraphs 2 and 3” in the first sentence of Paragraph 1 shall be replaced by the words: Paragraph 2.

- b. Paragraph 3 is deleted.
- c. The words “payment and indexation on bond principal shall not be exempt from the ban provisions under the second and third paragraphs of Article 13c. Furthermore,” in the first and second sentences of Paragraph 5 are deleted.
- d. The words “Paragraphs 2 and 3” in the second sentence and the last sentence of Paragraph 5 shall be replaced by the words: Paragraph 2.

#### *Article 7*

Article 13(k) is deleted.

#### *Article 8*

Article 13(l), Paragraph 2 of the Act shall read as follows:

The requirement according to Paragraph 1 does not apply to the following:

1. A resident individual who lives abroad, for example, temporarily for purposes of work or study.
2. Funds in connection with loans taken by an individual from non-resident entities in order to purchase real estate according to Article 13(b), Paragraph 2, Item 11 or a motor vehicle abroad.
3. Funds in connection with loans taken by a party for his investments pursuant to Article 13(b), Paragraph 2, Item 6 or 7.

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4. Funds according to the second sentence of Article 13(e), Paragraph 1, provided that they are used for reinvestment within six months.

5. Funds released upon the sale of or due to payments of compensation for damage to real estate abroad that is owned by an individual, provided that they are used to reinvest in another property within six months.

6. Rental income received by a resident for real estate abroad, provided that it is used to pay the operating expenses of the property concerned. Operating expenses include payments on loans assumed at the time of purchase and/or taken to finance the purchase.

7. Funds released upon the sale of or due to payments of compensation for damage to a motor vehicle abroad that is owned by an individual, provided that they are used to reinvest in another vehicle within six months.

#### *Article 9*

The following amendments shall be made to Article 13(m) of the Act:

a. The words “two weeks” in Paragraph 4 shall be replaced by the words: three weeks.

b. A new paragraph shall be added and shall read as follows:

Sales proceeds and other payments in connection with investments according to Article 13(b), Paragraph 2, Items 6 and 7 are not considered new inflows of foreign currency in the sense of Paragraph 2.

#### *Article 10*

The following amendments shall be made to Article 13(n) of the Act:

a. The words “the first paragraph of Article 13 f” in Paragraph 3 shall be replaced by the words: and the maximum amount in Article 13(b), Paragraph 2, Item 6, but not Article 13(c), Paragraph 2.

b. Paragraphs 4 and 5 are deleted.

c. The words “Article 13(f), Paragraph 1” in the first sentence of Paragraph 6 shall be replaced by the words: and the maximum amount in Article 13(b), Paragraph 2, Item 6, but not Article 13(c), Paragraph 2, and the provisions of.

d. The words “, other than the legal entities that fall under the fourth paragraph,” in Paragraph 7 are deleted.

e. Paragraphs 8 and 9 are deleted.

f. A new paragraph shall be added and shall read as follows:

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Parties may exercise their authorisations pursuant to Article 13(b), Paragraph 2, Item 6 and Article 13(c), Paragraph 2 for investment in mutual funds, investment funds, and institutional investment funds according to the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds. The management company of the fund in question shall notify the Central Bank of Iceland of investments on the basis of this provision. The Central Bank is authorised to lay down more detailed rules on the implementation of this provision.

#### *Article 11*

Article 13(o), Paragraph 4 of the Act shall read as follows:

[The Central Bank of Iceland is authorised to set rules providing for exemptions from the restrictions contained in Articles 13(e)-13(n). The Central Bank may set conditions for exemptions from the rules, which may pertain, *inter alia*, to the source of funds, the ownership of funds, the purpose of individual capital movements and foreign exchange transactions, amounts of individual capital movements and foreign exchange transactions, and supervision by and information disclosure to the Central Bank.

#### *Article 12*

The following amendments shall be made to Article 14 of the Act:

a. The first sentence shall read as follows: It is required, subject to *per diem* fines pursuant to Article 15(h), to provide the Central Bank of Iceland with all information and that it may request concerning foreign exchange transactions and cross-border movement of capital in order that it may carry out the necessary supervision on the basis of this Act.

b. The following shall be inserted after the words “for preparation of statistical reports” in the second sentence: and to carry out other tasks consistent with its role, such as promoting price stability and financial stability.

c. A new sentence shall be added and shall read as follows: Statutory provisions on confidentiality shall not limit the obligation to provide information and access to data on the basis of this provision.

d. A new paragraph shall be added and shall read as follows:

It is required, subject to *per diem* fines pursuant to Article 15(h), to notify the Central Bank of Iceland of foreign exchange transactions and cross-border movement of capital. Resident entities are required to report transfers of foreign-denominated capital between themselves. The Central Bank is authorised to set rules providing for

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more detailed implementation of this provision, including exemptions from the notification requirement.

*Article 13*

The words “or Article 13(f)” in Paragraph 1, Item 2 of Provision III are deleted.

*Article 14*

Two new temporary provisions shall be added to the Act and shall read as follows:

a. (IV.)

Notwithstanding the provision contained in the first sentence of Article 13(b), Paragraph 2, Item 6, each party’s capital transfers according to that provision shall be authorised only up to a combined total equivalent to 30,000,000 kr. until 1 January 2017.

The Central Bank of Iceland shall review the maximum amount provided for in the first sentence of Article 13(b), Paragraph 2, Item 6 before 1 July 2017; cf. the authorisation to set regulations pursuant to Article 13(b), Paragraph 4.

Notwithstanding the investment authorisation provided for in Article 13(b), Paragraph 2, Item 6, securities shall be held in custody with a domestic custodian until 1 January 2017. Furthermore, cross-border movement of capital in foreign currency that entails importation and exportation of securities or deposits to and withdrawals from accounts with deposit institutions shall be prohibited until the same date. The same applies to cash withdrawals pursuant to the fourth sentence of Article 13(c), Paragraph 2.

Violations of this provision are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).

b. (V.)

Notwithstanding the provision contained in the fourth sentence of Article 13(c), Paragraph 2, individuals are permitted, until 1 January 2017, to purchase or withdraw foreign currency in cash from a financial undertaking in Iceland upon satisfying the following conditions:

1. The foreign currency must be intended for use during travel abroad. When purchasing or withdrawing foreign currency, the individual must provide evidence of the proposed travel by presenting a travel ticket or payment receipt for a trip to be taken within four weeks. Crew members without a travel ticket shall demonstrate their travel plans by presenting a shift roster or through some other verifiable means.

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2. The amount of purchased or withdrawn foreign currency in cash may not exceed the equivalent of 700,000 kr. per individual according to Item 1 per trip taken, unless a special need for additional cash withdrawal is demonstrated.

3. The resident individual must purchase or withdraw foreign currency in cash from a financial undertaking in Iceland with which he/she does business.

4. It must be demonstrated that the individual – or the individual’s custodial parent or guardian, if the individual is a minor – is the owner of the funds used to pay for the foreign currency purchased or the foreign currency account from which the withdrawal is made. Notwithstanding the provisions of the first sentence, an individual is permitted to purchase foreign currency for a spouse.

5. The individual specified upon the purchase or withdrawal of the foreign currency must take the funds out of the country him- or herself.

A financial undertaking in Iceland may apply for an exemption from Paragraph 1, authorising a branch of that financial undertaking to sell foreign currency, in an amount not to exceed 700,000.00 kr. per trip taken, to a resident individual without an established business relationship with the undertaking concerned, if it is demonstrated that the funds will be used for travel abroad. The Central Bank of Iceland shall publicly disclose information on entities that receive exemptions on the basis of this provision.

Violations of this provision are punishable by administrative fines and by penalties according to Articles 15(a)-15(d) and Articles 16, 16(a), and 16(b).

#### *Article 15*

This Act shall enter into force at once.

#### *Article 16*

##### Amendments to other Acts

Upon the entry into force of this Act, the following amendments shall be made to other Acts:

1. The Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments: Article 29 shall be amended to include a new paragraph, which shall read as follows:

All parties are required to provide the Central Bank of Iceland with the information that it may need in order to promote price stability and financial stability, subject to the penalties provided for in Article 37. The Central Bank may set more detailed rules on the implementation of this provision. Statutory provisions on confidentiality shall not limit the obligation to provide information and access to data.

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2. The Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016, with subsequent amendments:

a. The following amendments are made to Article 3 of the Act:

1. The following shall be inserted after the words “foreign electronic money institutions” in Item 3: and payment institutions.

2. The words “Article 13(c), Paragraph 3” in Item 3 shall be replaced by: Article 13(c), Paragraph 2.

3. The word “Those” at the beginning of Item 4 shall be replaced by: Confirmed new investments pursuant to Article 13(m) and those.

b. The following shall be added to the first sentence of Article 9, Paragraph 3, Item 2 of the Act: or book value of the underlying assets.

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## Explanatory Notes on this Bill of Legislation

### **I. Introduction**

This bill of legislation was drafted by the Ministry of Finance and Economic Affairs, in cooperation with the Prime Minister’s Office and the Central Bank of Iceland. The bill is part of the authorities’ capital account liberalisation strategy that was introduced publicly in June 2015. It proposes various amendments aimed at lifting capital controls on households and businesses in cautious stages, with economic stability and the public interest as a guiding principle. Consideration is given to easing controls on resident and non-resident individuals and legal entities. The conditions for liberalisation of the controls are in many respects optimal, and there is no longer any threat from large individual risk factors such as the settlement of the failed banks’ estates or the offshore króna problem. In spite of favourable conditions, it is important that the capital controls be lifted in structured phases where caution is observed, particularly as regards strain on the liquidity position of the financial system and the balance of payments.

If the bill is passed into law, individuals’ and firms’ freedom to transfer capital to and from Iceland and engage in foreign exchange transactions will be increased in stages, in accordance with both general advice from the International Monetary Fund (IMF)<sup>1</sup> on capital account liberalisation and the authorities’ liberalisation strategies. More

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<sup>1</sup> See International Monetary Fund, Liberalizing Capital Flows and Managing Outflows: IMF Policy Paper, 13 March 2012, pp. 16 and 19.

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specifically, the bill proposes that two important steps towards final removal of the controls be passed into law, as is further discussed in Sections 2.3. and 3.

## **II. Purpose and need for legislative amendment**

### *2.1. Capital controls*

The objective of the capital controls imposed on 28 November 2008, in the wake of the financial crisis, was to place temporary restrictions on certain types of cross-border capital transfers and foreign exchange transactions that could cause monetary and exchange rate instability while the resurrection of the Icelandic economy and financial system was underway. The capital controls have without doubt contributed to the progress made in recent years in turning a deep economic downturn around into an economic recovery, enhancing the resilience of the reconstructed financial undertakings, and contributing to greater economic sustainability among domestic entities. In the beginning, the intention was that the controls should remain in place for only a short time, as prolonged capital controls have various negative effects.<sup>2</sup> In addition, they are in contravention of Iceland's international obligations, including the EEA Agreement, if and when they can no longer be justified as an emergency measure. Clearly, it has taken longer than originally envisaged to create the conditions required in order to lift the capital controls without causing monetary and exchange rate instability. The authorities' liberalisation strategies have not been presented as timetables but as conditions-based plans. They have therefore assumed that the controls would be lifted in stages, each of which would include smaller steps, with economic and financial stability as a guidepost. Since the controls were imposed, the rules and legislation governing them have been amended several times. The amendments have aimed, among other things, at easing the controls to some degree, as well as at closing loopholes in the regulatory framework. The risk of circumvention always exists when restrictions on specified types of cross-border capital movement are lifted in advance of others. As is mentioned above, conditions are now favourable to take important steps towards lifting the controls, provided that these steps are taken cautiously, without jeopardising the stability to which the controls have contributed.

### *2.2. Conditions for liberalisation of controls*

The conditions for further liberalisation of the capital controls are in many ways quite favourable:

1. Major risk factors that for years delayed liberalisation have been either eliminated or temporarily sequestered: the settlement of the failed banks is complete, and offshore króna assets are bound by special restrictions.

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<sup>2</sup> Further discussion of the negative impact of capital controls can be found in the general comments on the bill of legislation passed as the Act on a Stability Tax, no. 60/2015, (Case no. 786 at the 144<sup>th</sup> legislative session) and in the general comments on the bill passed as the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016 (Case no. 777 at the 145<sup>th</sup> legislative session).

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2. The pension funds have received sizeable authorisations for foreign investment, which they have exercised in the recent term. Their pent-up need for foreign investment has therefore diminished.
3. The interest rate differential vis-à-vis foreign countries, a stronger economic recovery than can be seen in trading partner countries, low inflation, and capital inflows stemming from services trade, with the associated appreciation of the króna are all conducive to reducing the risk of general capital flight.
4. The resilience of domestic households and businesses, financial institutions, the Treasury, and the economy as a whole against potential swings in capital flows and the exchange rate in connection with the liberalisation process has increased, as residents' economic conditions have strengthened markedly. The equity position of private entities, including financial institutions, has improved substantially, and currency mismatches have been reduced. Domestic commercial banks' liquidity position and improved access to capital in domestic and foreign markets make them well prepared to withstand a significant reduction in deposits. The position of the Treasury has also strengthened considerably in recent years. The Treasury is now operating at a surplus, the ratio of debt to GDP is falling rapidly, and Iceland's sovereign credit ratings have improved. The Central Bank of Iceland's foreign exchange reserves have grown swiftly, particularly the portion financed in krónur, and is considerably above the IMF's reserve adequacy metric. National saving has remained high since the financial crisis, the current account surplus has been sustained, and the net international investment position of the economy has not been more favourable since the end of World War II.
5. Furthermore, significant reforms have been made to the frameworks for economic policy, regulation and legislation, and supervision, which are conducive to the preservation of macroeconomic and financial stability, although certain prudential tools and legislative reforms are still lacking, as is discussed below.

Economic conditions and previous actions vis-à-vis the failed banks' estates and the offshore krónur enable the authorities to take relatively large steps towards full removal of the capital controls. The size of the economy places considerable limits on the depth of domestic financial markets, however, and as a result, relatively small shocks can have a substantial impact. In addition, there is more uncertainty about the scale of potential capital outflows with the steps proposed in the bill of legislation than was the case with the settlement of the failed banks' estates and the auction of offshore krónur. As a result, it is important that capital account liberalisation be carried out in systematic and credible stages and that caution be observed. Otherwise, there is the risk that the strain on both financial system liquidity and the balance of payments will be too much.

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### 2.3. Tiered liberalisation of capital controls

The process of lifting the capital controls began in 2009 when the New Investment Programme was introduced, and work began soon thereafter on reducing the stock of offshore króna assets, including with foreign currency auctions and *ad hoc* transactions by the Central Bank of Iceland.<sup>3</sup>

The authorities' strategy from June 2015 proposed that the controls be lifted in three phases. The first phase focused on the failed banks' estates, the second on the offshore króna assets, and the third on households and businesses. With this bill, important steps are taken towards lifting controls on households and businesses, in accordance with the third phase of the authorities' strategy.

Since the capital controls were introduced, the regulatory framework governing them has undergone numerous changes aimed at preventing circumvention. The IMF has placed strong emphasis on caution during the sequenced liberalisation process and has stressed the importance of analysing in detail the impact that amending or repealing specific provisions will have on the remaining regulatory framework. Otherwise, it could prove possible to circumvent existing restrictions between liberalisation phases, thereby undermining the strategy as a whole. This applies equally to the foundations of the regulatory framework, which have been in force since the capital controls were introduced, such as the repatriation requirement for foreign currency, and the more recent provisions on special reserve requirements in connection with carry trade.<sup>4</sup>

The bill proposes amendments to the Foreign Exchange Act, no. 87/1992, that entail revoking certain restrictions on foreign exchange transactions and cross-border movement of capital and expanding specified authorisations under the Act. Furthermore, it is recommended that the requirement that residents repatriate foreign currency be eased. In addition, it is proposed that changes be made to the Central Bank's powers to gather information in connection with its supervisory role, and the requirement to notify the Central Bank of foreign exchange transactions and cross-border movement of capital is laid down explicitly. These amendments are intended to strengthen the Central Bank's supervisory role with respect to the domestic foreign exchange market and cross-border movement of capital and enable the Bank to perform its main function of promoting price stability and financial stability. Iceland's experience of capital account liberalisation and that of other countries in the

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<sup>3</sup> Further discussion of these measures and previous capital account liberalisation strategies can be found in the general comments on the bill of legislation passed as the Act on a Stability Tax, no. 60/2015, (Case no. 786 at the 144th legislative session) and in the general comments on the bill passed as the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016 (Case no. 777 at the 145th legislative session).

<sup>4</sup> With Act no. 42/2016 Amending the Foreign Exchange Act and others, the Central Bank was granted the authority to adopt rules intended to temper new short-term inflows of foreign currency; see Rules no. 490/2016.

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1980s and 1990s shows how rapidly risk can accumulate in the economy. Consequently, it is important that the Central Bank be authorised to gather information and that it have access to timely and reliable information on foreign exchange transactions and cross-border movement of capital so that it can assess financial stability, the balance of payments, and the external position of the economy. Acquisition of information is also necessary for the application of prudential rules, including capital flow management measures.

### *2.3.1. The first stage of the bill of legislation*

It is proposed that, upon passage of the bill, outward foreign direct investment (FDI) be unrestricted but subject to confirmation by the Central Bank of Iceland, in part because it can involve very large sums of money. Further discussion of the factors that the Central Bank shall consider in assessing whether a proposed investment can be classified as FDI can be found in the comments on Article 1, Item (a), Point 7 of the bill.

Furthermore, it is proposed that investment in financial instruments issued in foreign currency, other monetary claims in foreign currency, and prepayment and full payment (retirement) of foreign-denominated loans be permissible up to a given amount, which will be increased in stages. It is proposed that the authorisation be subject to certain conditions concerning beneficial ownership and financing of the transaction; furthermore, it is proposed that it be required to hold the investment with a domestic custodian. The purpose of this is to enable the Central Bank to oversee and supervise properly the transactions covered by the provision so that, among other things, it can take informed decisions on raising the ceiling in the provision when conditions allow.

It is also proposed that individuals be authorised to purchase one piece of real estate per calendar year, subject to prior confirmation by the Central Bank of Iceland. Until now, individuals' authorisations for foreign exchange transactions in connection with real estate purchases abroad been restricted to purchases made due to a change of residence, and they have been subject to a ceiling of 100 m.kr.

Moreover, it is proposed that the requirement that residents repatriate foreign currency be scaled down so as to reduce the inconvenience to individuals and firms in connection with foreign investment. It is proposed that the repatriation requirement not extend to capital relating to loans taken abroad by individuals for the purchase of real estate or transport equipment abroad, or to capital relating to loans taken for other foreign investment.

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It is also proposed that the Central Bank of Iceland's authorisations to gather information be expanded. Further discussion of this point can be found in Section 2.4. of the general comments.

Finally, it is proposed that various special restrictions be lifted and that various special authorisations under the Act be expanded. Individual items are discussed in Section III of the general comments.

### *2.3.2. The second stage of the bill of legislation*

It is proposed that the second stage of the bill on capital account liberalisation be taken on 1 January 2017; cf. the new Temporary Provision in Article 14 of the bill. At that time, it is assumed that transfers of deposits will be permissible, subject to certain ceilings, that the domestic custodianship requirement for foreign securities investments will be revoked, and foreign currency purchase in cash will only be limited by the maximum specified in the Article 1, Item (a), Point 6 of the bill. This will enable residents and non-residents to transfer deposits and securities to and from Iceland, to trade in securities abroad, and purchase or withdraw foreign currency in cash within the limits specified in the Article 1, Item (a), Point 6 of the bill.

It is important that capital account liberalisation be structured so as to prevent undue strain on financial institutions' liquidity and on the balance of payments. Ceilings on deposit transfers and foreign investment must take account of the probable strain on the balance of payments and an analysis of the potential impact on financial institutions' liquidity. Deposit transfers entail funding losses for domestic financial institutions and will force them either to tap liquid assets or find other funding sources. As a result, it is advisable to raise the ceilings in stages.

### *2.3.3. Full liberalisation of controls*

Both full liberalisation and the timing of it depend on several things; for instance, asset portfolios must have adjusted to a desirable composition of domestic versus foreign assets, outflow pressures must be manageable, and the authorities must be given the scope to develop appropriate prudential tools and gain a better overview of the financial system. Furthermore, the size of the foreign exchange reserves at any given time is important, as are developments in the current account balance and the external position of the economy.

The authorities' strategy is in line with recommendations from the IMF on an integrated three-stage approach<sup>5</sup> to capital account liberalisation. More specifically, the Fund broadly recommends that restrictions on capital inflows for inward FDI be

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<sup>5</sup> See International Monetary Fund, *Liberalizing Capital Flows and Managing Outflows: IMF Policy Paper*, /13 March 2012, pp. 16 and 19.

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lifted first, followed by restrictions on outflow for outward FDI, other long-term capital movement and a portion of short-term capital movement. Other controls should be lifted last. The Fund also recommends that the authorities' supervision and oversight of external trade and the financial market be strengthened as these stages are implemented, including with increased and more effective data acquisition.

It is assumed that, early next year, the authorities will reassess the conditions for raising the ceilings on foreign exchange transactions and capital movements according to Articles 1 and 2 of the bill, as well as continuing the preparation for full removal of the controls. The Central Bank is obliged to review the ceilings before 1 July 2017.

Alongside the preparation for full liberalisation, it is necessary to review the authorities' powers to restrict or halt, on a temporary basis, certain categories of foreign exchange transactions and cross-border movement of capital that could cause monetary and exchange rate instability. As the liberalisation process advances, the need for such an authorisation will increase, and the IMF has pointed out the necessity of equipping the authorities with policy instruments that can be applied if the risk arises that capital flows will pose a threat to monetary and exchange rate instability.

If the bill is passed into law, restrictions that support effective implementation of the capital controls will still be in place, and various provisions will remain unamended, such as those pertaining to transactions with Icelandic krónur, lending and borrowing, granting of guarantees, and derivatives transactions with krónur. Furthermore, the repatriation requirement will still largely remain in effect. This is done in part to ensure non-discrimination as regards ceilings on securities investments and deposit transfers. In addition, the bill of legislation provides for several minor amendments to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016.

If the bill is passed, the final stage of capital account liberalisation will focus on the remaining restrictions according to the Foreign Exchange Act and the restrictions on treatment of offshore króna assets according to Act no. 37/2016. It is clear that the goal of full removal of the capital controls will not be achieved until the restrictions provided for in the above-mentioned Acts are revoked and the offshore and onshore foreign exchange markets have merged. The amendments proposed at this time, however, aim at further liberalisation of controls on households and businesses.

Since mid-2015, the pension funds have been granted exemptions for foreign investment in the amount of about 80 b.kr. The exemptions granted in the law according to the proposals in the bill give the pension funds limited scope, however, because of the funds' size. Therefore, it is assumed that they will continue to be

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granted special authorisations for foreign investment, through a Central Bank decision in each instance. When the controls have been lifted in full, it is desirable that the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997, which focuses on pension funds' risk diversification and operations, be reviewed.

Until now, it has been required pursuant to the Foreign Exchange Act that residents hold their deposits in accounts in Iceland, and competition between domestic and foreign commercial banks has been limited. When the controls have been lifted, cross-border transfer of deposits will be unrestricted, the repatriation requirement will be revoked, and competition between domestic and foreign commercial banks will increase. In this context, it is worth noting that although recent amendments to European rules on deposit guarantee schemes have not been incorporated into the EEA Agreement, this is expected in coming months, whereupon they will be incorporated into Icelandic law.

Prudential rules have been implemented in stages since 2012, with the aim of reducing systemic risk in the financial system. Among them are the Central Bank's liquidity rules, the Financial Supervisory Authority's capital requirements rules, and the newly adopted rules on special reserve requirements for new inflows of foreign capital. Rules concerning restrictions on lending to unhedged borrowers are also under review.<sup>6</sup> Such prudential tools reduce systemic risk stemming from increased indebtedness, changes in asset prices, and credit risk due to foreign-denominated lending. Before full liberalisation is possible, it is necessary to review and formulate the above-mentioned safety devices and prudential rules and to strengthen the supervisory authorisations of the Financial Supervisory Authority and the Central Bank.

#### *2.4. Increased Central Bank authorisations for acquisition of information*

The bill proposes amendments to the Foreign Exchange Act and the Act on the Central Bank of Iceland, which ensure that the Bank has the powers necessary to gather information and documentation so that it can promote price stability and financial stability in accordance with its role. Necessary information and documentation pertain, for instance, to foreign-denominated borrowing and information about financial instruments that entail the same type of risk, such as derivatives involving foreign exchange transactions. This information enables the Bank to assess the balance of payments and the external position of the economy at any given time and prepare forecasts of these variables, which is fundamental to an analysis of current systemic risk. An assessment of current systemic risk at any given

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<sup>6</sup> Bill of legislation amending the Act on Interest and Price Indexation, etc. (Case no. 384 at the 145<sup>th</sup> legislative session) and the bill of legislation on mortgage lending to consumers (Case no. 383 at the 145<sup>th</sup> legislative session).

time identifies the need to apply capital flow management measures or other prudential tools so as to lean against the accumulation of systemic risk. The capital inflows preceding the 2008 financial crisis were driven to a large extent by direct foreign-denominated lending to businesses. At that time, the Central Bank had neither documents nor information that shed a clear light on those borrowings or of imminent payment and maturity dates. When financial markets tightened sharply in 2007, it became difficult to refinance debt abroad, and to a large extent, the domestic banks took over these loans, with the associated risk of a collapse of the domestic financial system, which materialised in autumn 2008. It is vital that the Central Bank have the information and documentation it needs to analyse systemic risk so that it can take appropriate precautionary action if need be, by applying capital flow management measures or other prudential tools in support of financial stability.

### **iii. Main contents of the bill**

The bill is an element of the authorities' capital account liberalisation strategy and takes important steps towards full removal of the capital controls. The objective of the bill is to give individuals and legal entities, residents and non-residents, broader authorisations for foreign exchange transactions and cross-border movement of foreign currency. The main substance of the bill is as follows:

- Authorisations for goods and services trade are expanded so that the authorisation now extends to all payments in connection with such transactions, as well as to reimbursements of overpayments, discounts, cancelled orders, and similar payments that are a natural aspect of goods and services trade. Furthermore, all restrictions on importation of transport equipment and purchases of transport equipment abroad are lifted.
- Rules concerning transfers of wages, student loans, pension income, benefits payments, and other such payments in connection with funds that an individual residing abroad has acquired in Iceland are expanded and simplified.
- The cap on authorisations for gifts and grants to non-residents is raised from 3,000,000 kr. to 6,000,000 kr. per calendar year, and the authorisation is no longer restricted to residents.
- Non-residents are permitted to expatriate rental income acquired in Iceland. This authorisation extends to the transfer of all rental income on real property, irrespective of location, provided that the payment is made in Iceland. The authorisation includes fishing rights and water rights, among others.
- Prepayment and retirement of loans and investments in securities, mutual fund and investment fund units, money market instruments, other negotiable financial instruments, monetary claims in foreign currency, and other comparable claims are permissible up to a specified maximum over a specified period. It is assumed that this authorisation will be expanded further at the turn of the year. It is also assumed that cross-border movement of capital for deposits to and withdrawals from accounts with deposit institutions will be authorised as of the beginning of

2017. The parties concerned will be permitted to use their authorisations to invest in mutual funds, investment funds, and institutional investment funds.

- Reinvestment authorisations are expanded.
- Outward foreign direct investment is authorised upon fulfilment of specified conditions and subject to confirmation by the Central Bank.
- The cap on amount for living expenses abroad is eliminated, but the requirement that individuals demonstrate the existence of such expenses remains. Resident individuals' foreign living expense authorisations are no longer restricted to persons living abroad for purposes of work or study.
- Non-residents are permitted to purchase foreign currency and export it from Iceland for payment of taxes, legal fees according to court order, accident benefits and compensatory damages accruing in Iceland, and prepayment of inheritance in accordance with a confirmed inheritance report.
- Individuals are permitted to purchase one piece of real estate per calendar year. It is no longer required that the purchase be in connection with a change of residence, and the ceiling on the amount of the purchase is eliminated. This authorisation extends to residents and non-residents.
- Authorisations for cross-border transfers of domestic currency are expanded in instances involving payment of legal fees according to court order, accident benefits and compensatory damages accruing in Iceland, and inheritance payments due to a non-resident individual in accordance with an inheritance report confirmed by a Commissioner.
- Non-residents' authorisations to use domestic currency owned by them for investments are expanded.
- The general cap on purchases of foreign currency in cash and withdrawals of cash from foreign currency bank accounts for overseas travel is raised to 700,000 kr. per individual, and the authorisation is no longer per calendar month but per trip abroad until 1 January 2017. In addition, the cap can be waived if the party in question demonstrates the need for cash withdrawal in excess of the maximum. At the turn of the year, purchases and withdrawals of foreign currency in cash will be limited to the maximum amount specified in the Article 1, Item (a), Point 6 of the bill and not linked to travel abroad. In addition, legal entities will receive the same authorisations to purchase and and withdraw foreign currency in cash.
- Restrictions on payments of bond principal, which were passed into law in March 2012 due to serious circumvention of the capital controls, are eliminated.
- Residents are granted broad exemptions from the requirement to repatriate foreign currency so as to minimise inconvenience for individuals and firms in connection with foreign investment; for instance, capital acquired by a resident individual in connection with foreign borrowing undertaken for the purchase of real estate or a motor vehicle abroad is not subject to repatriation, nor is capital acquired due to loans taken to finance other investments.

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- The Central Bank is granted further authorisations to gather information so as to ensure that it has access to timely and reliable information for the purpose of safeguarding financial stability, the balance of payments, and the international investment position.
- The deadline for notification of new investment is lengthened from two weeks to three.
- Also proposed are derived amendments to the Central Bank Act that are directly connected to the substance of the bill.
- Finally, minor amendments to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions are proposed.

After the bill is passed, the Central Bank of Iceland will update the Rules on Foreign Exchange, no. 430/2016, accordingly.

#### **IV. Constitutionality and compliance with international obligations**

With this bill of legislation concessionary measures are proposed that entail sequenced easing of the capital controls. There is no reason to expect that bill to be unconstitutional or in contravention of the human rights conventions that Iceland is obliged to honour.

As regards the EEA Agreement, the capital controls represent a measure that falls under Article 43 of the Agreement. With this bill, large steps are taken towards restoring free movement of capital to and from Iceland, in accordance with Iceland's obligations under international agreements.

#### **V. Consultation**

During the preparation of this bill of legislation, extensive consultation took place with the Prime Minister's Office and the Central Bank of Iceland. In addition, a meeting was held with the Financial Supervisory Authority to discuss the substance of the bill.

#### **VI. Evaluation of impact**

Although the capital controls were necessary at the time they were introduced, the longer they remain in effect, the more the negative side effects escalate. The liberalisation of capital controls provided for in this bill is conducive to having a positive impact on individuals and companies. The liberalisation process is set forth in structured and cautious steps so as to reduce the risk of undue strain on financial institutions' liquidity and the country's balance of payments. Immediately after the execution of the two steps proposed in the bill – that is, as of the beginning of 2017 – the capital controls should no longer place noticeable restrictions on the vast majority of households and businesses. Residents will then be able to increase the risk diversification in their asset portfolios through foreign investment.

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### *Impact on companies and individuals*

Residents are granted unrestricted authorisations for foreign direct investment upon the entry into force of the Act. At first, however, investment will be subject to confirmation by the Central Bank so that it will be possible to ensure that the investment proposed actually qualifies as foreign direct investment and to prevent abuse of the authorisation for the purpose of circumventing caps on other types of capital movement. Since the capital controls were introduced, foreign direct investment has required an exemption from the Central Bank, as well as entailing somewhat onerous conditions. Foreign direct investment is often conducive to streamlining in firms' operations, not least those firms that are growing so rapidly that the small size of the domestic market has begun to place restrictions on continued growth. Firms will also be authorised to invest in foreign securities up to a given maximum amount, which is conducive to enabling them to diversify their risk across borders and thereby increasing efficiency.

Investment by individuals has also been restricted to domestic financial institutions ever since the capital controls were imposed. Individuals have stepped up their saving significantly in the interim. Household saving is primarily held in deposits, mutual funds, and highly liquid securities. According to tax return data on individuals' assets at year-end 2015, about 260,000 individuals owned deposits and bonds valued at 10 m.kr. or less, over 15,000 owned deposits and bonds valued at 10-100 m.kr., and only 800 individuals, or 0.3% of filers, owned deposits and bonds with a combined value exceeding 100 m.kr. It is therefore clear that with the measures provided for in the bill, the capital controls should not place substantial restrictions on most individuals, and by the turn of the year, only a very few individuals should be affected.

Individuals will then be free to buy securities directly or through domestic or foreign brokers and to transfer funds between deposit accounts in different countries. Foreign investment undertaken by individuals in order to diversify risk enhances efficiency, both for the individuals themselves and for the economy as a whole, not least when there is a surplus on external trade. Increased foreign investment is conducive to strengthening Iceland's net international investment position, which in turn enhances its resilience. Therefore, under current conditions and as a result of the authorities' previous liberalisation measures, there are grounds to facilitate the accumulation of foreign savings by individuals. Other provisions in the bill also greatly expand individuals' authorisations for cross-border capital transfers in connection with real estate purchases, living expenses, and other things.

The conditions for further liberalisation of the capital controls are in many ways quite favourable. The interest rate differential with abroad is considerable, GDP growth is stronger than in trading partner countries, inflation is low, and capital inflows from

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services trade – with the associated upward pressure on the exchange rate – reduce the risk of large-scale capital outflows. It is not possible to exclude the possibility that some outflows will take place as a result of the changes proposed in the bill. Furthermore, there could be some short-term pressure on the exchange rate, which in turn tends to discourage outflows. Individuals' and firms' resilience against the effects of exchange rate movements has increased markedly, however. As a consequence, it is unlikely that a currency depreciation that could occur as a result of capital outflows due to residents' acquisition of assets abroad will have a significant negative impact.

#### *Impact on the Treasury*

The Treasury debt position has improved significantly in recent years, and the outlook is for a further improvement in the years to come. Stability contributions from the estates of the failed financial institutions, improvements in operating performance, and other irregular revenues have provided scope for reduction of debt. According to the fiscal plan for 2016-2021, Treasury debt is projected to decline by 346 b.kr., with the majority of the reduction taking place in 2016 and 2017.

As of end-June, gross Treasury debt amounted to 1,216 b.kr. About 30% of that amount is due to financing of the Treasury deficit in 2008-2013. Improvements in performance and the aforementioned irregular items have greatly reduced the Treasury's need to issue bonds domestically, and the outlook is for this trend to continue in the next few years. But in order to maintain an effective bond market, the Treasury will nonetheless continue benchmark issuance, although it is possible that the final size of outstanding benchmark series will be reduced from 100 b.kr. to 60-70 b.kr.

The capital controls have reduced the Treasury's domestic financing costs by limiting the options available to investors with capital in Iceland when the controls were imposed. This can be seen in the fact that long-term Treasury bond yields fell at the same time that the Treasury issued a large number of new bonds to finance deficit operations in 2009-2010. In the wake of liberalisation, it can be expected that conditions in the Treasury bond market will normalise somewhat; therefore, demand for Treasury bonds could contract. The Treasury yield curve could therefore rise, with the associated rise in financing costs for the Treasury in coming years. The foreseeable contraction in Treasury bond offerings in coming years offsets this, however; therefore, the impact of capital account liberalisation on Treasury bond yields will probably be insignificant in the long term.

The Treasury's net foreign exposure is in balance; that is, the Treasury's foreign-denominated assets and liabilities are roughly equal. Potential exchange rate movements in connection with liberalisation will therefore have an insignificant

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direct impact on the Treasury in this respect. The Treasury's indexation balance, however, was negative as of end-2015; therefore, other things being equal, a 1% rise in inflation would have a 1.5 b.kr. impact on Treasury expenditure due to increased interest expense.

International credit rating agencies have repeatedly pointed out that the capital controls prevent them from being able to upgrade Iceland's sovereign credit ratings. If the ratings are upgraded following further steps towards liberalisation, the Treasury's interest premium and interest expense could decline, as many other OECD countries that are similar to Iceland in terms of economic development and income levels enjoy much more favourable borrowing terms in international markets. In other respects, the measures proposed in the bill are not likely to have a palpable effect on Treasury expenditure, and it is not assumed that the substance of the bill will directly affect Treasury revenues.

#### *Impact on financial institutions and the financial market*

It is important that the structure of the liberalisation process aim, among other things, at limiting the risk of excessive strain on financial institutions' liquidity. The ceilings proposed on deposit transfers and foreign investment are based on an analysis of the potential impact on financial institutions' liquidity position. Financial institutions must tap liquid assets when deposits are withdrawn. It can be expected that the changes provided for in the bill could have a significant effect on financial institutions' liquid assets. The risk of a liquidity squeeze among banks depends mainly on confidence in the financial system, but also on the aforementioned caps on capital transfers. The impact on regulatory liquidity ratios could prove considerable, and it could vary from one bank to another. The decision on the caps in the bill is based on analysis of this.

At the end of June 2016, deposits amounted to just under 1,700 b.kr., some 40% of them owned by individuals. Concentration of individuals' deposits is limited, and about 60% of them are less than 16,5 m.kr. Firms hold about 25% of deposits. Non-residents hold about 5%, and foreign currency deposits account for about 13%. It is worth noting that large-scale withdrawals of foreign currency deposits has little or no impact on the foreign exchange market, as the banks own ample foreign-denominated liquid assets to offset them.

Various stress tests were carried out to assess how well prepared the banks are to withstand various withdrawal levels. With the capital transfer cap provided for in the bill, the banks' liquidity will not dry up, and based on the stress tests that have been conducted, the banks combined will comply with the Central Bank's liquidity rules.

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In the wake of further liberalisation of capital controls, resident households and businesses will presumably step up their overseas investment. A contraction in demand for domestic securities would increase financial institutions' funding costs, other things being equal. A positive exchange rate differential with abroad tends to mitigate these effects, as does a contraction in the Treasury's financing need. The impact on financial institutions is therefore expected to be very manageable given the current situation in the financial markets.

In order to assess the impact of the proposals in the bill on the balance of payments, it is necessary, in addition to a deposit analysis, to consider potential risk diversification of investors that own securities or unit shares in mutual funds. At the end of June, mutual funds' total assets amounted to just under 600 b.kr., including about 400 b.kr. owned by individuals and firms. A subset of investors in funds hold assets in excess of the maximum provided for in the bill of legislation, and expected outflows due to risk diversification among fund investors are therefore somewhat tempered. Developments in domestic securities market prices and in the exchange rate of the króna will also have a marked effect on when and to what degree funds choose to invest abroad. Individuals and companies are also direct owners of about 390 b.kr. in securities, including 240 b.kr. in equities and about 150 b.kr. in bonds.

*Impact on the balance of payments and the Central Bank's foreign exchange reserves*

In assessing the impact of potential outflows on the balance of payments following the steps towards liberalisation proposed in the bill of legislation, consideration is given to developments in the foreign exchange reserves and the size of the reserves is placed in the context of various reserve adequacy criteria. In these calculations, the exchange rate of the króna is set as a constant. It should be borne in mind that this is done for efficiency purposes, so as to obtain a simplified view of the potential impact, and it does not represent a policy statement. Unlike the settlement of the failed banks' estates and the resolution of the offshore króna problem, where one of the aims was that the measures should not have adverse effects on the exchange rate of the króna, this does not apply in this case, as it is vital, if economic policy is to function as intended, that the exchange rate be allowed to adapt to fluctuations in residents' demand for foreign assets.

The Central Bank's foreign exchange reserves are currently strong in historical context. **At the end of July, the reserves amounted to 721 b.kr., including 475 b.kr. financed domestically.** The reserve adequacy metric (RAM), which takes account of a variety of factors that affect a country's balance of payments and can provide an indication of potential capital outflows, was about **160%** at the end of July. It therefore slightly exceeds the **150%** that the Central Bank and the IMF agree is desirable during the prelude to further steps towards capital account liberalisation. Based on calculations of potential outflows upon liberalisation, it can be expected

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that the impact on the balance of payments could be considerable but highly dependent on firms' and individuals' interest in diversifying risk abroad. The impact on developments in the reserves, however, will also depend on future external revenues, as the Central Bank has bought significant amounts of foreign currency in the market in the recent term, or about **230 b.kr. in 2016 year-to-date and about 270 b.kr. in 2015**. If developments are in line with expectations, potential outflows should not be overly onerous for the domestic economy. If foreign currency inflows during the liberalisation process prove to be similar to those in the recent past, it is considered likely that the reserve adequacy ratio will decline early on and even fall below the lower RAM threshold but remain strong enough even in the event of a stressed outflow scenario. Furthermore, the reserves can be expected to return to a strong position in one to two years.

#### *Impact on Government administration*

Since 2010, the Capital Controls Surveillance Unit (CCSU) has received 800-1100 requests annually for exemptions from the Foreign Exchange Act, no. 87/1992, with individuals and legal entities applying for exemptions in roughly equal proportions. The processing ratio has ranged between 75% and 100% of submitted queries per year, with about 300 cases in processing at any given time. The table below summarises the number of submitted and processed requests for exemptions, broken down by year:

Year	Number of exemption requests filed	Number of exemption requests processed
2009	390	248
2010	762	720
2011	971	946
2012	973	711
2013	883	880
2014	1,044	992
2015	1,080	1,040
2016 <sup>7</sup>	657	591

At present, the minimum processing time for exemption requests is about eight weeks. If further data or information must be obtained from the applicant in order to process the exemption request, the processing time can be expected to increase accordingly. Moreover, processing time is longer when a case is one that sets precedent or involves large amounts of money, where the Bank's assessment, cf.

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<sup>7</sup> Based on the number of exemption requests filed in the first seven months of 2016.

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Article 7, Paragraph 2 of the Foreign Exchange Act, is prepared in collaboration with other Bank departments.

It is assumed that the changes entailed in the bill will lead to a reduction of about 50-65% in the number of requests for exemptions from the Foreign Exchange Act, no. 87/1992. As a result, the processing time for such exemption requests should be shortened significantly. In 2015, the direct cost of capital controls surveillance at the Central Bank totalled 265 m.kr. It can be considered likely that, as the number of exemption request declines, the expenses associated with this aspect of the Bank's operations will decline in the years to come.

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### **Notes on individual Articles of the bill**

#### *On Article 1*

This provision proposes various amendments to Article 13(b) of the Act.

Item (a) proposes amendments to Paragraph 2 entailing that increased exemptions from the restrictions in Paragraph 1 concerning cross-border movement of foreign currency, so that, on the one hand, capital movements classified as current transactions for the purposes of the balance of payments are exempt and, on the other hand, specified long- and short-term capital movements up to a specified ceiling, and direct investments, classified as capital transactions for the purposes of the balance of payments, are exempt.

#### *On Item 1.*

It is recommended that authorisations for cross-border movement of foreign currency be expanded, provided that it is demonstrated that the transfers are due to trade in goods and services. The exemption can now be found in Article 13(b), Paragraph 2, cf. Article 13(b), Paragraph 3, Item 2, of the Act. With this amendment, a larger number of cases than merely those capital movements directly pertaining to the purchase of goods and services will fall under this authorisation, such as reimbursements for overpayment, discounts, cancelled orders, and the like, which are a normal part of goods and services trade. The same applies to movement of capital for the purchase of transport equipment, heavy machinery, and commodities that are a normal part of commercial activities but have hitherto been prohibited under Article 13(f) of the Act. Another item falling under this exemption is an individual's purchase of transport equipment for personal use. Items not falling under this

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authorisation are the purchase of commodities for investment purposes, such as investment in gold, other precious metals, or oil.

*On Item 2.*

It is proposed that the current authorisation in Article 13(k), Paragraph 2 of the Act be moved to Article 13(b), Paragraph 2, Item 2. This does not represent a substantive change in the current authorisation under Article 13(k), Paragraph 2, except that it will no longer be required of residents who exercise this authorisation that their residence abroad be for the purpose of work or study. The provision also covers wages that non-residents have acquired in Iceland in the past six months, irrespective of where they live and whether they were considered residents or non-residents when they acquire the wages. Wage-related expenses refers, among other things, to payroll taxes, legally required pension contributions, vacation pay remittances, and union dues.

*On Item 3.*

It is proposed that the current authorisation in Article 13(k), Paragraph 1 of the Act be moved to Article 13(b), Paragraph 3, Item 2. It is also recommended that the provision be amended so that the cap on the authorisation is raised from 3,000,000 kr. to 6,000,000 kr. and that no distinction is made between residents and non-residents as providers of grants and gifts in connection with capital movements on the basis of this authorisation. According to the provision, movement of capital for gifts and grants shall be deposited to an account owned by the recipient, and the donor/grantor shall be the beneficial owner (actual owner) of the funds in question.

*On Item 4.*

According to this provision, cross-border capital movement of foreign currency is permitted in connection with interest, indexation, contractual instalments, and dividends according to Article 13(j) of the Act. The provision does not entail a change in current authorisations.

*On Item 5.*

According to this provision, movement of foreign-denominated capital is authorised if it is demonstrated that the funds derive from rental income on property that a non-resident has acquired in Iceland. The provision entails a minor change in the current authorisation for cross-border movement of foreign capital, as such payments have hitherto been classified as services trade. Rental income also applies to income from rights related to real property such as mining, water, and fishing rights.

*On Item 6.*

It is proposed that cross-border movement of capital be permitted in cases involving prepayment and retirement of loans; investments in securities, unit shares in UCITS and investment funds, money market documents, other negotiable financial

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instruments, monetary claims, and other comparable claims in foreign currency; importation and exportation of securities; or deposits to and withdrawals from accounts with deposit institutions. The said movement of capital has heretofore been restricted by the provisions of Articles 13(e) and 13(f) of the Act. Cross-border movement of capital for prepayment and retirement of loans is prohibited under Article 13(g), Paragraph 4, and such payments are not considered contractual instalments in the sense of Article 13(j), Paragraph 1, cf. Article 13(j), Paragraph 8, of the Act. It is also proposed that cash withdrawals be authorised, according to the fourth sentence of Article 2, Item (a) of the bill of legislation. According to the temporary provision in Article 14 of the bill, it is proposed that the authorisation be limited to a 30,000,000 kr. maximum when the Act enters into force and that the maximum be increased to 100,000,000 kr. on 1 January 2017. It is assumed that the Central Bank of Iceland be authorised to revise the maximum amount according to this provision by issuing rules – cf. Article 13(b), Paragraph 4 and Article 13(c), Paragraph 5 of the Act – and that it be required to do so before 1 July 2017, according to Article 14, Item (a) of the bill. The provision entails the authorisation for long- and short-term movement of capital according to Items 1, 2, and 4, as these are defined in Article 1 of the Act, but this does not apply to loans taken or granted for a period shorter than one year; cf. Item 3. The authorisation is granted to each party and is not transferable; cf., however, the authorisation according to Article 10, Item (f) of this bill of legislation for investment in mutual funds, investment funds, and institutional investment funds. For example, a party who had invested in foreign securities for the equivalent of 50,000,000 kr., transferred deposits from a domestic financial institution to foreign one for the equivalent of 40,000,000 kr., and withdrawn foreign currency in cash from a domestic financial institution for the equivalent of 10,000,000 kr. would be considered to have fully utilised the authorisation under this provision. It is recommended that movement of capital or cash withdrawals on the basis of this provision be subject to specific conditions intended to prevent parties from exceeding the maxima by having other invest on their behalf or by using legal entities under their control for the same purpose.

Item (a) of the provision recommends that the investor be the beneficial owner of the funds and that this requirement should apply equally to individuals and legal entities intending to exercise the authorisation.

Furthermore, Item (b) of the provision requires that individuals who exercise the authorisation have reached the age of 18 years by the time the movement of capital or cash withdrawal takes place. This entails that parents or legal custodians of children cannot transfer funds across borders or withdraw cash in their children's names on the basis of this provision. However, trustees of individuals who are not financially competent are authorised to transfer funds across borders or withdraw cash on the basis of this provision on behalf of the individuals concerned.

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Item (c) of the provision requires that the asset position of legal entities that exercise the authorisation be, as of 1 August 2016, at least equal to the amount of the proposed disposition of funds. Such a restriction is necessary in order to prevent the establishment or restoration of legal entities for the sole purpose of circumventing the ceilings according to the provision, as the provision is intended only for legal entities with active operations.

It is also proposed, in Item (d) of the provision, that the financial institution that carries out the movement of capital according to the provision be required to report it to the Central Bank of Iceland, and that such notification must be received by the Central Bank before the capital transfer takes place. It is assumed that the Central Bank of Iceland will set rules laying down the arrangements for notifications of cash withdrawals. The above is intended to ensure that the Bank can conduct monitoring to determine whether the ceiling has been complied with.

#### *On Item 7.*

It is recommended that cross-border movement of foreign currency in connection with outward foreign direct investment (FDI) be authorised, provided that the investor is the beneficial owner of the funds concerned. Direct investment is defined in Article 1 of the Act as a capital contribution or other contribution to the equity of a commercial undertaking, or to the purchase of a holding with the aim of acquiring significant influence over its management. Furthermore, long-term loans from a company's owners can be considered direct investment. The definition entails both the requirement that the investment be directed towards a commercial undertaking and that it be made with the objective of gaining significant influence over the company's management. Therefore, the authorisation does not cover investment in a foreign company if its activities are primarily in portfolio investment or comparable operations. In statistical reporting, a 10% holding is generally considered the threshold for significant influence over a company's management;<sup>8</sup> however, the acquisition of smaller holdings can demonstrate the characteristics of direct investment, and the acquisition of larger holdings can be more consistent with portfolio investment.<sup>9</sup> It is proposed that the Central Bank assess whether an investment is classifiable as direct investment and that such investment be subject to confirmation of this. In assessing whether an investment can be classified as direct investment, the Central Bank may also consider internationally recognised criteria for direct investment, such as the definitions of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD).<sup>10</sup>

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<sup>8</sup> For instance, the Organisation for Economic Co-operation and Development (OECD) uses this ratio; see *Benchmark Definition of Foreign Investment*, 4th ed., OECD.

<sup>9</sup> Arnór Sighvatsson, 1996, *Fjármálatíðindi* (2), p. 130 [in Icelandic].

<sup>10</sup> See, for instance, *Balance of Payments and International Investment Position Manual*, 6th ed., IMF, and *Benchmark Definition of Foreign Investment*, 4th ed., OECD.

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*On Item 8.*

According to this provision, importation of foreign currency to a deposit account with a domestic financial undertaking, but not when the payer is a resident and the recipient a non-resident. This is not a substantive change; however, the current authorisation can be found in the second sentence of Article 13(b), Paragraph 2.

*On Item 9.*

This provision proposes the expansion of the current authorisation pursuant to Article 13, Paragraph 2 of the Act, which authorises cross-border movement of capital for the living expenses of non-residents and residents located abroad. It is no longer required that the resident intending to exercise the authorisation be located abroad for purposes of work or study. Furthermore, it is recommended that the ceiling on the authorisation be eliminated; however, it is still required that individuals demonstrate to a financial institution in Iceland that they incur living expenses abroad.

*On Item 10.*

This provision proposes that cross-border movement of foreign currency for payment of taxes and public levies, legal expenses according to court order, accident benefits, and compensatory damages be authorised. Until now, such movement of capital has only been authorised in cases involving payment of accident benefits and inheritance owing to an individual upon division of an estate, according to Article 13(b), Paragraph 2. It is proposed that it no longer be required that an inheritance be owing upon division of an estate. With this, the authorisation now extends to prepaid inheritance, provided that the heir present an inheritance report confirmed by a Commissioner.

*On Item 11.*

In this provision, it is proposed that resident and non-resident individuals be authorised to transfer foreign currency across borders for the purchase of one real property per calendar year, subject to prior confirmation by the Central Bank of Iceland. The provision entails a substantial expansion of the authorisation pursuant to Article 13(f), Paragraph 2, which is limited by the requirement that the purchase be made in connection with the individual's change or residence from Iceland and subject to a ceiling of the equivalent of 100,000,000 kr. It is proposed that an individual be authorised to pay a confirmation fee for a real estate transaction equalling up to 15% of the purchase price of the property without prior confirmation. The purchase of residence rights or other comparable rights is classified as a real estate purchase in the sense of this provision. It is also proposed that an individual who sells or receives compensation for damage to a property abroad be authorised to use the sales proceeds or compensation to purchase another property abroad within six months.

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In Item (b), it is proposed that Paragraph 3, Item 4 be amended to accord with the authorisation pursuant to Item (a), Point 10, which entails that cross-border movement of domestic currency for the payment of legal fees according to court order, accident benefits, and compensatory damages be authorised. Further explanation can be found in the comments on Item (a), Point 10.

In Item (c), it is proposed that a new numbered item be added to Article 13(b), Paragraph 3 of the Act. A comparable authorisation was previously contained in Article 13(b), Paragraph 3, Item 3 but then deleted with the passage of Act no. 35/2013 Amending the Foreign Exchange Act, no. 87/1992. The amendment entails authorising non-residents to use domestic currency for investment in Iceland. The authorisation does not extend to payments made by withdrawal from an account subject to special restrictions in the sense of Act no. 37/2016. It is proposed that investments made by legal entities on the basis of the provision be subject to the requirement that the purchaser be the beneficial owner of the funds at the time the Act enters into force. Furthermore, funds released upon the sale of the investments shall be returned to a domestic currency account owned by the seller with a financial undertaking in Iceland. It is proposed that the authorisation be limited to real estate and specific financial instruments issued in domestic currency in accordance with Central Bank of Iceland rules.

#### *On Article 2*

This Article proposes an amendment to Article 13(c), Paragraph 2 of the Act that entails an expansion of resident and non-resident entities' authorisation to purchase foreign currency from a financial institution in Iceland in accordance with the expanded authorisation for cross-border movement of foreign currency; cf. Article 1 of this bill of legislation. Further explanation can be found in the comments on that Article.

In Item (a), it is proposed that it be permissible to purchase foreign currency from a financial institution in Iceland when it is demonstrated that the purchase is in connection with cross-border movement of capital that is exempt under the new provisions contained in Article 13(b), Paragraph 2, Items 1-7 and 9-11 of the Act; cf. Article 1, Item (a) of the bill of legislation. Until now, non-residents have not been authorised to purchase foreign currency from a financial institution in Iceland; for instance, due to trade in goods and services or for gifts and grants. It is also proposed that foreign currency purchases according to the first sentence of that Paragraph, for cross-border movement of capital pursuant to Article 13(b), Paragraph 2, Items 1, 3-7 and 10-11 be subject to the requirement that the recipient of the payment be a non-resident, as the provision is not intended to authorise residents or non-residents to purchase foreign currency from a financial institution in Iceland in order to deliver it to residents in the instances specified in the provision. It is also proposed that non-residents' purchases of foreign currency from a financial institution in Iceland on the

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basis of Article 13(b), Paragraph 2, Item 4 – cf. Article 13(j) – be subject to the requirement that such purchases be in connection with such payments made in Iceland by a resident. This restriction is now found in the first sentence of Article 13(c), Paragraph 3 of the Act. Furthermore, it is proposed that the prohibition on the purchase of foreign currency in cash and the withdrawal of foreign currency in cash from foreign currency accounts with financial institutions in Iceland be included under this provision; it can now be found in Article 13(d), Paragraph 1. Moreover, it is proposed that the purchase of foreign currency in cash and the withdrawal of foreign currency in cash from foreign currency accounts with financial institutions in Iceland be authorised within the limits provided for in Article 1, Item (a), Point 6 of the bill. This entails that the exercise of the authorisation is deducted from the ceiling provided for in the provision. This amendment represents an expansion of the current authorisation according to Article 13(d), Paragraph 2, in that the authorisation is not limited to resident individuals but now extends also to non-resident individuals and legal entities.

Item (b) proposes a correction to a reference that does not entail a substantive change.

In Item (c), it is proposed that Article 13(c), Paragraph 3 be deleted. The authorisations provided for there can now be found in Article 2, Item (a) of the bill of legislation.

Item (d) proposes a correction to a reference, in accordance with the amendment in Item (c).

#### *On Article 3*

With this provision, it is proposed that Article 13(d) be deleted to accord with the amendments provided for in Articles 1, 2, and 14 of the bill.

#### *On Article 4*

With this provision, it is proposed that reinvestment no longer be subject to the requirement that the investment have been made prior to 28 November 2008 in the financial instruments that are listed in the provision. The amendment is made to accord with the authorisations pursuant to Article 1, Item (a), Point 6 of the bill. It is not intended that cross-border movement of capital for reinvestment on the basis of this provision will be deducted from the above-mentioned ceiling pursuant to Article 1, Item (a), Point 6 of the bill.

#### *On Article 5*

With this provision, it is proposed that Article 13(f) be deleted to accord with the amendments entailed in Articles 1 and 2 of the bill.

#### *On Article 6*

This Article proposes two amendments to Article 13(j) of the Act.

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Item (a) proposes a correction to a reference, in accordance with the amendment in Item (b).

Item (b) proposes the deletion of Article 13(j), Paragraph 3 of the Act, which contains a description of the method to use to calculate bond interest pursuant to Article 13(j), Paragraph 1. The provision is unnecessary, as offshore króna assets have been segregated by the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016.

Item (c) proposes the removal of restrictions on purchases of foreign currency from a financial institution in Iceland for payments of instalments and indexation on bond principal. The provision is unnecessary, as offshore króna assets have been segregated by Act no. 37/2016.

Item (d) proposes a correction to a reference, in accordance with the amendment in Item (b).

#### *On Article 7*

With this provision, it is proposed that Article 13(k) be deleted to accord with the amendments entailed in Articles 1 and 2 of the bill.

#### *On Article 8*

Article 8 of the bill proposes several amendments to Article 13(l), Paragraph 2, entailing increased exemptions from the requirement to repatriate foreign currency.

In Item 1, it is proposed that it will no longer be required that the purpose of a resident's stay abroad be work or study in order for a resident to be exempt from the repatriation requirement.

Items 2 and 3 propose exemptions from Article 13(g), Paragraph 3 and Article 13(l), Paragraph 1, so that funds in connection with loans taken from a non-resident and used to purchase real estate or transport equipment abroad, or for investment according to Article 1, Item (a), Points 6-7 of the bill, will be exempted from the repatriation requirement.

In Item 4, it is stated that funds are not subject to repatriation during the grace period for reinvestment according to Article 13(e), Paragraph 1.

Items 5, 6, and 7 propose exemptions from Article 13(l), Paragraph 1 following from the deletion of Article 13(f) with this bill and the transfer of those provisions to Article 13(b), Paragraph 2; cf. Articles 1 and 5 of the bill. The exemptions can now be found in Article 13(f), Paragraphs 3 and 4, and no substantive amendments are made to them except that the reinvestment authorisation for transport equipment is expanded, cf. Item 7, and now includes transport equipment other than motor vehicles falling under the current account.

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#### *On Article 9*

Article 9 of the bill proposes several amendments to Article 13(m) of the Act.

Item (a) proposes that the deadline for notification of new investment be lengthened from two weeks to three, partly to accord with other deadlines under the Act and to give those exercising the authorisation additional room for manoeuvre.

Item (b) proposes that the Article be amended to include a new paragraph stating that sales proceeds and other payments in connection with investments according to Article 1, Item (a), Points 6-7 of the bill (which will be Article 13(b), Paragraph 2, Items 6-7) will no longer be considered new inflows of foreign currency in the sense of Article 13(m), Paragraph 2. The amendment entails that those who exercise the authorisations cannot use sales proceeds or other payments in connection with them for domestic new investment on the basis of Article 13(m). As before, those who sell the investments are authorised to import the sales proceeds and other payments in connection with them – cf. Article 1, Item (a), Point 8 of the bill – and residents are required to repatriate sales proceeds if they do not use them for reinvestment in accordance with Article 13(e), cf. Article 13(l), of the Act.

#### *On Article 10*

Article 10 of the bill proposes several amendments to Article 13(n) of the Act.

Items (a) and (c) propose changes to wording to accord with other amendments in the bill, but these are not substantive amendments. The amendments entail that the authorisations of the parties listed in Article 13(n), Paragraph 3, Items 1-2 and Article 13(n), Paragraph 6 are not limited by this bill. This ensures that those parties that had received exemptions from the current provisions of the Act will retain those authorisations, but they are not granted additional authorisations over and above other parties for the purchase of foreign currency from a financial institution in Iceland on the basis of the amended Article 13(c), Paragraph 2.

In Items (b) and (e), it is proposed that Paragraphs 4-5 and 8-9 be deleted, as they were adopted in connection with the settlement of the failed banks' estates and are no longer applicable.

Item (d) proposes an amendment to accord with other amendments in the bill.

In Item (f), it is proposed that parties may exercise their authorisations pursuant to Article 1, Item (a), Point 6 of the bill, cf. Article 2 of the bill, for investment in mutual funds (UCITS), investment funds, and institutional investment funds. The provision enables parties to invest in domestic funds that invest in foreign securities instead of investing directly in the foreign securities, in part to improve risk diversification and efficiency. Investments in foreign securities on the basis of this provision are deducted from the ceiling provided for in Article 1, Item (a), Point 6 of the bill and are not in addition to that authorisation. It is required that the

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management company of the fund in question notify the Central Bank of Iceland of investments on the basis of this provision. The term *management company* applies to both management companies and other companies that manage funds on the basis of the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds. In view of the fact that funds' management arrangements, investment strategies, and settlement of trades varies, it is proposed that the Central Bank be authorised to lay down rules on further implementation of the provision; for instance, the extent to which investment in funds will be deducted from the ceiling provided for in Article 1, Item (a), Point 6 of the bill if the fund invests in both domestic and foreign securities.

#### *On Article 11*

This provision proposes an amendment to Article 13(o), Paragraph 4, which entails that instead of authorising the Central Bank of Iceland to lay down more detailed rules on the provisions of Articles 13(e)-13(n), it will authorise the Bank to lay down rules on exemptions from the restrictions contained in those Articles. The Central Bank may therefore decide via rules to grant more generous authorisations for foreign exchange transactions and movement of capital than are provided for in the aforementioned provisions, but it may never tighten the restrictions.

#### *On Article 12*

This provision proposes that Article 14 of the Act be amended so as to ensure that the Central Bank has access to reliable data for the purpose of safeguarding financial stability, the balance of payments, and the external position of the economy. Further rationale for the need for increased authorisations for gathering of information can be found in Section 2.4. in the general comments on the bill.

In Item (a), it is proposed that the Central Bank's current authorisations to gather information be expanded to include cross-border movement of capital and not only foreign exchange transactions. On the basis of this provision, it is required to provide the Central Bank with information and documentation so that it can perform the necessary supervision on the basis of the Act and can assess the outlook for the economy as a whole, so that it will be possible to have an overview of financial and economic stability.

The amendments in Item (b) are intended to ensure that the Bank has expanded authorisations for information gathering so that it can fulfil its legal mandate of promoting price stability and financial stability.

In Item (c), it is proposed that confidentiality provisions shall not limit parties' obligation to provide information to the Central Bank. This provision accords with other provisions of the Act concerning disclosure requirements.

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In Item (d), it is proposed that it be required to notify the Central Bank of Iceland of foreign exchange transactions and cross-border movement of capital. The provision assumes that the Central Bank of Iceland will adopt rules on the reporting of capital movements and foreign exchange transactions and on exemptions from the reporting requirement in the case of transactions where such notification is not deemed necessary. The reporting requirement according to this provision applies to parties that organise foreign exchange transactions and capital movements subject to notification, execute the transactions, or act as intermediaries for them. In the rules, it is possible to specify how transactions according to the provision shall be reported, what form the notification shall take, etc.

#### *On Article 13*

This provision proposes a technical amendment to accord with other amendments in the bill.

#### *On Article 14*

This Article proposes the addition of two new Temporary Provisions to the Act.

In Item (a), it is proposed that, in spite of the provision in the first sentence of Article 13(b), Paragraph 2, Item 6, each party's capital transfers according to that provision shall be authorised only up to a combined total equivalent to 30,000,000 kr. until 1 January 2017. Furthermore, it is proposed that the Central Bank of Iceland be obliged to review the ceiling provided for in Article 1, Item (a), Point 6 of the bill before 1 July 2017, in accordance with the Bank's authorisation to set rules according to the Act.

Moreover, it is proposed that, until the end of the year, securities be held with a domestic custodian so as to make supervision more efficient and to facilitate an overview of investments on the basis of the provision. In addition, it is proposed that, until year-end 2016, cross-border movement of capital in foreign currency that entails importation and exportation of securities or deposits to and withdrawals from accounts with deposit institutions be prohibited until the same date. It is proposed as well that, until year-end 2016, withdrawals of foreign currency in cash be restricted to the authorisations provided for in Temporary Provision V. Thus the authorisation provided for in Article 1, Item (a), Point 6 of the bill is restricted to long-term capital movement and short-term capital movement according to Points 1 and 2 as defined in Article 1 of the Act, and it no longer includes other short-term movement of capital, such as the transfer of deposits. In other respects, reference is made to the explanations concerning Article 1, Item (a), Point 6 of the bill.

In Item (b), it is proposed that, until year-end 2016, the ceiling on individuals' purchases of foreign currency in cash be raised significantly from the current level provided for in Article 13(d).

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It is proposed that there no longer be a distinction between residents' and non-residents' authorisations to purchase foreign currency in cash from a financial institution in Iceland.

It is proposed that the authorisation to purchase foreign currency or withdraw foreign currency in cash be raised from 350,000 kr. per calendar month to 700,000 kr. per trip taken. If a particular need for additional cash during travel abroad is demonstrated, an individual is authorised to purchase or withdraw foreign currency in cash, insofar as he/she can demonstrate the need for the higher amount and the disbursement in cash.

It is recommended that it be required that the resident individual concerned must purchase or withdraw foreign currency in cash from a financial undertaking in Iceland with which he/she does business. This requirement can now be found in the first sentence of Article 13(d), Paragraph 2.

It is also proposed that the ceiling currently specified in Article 13(d), Paragraph 6 be raised from 350,000 kr. per month to 700,000 kr., to accord with other amendments.

And finally, it is proposed that violations of this provision be punishable according to the penalty provisions in the Act.

#### *On Article 15*

It is proposed that the Act enter into force at once.

#### *On Article 16*

Item 1 proposes amendments to the Central Bank of Iceland Act so as to ensure that the Bank has at its disposal the appropriate measures to acquire information and documentation in order to perform its functions and to promote price stability and financial stability. Further rationale for the need for increased authorisations for gathering of information can be found in Section 2.4. in the general comments on the bill.

Item 2(a) proposes amendments that entail an expansion of the exemptions from what can be considered offshore króna assets pursuant to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016. It was not intended that payment institutions according to Item 3 and confirmed new investment according to Article 3, Item 4 of the Act should fall under the scope of the Act.

Item 2(b) proposes an amendment entailing that the market value of offshore króna assets other than those according to Article 9, Paragraph 3, Item 1 may never be below the nominal value or market value of the company's underlying assets that are classified as offshore króna assets.

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