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RULES

on special reserve requirements for new foreign currency inflows

Amended with Rules no. 537/2016 (took effect 17 June 2016), Rules no. 892/2016 (took effect 1 November 2016), Rules no. 201/2017 (took effect 14 March 2017) and Rules no. 963/2018 (took effect 3 November 2018)

Article 1

Definitions

For the purposes of these Rules, the following terms shall have the following meanings:

Special reserve account: An account with a deposit institution in Iceland that is identified with ledger code 24.

Special reserve requirement: The obligation of an entity subject to special reserve requirements to hold a special reserve amount in a special reserve account with a deposit institution in Iceland over the holding period.

Holding period: The term during which the special reserve amount shall be held in a special reserve account with a deposit institution.

Capital flow account: A term deposit account held by a deposit institution with the Central Bank of Iceland in which an amount is held in custody that corresponds to the total of the special reserve amounts held in custody by the deposit institution concerned.

New inflows of foreign currency: Foreign currency entering Iceland after 4 June 2016. Balances on deposit in foreign currency accounts with domestic financial undertakings dating from before 5 June 2016, export revenues, and other foreign currency subject to repatriation requirements, cf. Article 13(l) of the Foreign Exchange Act, are not considered new inflows of foreign currency.

Article 2

Special reserve base

New inflows of foreign currency in connection with the following capital create the special reserve base of an entity subject to special reserve requirements:

1. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or deposits of such reinvested funds to domestic currency deposit accounts [held at deposit institutions in Iceland and bearing annual interest of 3.00% of more].¹
2. [Domestic currency deposits with deposit institutions in Iceland, other than those deriving from capital that:
 - a. is eligible for reinvestment according to Article 13(e) of the Foreign Exchange Act;
 - b. falls under Article 13(l) or Article 13(m) of the Foreign Exchange Act; or
 - c. bears annual interest of less than 3,00% and is not used, directly or indirectly, to invest in bonds or bills issued in domestic currency and electronically registered pursuant to the Act on Electronic Registration of Title to Securities; or in unit shares in funds that invest in bonds or bills issued in domestic currency and electronically registered pursuant to the Act on Electronic Registration of Title to Securities or that hold deposits in domestic currency with deposit institutions in Iceland if cash and deposits bearing annual interest of 3.00% or more constitute 10% or more of the fund's assets; or in the equity

¹ Article 1, Item (a) of Rules no. 892/2016.

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of a company that is invested directly or indirectly in the aforementioned investments.]²

3. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, unit share certificates of funds that invest in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or that own domestic currency deposits [held at deposit institutions in Iceland, if cash and deposits bearing annual interest of 3.00% or more constitute 10% or more of the funds' assets].³
4. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, in the equity of a company that is established for the purpose of investing, directly or indirectly, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or that [is established for the purpose of investing, directly or indirectly, in domestic currency deposits bearing annual interest of 3.00% or more].⁴
5. Loans granted to resident entities that are used for investments in domestic currency, for the benefit of the lender, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or deposited to domestic currency deposit accounts [held at deposit institutions in Iceland and bearing annual interest of 3.00% or higher].⁵ The same applies to such loans that are used for investments in unit share certificates of funds [that invest in bonds or bills issued in domestic currency and electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or that hold deposits in domestic currency with deposit institutions in Iceland]⁶, if cash and deposits bearing annual interest of 3.00% or more constitute 10% or more of the funds' assets,⁷ or in the equity of a company that is invested or disposed of, directly or indirectly, in the manner described in the first sentence.

Article 3

Parties subject to special reserve requirements

The following entities are subject to special reserve requirements as set forth in these Rules:

1. Registered owners of bonds or bills according to Article 2, Items 1, [2,]⁸ 4, and 5.
2. Registered owners of deposits according to Article 2, Items 1, 2, 4, and 5.
3. Registered owners of unit share certificates according to Article 2, [Items 2-5].⁹

[An individual who is the registered owner according to Paragraph 1, Items 1-3, shall be permitted to dispose of new inflows of foreign currency according to Article 2 up to a maximum equivalent to [...] ¹⁰ 100,000,000 kr. This authorisation is subject to the requirement that the individual be the beneficial owner of the funds in question.

² Article 1, Item (a) of Rules no. 201/2017.

³ Article 1, Item (c) of Rules no. 892/2016.

⁴ Article 1, Item (d) of Rules no. 892/2016.

⁵ Article 1 of Rules no. 537/2016.

⁶ Article 1, Item (b) of Rules no. 201/2017.

⁷ Article 1, Item (e) of Rules no. 892/2016.

⁸ Article 2, Item (a) of Rules no. 201/2017.

⁹ Article 2, Item (b) of Rules no. 201/2017.

¹⁰ Article 2, Item (c) of Rules no. 201/2017.

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If the combined equivalent value of an individual's disposal according to Article 2 exceeds the maximum amount specified in Paragraph 2 as stated at any given time, only the portion of new inflows of foreign currency in excess of the maximum amount shall be subject to the special reserve requirement according to these Rules.]¹¹

Article 4

Special reserve ratio

A special reserve ratio of [20%]¹² shall apply to the following types of capital in the special reserve base:

1. Bonds or bills according to Article 2, Items 1, [2,]¹³ 4, and 5.
2. Deposits according to Article 2, Items 1, 2, 4, and 5.
3. Unit share certificates according to Article 2, [Items 2-5.]¹⁴

Article 5

Implementation of the special reserve requirement

The special reserve requirement shall be satisfied by deposit of the special reserve amount to a special reserve account within two weeks of the date the new inflows of foreign currency are converted to domestic currency[,]¹⁵ the reinvestment according to Article 13(m), Paragraph 6 of the Foreign Exchange Act has taken place[, or investments have been made in accordance with Article 2 of these Rules]¹⁶.

The special reserve amount shall be the product of the special reserve base and the special reserve ratio according to Articles 2 and 4 of these Rules.

The settlement currency of the special reserve amount shall be the Icelandic króna.

It is prohibited to withdraw the special reserve amount during the holding period.

It is prohibited to hypothecate special reserve accounts or special reserve amounts.

Article 6

Holding period

The holding period shall be 12 months and shall begin on the business day that the special reserve amount is deposited to a special reserve account.

If new investment according to Article 2, Items 1, 3, and 4 is reinvested in funds that are subject to special reserve requirements according to the same provisions, the holding period of the reinvestment shall be considered to have begun on the business day that the holding period for the new investment began.

If new investment that does not fall under Article 2, Items 1, 3, and 4 is reinvested in funds subject to special reserve requirements according to the same provisions, the holding period shall begin on the day that the special reserve amount for the reinvestment was deposited to the special reserve account.

[The special reserve amount is available for disposal from the special reserve account at the end of the holding period according to Paragraph 1, in accordance with the provisions of the Foreign

¹¹ Article 2 of Rules no. 892/2016.

¹² Article 1 of Rules no. 963/2018.

¹³ Article 3, Item (a) of Rules no. 201/2017.

¹⁴ Article 3, Item (b) of Rules no. 201/2017.

¹⁵ Article 4, Item (a) of Rules no. 201/2017.

¹⁶ Article 4, Item (b) of Rules no. 201/2017.

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Exchange Act. The amount available for disposal according to the first sentence is not subject to special reserve requirements according to these Rules.]¹⁷

Article 7

Capital flow accounts

Deposit institutions are required to deposit the special reserve amount that it holds in special reserve accounts to a capital flow account with the Central Bank of Iceland.

The amount according to Paragraph 1 shall equal 100% of the special reserve amount.

Deposit institutions shall satisfy the requirements according to Paragraph 1 on the same business day that the special reserve amount according to Article 5 is deposited to the special reserve account.

The balance on the capital flow account shall at all times correspond to the total of the special reserve amounts held in custody by the deposit institution concerned.

Capital flow accounts shall bear 0% interest.

The settlement currency for capital flow accounts shall be the Icelandic króna.

It is prohibited to hypothecate capital flow accounts or the deposits held in them.

Article 8

Reporting requirements

With the assistance of a financial undertaking in Iceland, entities subject to special reserve requirements shall notify the Central Bank of Iceland of the disposal of new inflows of foreign currency falling under Article 2, Items 1-5 within two weeks of the date the new inflows of foreign currency are converted to domestic currency or the reinvestment according to Article 13(m), Paragraph 6 of the Foreign Exchange Act has taken place. Notwithstanding this provision, in cases involving reinvestment, the Central Bank of Iceland shall be notified of the disposal according to the first sentence within one week.

Deposit institutions shall notify the Central Bank of Iceland within the same business day of deposits of special reserve amounts to special reserve accounts according to Article 5.

Article 9

Sanctions

Violations of the provisions of these Rules are subject to administrative fines and penalties in accordance with Articles 15(a)-15(d); Article 15(h); and Articles 16, 16(a), and 16(b), cf. Temporary Provision III of the Foreign Exchange Act.

Article 10

Entry into force

These Rules, which are set based on the authorisation contained in Temporary Provision III of the Foreign Exchange Act, no. 87/1992, have been approved by the Minister of Finance and Economic Affairs and shall take effect immediately. Without prejudice to the provisions of Article 8, Paragraph 2 of the Act on the *Law and Ministerial Gazette* and the *Official Gazette*, these Rules shall take effect upon publication.

Reykjavík, 4 June 2016
Central Bank of Iceland

¹⁷ Article 2 of Rules no. 537/2016.

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Már Guðmundsson
Governor

Ingibjörg Guðbjartsdóttir
Director, Capital Controls Surveillance Unit