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## RULES

### on foreign exchange, with subsequent amendments

**Amended with Rules no. 568/2017 (took effect 27 June 2017) and Rules no. 311/2019 (took effect 3 April 2019)**

#### CHAPTER I

#### Foreign exchange transactions and cross-border movement of capital

##### Article 1

##### *Definition of cross-border movement of capital*

*Cross-border movement of capital* shall mean the transfer or transport of capital across national borders and the transfer or transport of capital between residents and non-residents; cf. Article 1 of Act no. 87/1992. It follows from the first sentence that the transfer of funds between residents and non-residents always entails cross-border movement of capital, irrespective of whether such transfer or transport takes place by withdrawal from an account with a financial undertaking in Iceland and deposit to an account with a financial undertaking abroad, or vice versa, by transfer between two accounts with financial undertakings in Iceland, and/or by transfer between two accounts with financial undertakings abroad. Furthermore, the transfer and transport of capital to and from Iceland, where the funds are transferred from an account with a financial undertaking in Iceland to an account with a financial undertaking abroad, or vice versa, always entails cross-border movement of capital, irrespective of whether or not the funds are being transferred between accounts owned by the same party.

##### Article 2

##### *Exemptions for cross-border movement of capital*

[Cross-border movement of capital in domestic currency and foreign currency pursuant to Article 13(b), Paragraph 1, Items 1-4 and Item 6 of the Foreign Exchange Act are exempt from the restrictions laid down in Paragraphs 1, 2 and 3 of the same Article, except for movement of capital deriving from transactions with offshore króna assets falling under Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions.]<sup>1</sup>

[...]<sup>2</sup>

The following cross-border movement of foreign currency shall be reported to the Central Bank of Iceland:

1. Payments of interest, indexation, contractual instalments, and prepayment and retirement of loans and other debt obligations.
2. Dividend payments.
3. Investments in securities, unit share certificates, mutual and investment funds, money market instruments, other negotiable financial instruments, monetary claims, and other comparable claims in foreign currency.
4. Importation and exportation of securities.
5. Deposits to and withdrawals from accounts with financial undertakings in Iceland, including cash withdrawals.
6. Foreign direct investment, including long-term lending.
7. Residents' purchases of real estate abroad.

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<sup>1</sup> Article 1, item (a) of Rules no. 311/2019.

<sup>2</sup> Article 1, Item (b) of Rules no. 311/2019.

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8. [Forward contracts, options contracts, currency and interest rate swap agreements, and other derivatives contracts.]<sup>3</sup>

[The following cross-border movement of domestic currency shall be notified to the Central Bank of Iceland:

1. Investments in securities, unit share certificates, mutual and investment funds, money market instruments, other negotiable financial instruments, monetary claims, and other comparable claims in domestic currency.
2. Importation and exportation of securities.
3. Deposits to or withdrawals from accounts held in Iceland by foreign financial undertakings (Vostro accounts).
4. Inward foreign direct investment, including long-term lending.
5. Forward contracts, options contracts, and other derivatives contracts, but not currency and interest rate swap agreements.]<sup>4</sup>

The contents and procedure for notifications pursuant to Paragraph [3 and 4]<sup>5</sup> shall be as is provided for in Article 15.

### Article 3

#### *Exemptions for foreign exchange transactions*

Foreign exchange transactions pursuant to Article 13(c), Paragraphs 1 and 2 of the Foreign Exchange Act that are carried out through the intermediation of a financial undertaking are exempt from the restrictions laid down in those provisions. It is also permitted to withdraw foreign currency in cash from a foreign currency account with a financial undertaking in Iceland.

Foreign exchange transactions pursuant to Paragraph 1 that are carried out through the intermediation of a financial undertaking in Iceland shall be reported to the Central Bank of Iceland. The contents and procedure for notifications shall be as is provided for in Article 15.

### Article 4

#### *Exemptions for investments in foreign currency*

Investments pursuant to Article 13(e), Paragraph 1 of the Foreign Exchange Act are exempt from the restrictions laid down in that Article.

The sales proceeds of financial instruments pursuant to Article 13(e), Paragraph 1 of the Foreign Exchange Act that are issued in domestic currency and settlement of transactions are exempt from the restrictions and conditions laid down in the first sentence of Article 13(e), Paragraph 2, and Article 13(e), Paragraphs 3 and 4 of the Foreign Exchange Act. [...] <sup>6</sup>

Settlement of transactions with financial instruments pursuant to Article 13(e), Paragraph 1 of the Foreign Exchange Act that are issued in foreign currency is exempt from the restrictions laid down in Paragraph 4 of that Article.

Cross-border movement of capital for prepayment of financial instruments pursuant to Article 13(e), Paragraph 1 of the Foreign Exchange Act is exempt from the restrictions laid down in Paragraph 5 of that Article.

[Transactions pursuant to Paragraph 1 and 2 shall]<sup>7</sup> be reported to the Central Bank of Iceland. The contents and procedure for notifications shall be as is provided for in Article 15.

### Article 5

#### *Exemptions for lending and borrowing*

[Borrowing and lending in domestic and foreign currency between residents and non-residents are exempt from the restrictions laid down in Article 13(g), Paragraphs 1-3 of the Foreign Exchange Act.]<sup>8</sup>

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<sup>3</sup> Article 1, Item (d) of Rules no. 568/2017.

<sup>4</sup> Article 1, Item (e) of Rules no. 568/2017.

<sup>5</sup> Article 1, Item (f) of Rules no. 568/2017.

<sup>6</sup> Article 2 of Rules no. 311/2019.

<sup>7</sup> Article 2, Item (b) of Rules no. 568/2017.

<sup>8</sup> Article 3, Item (a) of Rules no. 311/2019.

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[...] <sup>9</sup>

[...] <sup>10</sup>

[Repayments of loans in domestic and foreign currency between residents and non-residents are exempt from the restrictions laid down in Article 13(g), Paragraphs 4 and 5 of the Foreign Exchange Act.] <sup>11</sup>

[...] <sup>12</sup>

#### Article 6

##### *Exemptions for issuance of guarantees*

Notwithstanding the restrictions laid down in Article 13(h), Paragraph 1 of the Foreign Exchange Act, it is permissible to enter into or undertake a guarantee of payments to a non-resident.

#### Article 7

##### *Exemptions for derivatives transactions*

Derivatives transactions with financial undertakings in Iceland for the purpose of hedging against risk, where domestic currency is used in a contract against foreign currency, are exempt from the restrictions laid down in Article 13(i), Paragraph 1 of the Foreign Exchange Act, upon receipt of confirmation from the Central Bank of Iceland that the transactions involve hedging, provided that a foreign exchange imbalance exists over the duration of the derivative contract. Hedging pursuant to the first sentence shall reflect the foreign exchange imbalance, and contracts shall be amended accordingly if the premises for them change; i.e., underlying assets are sold or debts settled prior to maturity. The Central Bank may revoke the confirmation pursuant to the first sentence if it concludes that the premises for the hedging no longer exist.

The term *derivatives transactions* pursuant to Paragraph 1 refers to transactions with financial instruments pursuant to Article 2, Paragraph 1, Items 2(d)-2(h) of the Act on Securities Transactions.

[Derivatives transactions due to hedging in connection with bonds issued abroad in domestic currency do not fall under the exemption provided for in the first sentence of Paragraph 1.] <sup>13</sup>

Derivatives transactions pursuant to Paragraph 1 are subject to the condition that the contracts may not be transferred, directly or indirectly, to a third party prior to maturity.

Financial undertakings in Iceland shall notify the Central Bank of Iceland [of derivatives transactions with their clients in which domestic currency is used in a contract against against foreign currency.] <sup>14</sup>

The contents and procedure for requests for confirmation pursuant to Paragraph 1 shall be as is provided for in Article 13, Paragraphs 1-3.

The contents and procedure for notifications [pursuant to Paragraph 5] <sup>15</sup> shall be as is provided for in Article 13, Paragraph 4.

#### Article 8

##### *Exemptions for payment of interest, indexation, dividends, and contractual instalments*

Foreign exchange transactions and cross-border movement of capital for payment of interest, indexation, dividends, and contractual instalments are permissible, irrespective of the restrictions and conditions laid down in Article 13(j), Paragraphs 1-9 of the Foreign Exchange Act.

#### Article 9

##### *New investment*

These Rules do not affect the parties' obligations in connection with investment undertaken using new inflows of foreign currency in the sense of Article 13(m) of the Foreign Exchange Act. Such investments must be reported within three weeks of the date the new inflows of foreign currency are converted to domestic currency, cf. Article 13(m), Paragraph 4, and reinvestments pursuant to Paragraph 7 of the same Article.

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<sup>9</sup> Article 3, Item (b) of Rules no. 311/2019.

<sup>10</sup> Article 3, Item (b) of Rules no. 311/2019.

<sup>11</sup> Article 3, Item (c) of Rules no. 311/2019.

<sup>12</sup> Article 3, Item (b) of Rules no. 311/2019.

<sup>13</sup> Article 4, Item (a) of Rules no. 568/2017.

<sup>14</sup> Article 4, Item (b) of Rules no. 568/2017.

<sup>15</sup> Article 4, Item (c) of Rules no. 568/2017.

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Funds released upon the sale of a new investment do not require confirmation from the Central Bank of Iceland; however, the Bank shall be notified of the sale.

The contents and procedure for notifications pursuant to Paragraph 1 shall be as is provided for in Article [16.]<sup>16</sup>

#### Article 10

##### *Exemptions from repatriation requirements*

Residents are exempt from the repatriation requirements laid down in Article 13(l) of the Foreign Exchange Act.

#### Article 11

##### *Exemptions for payments for goods and services exports*

Payments for exports of goods and services shall be exempt from the conditions laid down in Paragraph 1 of Temporary Provision II of the Foreign Exchange Act.

#### Article 12

##### *Other*

These Rules do not affect the Rules on Special Reserve Requirements for New Foreign Currency Inflows, with subsequent amendments, or the Rules on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, with subsequent amendments.

### CHAPTER II

#### **Notification and requests for confirmation**

##### Article 13

##### *Notifications and requests for confirmation of derivatives transactions*

Requests for Central Bank of Iceland confirmation of derivatives transactions pursuant to Paragraph 7 in connection with hedging shall contain the following information and data:

1. Derivatives transactions for hedging on the basis of planned trade in goods and/or services:
  - a. The company's annual accounts for the past two years.
  - b. An estimate of the foreign exchange imbalance due to trade in goods and services, itemised by month in domestic and foreign currency, with reference to the foreign exchange imbalance for the past year.
  - c. A description of the planned derivative contracts; namely, information on form, amounts, and maturity.
2. Derivatives transactions to correct a foreign exchange imbalance based on the base currency, due to residents' interest-bearing debt or assets:
  - a. The company's most recent annual accounts.
  - b. Information on the foreign exchange imbalance to be protected.
  - c. A description of the derivative contracts planned to protect the foreign exchange imbalance; namely, information on form, amounts, and maturity.
3. Derivatives transactions used to hedge against exchange rate risk in connection with new investment pursuant to Article 13(m) of the Foreign Exchange Act, no. 87/1992:
  - a. Information on the assets to be protected.
  - b. A description of the derivative contracts planned to protect the new investment; namely, information on form, amounts, and maturity.
4. Forward purchases or sales of foreign currency in order to hedge against expected payment flows in connection with investments:
  - a. Information confirming the existence of the investment.
  - b. Information on the expected payment flows to be protected.
  - c. A description of the derivative contracts planned to protect the payment flows; namely, information on form, amounts, and maturity.

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<sup>16</sup> Article 5 of Rules no. 311/2019.

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5. Derivatives transactions for the purpose of hedging, other than in accordance with Items 1-4:
  - a. Information on the foreign exchange imbalance or risk to be hedged.
  - b. A description of the derivative contracts planned to hedge the foreign exchange imbalance or risk; namely, information on form, amounts, and maturity.

The Central Bank shall be provided with all further documents and data that it may request in order to confirm that the derivatives transactions are undertaken for hedging purposes.

Requests for confirmation pursuant to Paragraph 1, Items 1-5, together with the pertinent documentation, shall be sent in electronic form to the Central Bank of Iceland at the e-mail address [ge.gagnaskil@sedlabanki.is](mailto:ge.gagnaskil@sedlabanki.is).

Notifications from financial undertakings in Iceland to the Central Bank of Iceland concerning [derivatives transactions pursuant to Article 7, Paragraph 5]<sup>17</sup> shall be sent in electronic form to the Central Bank of Iceland in accordance with the Bank's guidelines on further implementation of these Rules; cf. Article 18, which are published on the Bank's website.

[Article 14  
...]<sup>18</sup>

#### Article 15

##### *Notification of cross-border movement of capital, foreign exchange transactions, and investments*

Notification to the Central Bank of Iceland of cross-border movement of capital pursuant to Article 2, [Paragraph 3, Items 1-8 and Paragraph 4, Items 1-5]<sup>19</sup>, foreign exchange transactions pursuant to Article 3, and investments pursuant to Article 4 shall be sent by the financial undertaking acting as an intermediary for the movement of capital, foreign exchange transaction, or investment [...] <sup>20</sup>. If payment takes place without the involvement of a domestic financial undertaking, the payer him- or herself shall notify the Central Bank.

Notifications and documentation pursuant to Paragraph 1 shall be sent in electronic form to the Central Bank of Iceland, in accordance with the Central Bank's guidelines on the implementation of these Rules [within five business days of the date payment takes place, and monthly summaries within five business days from the last day of the month covered by the summary. The notification requirement shall be as is further specified in the guidelines,]<sup>21</sup> cf. Article 18, which are published on the Bank's website. A financial undertaking acting as an intermediary for movement of capital may, upon prior consultation with the Central Bank, fulfil the notification obligation pursuant to Paragraph 1 using an automated system.

#### Article 16

##### *New investment*

Notifications of new investments and reinvestment of such new investments shall be as is provided for in Article 13(m), Paragraphs 4 and 7 of the Foreign Exchange Act.

Notifications of the sale of new investments pursuant to Article 13(m) of the Foreign Exchange Act shall be sent to the e-mail address [nyfjarfesting@sedlabanki.is](mailto:nyfjarfesting@sedlabanki.is).

#### Article 17

##### *Notifications pursuant to Article 14, Paragraph 2 of the Foreign Exchange Act*

Notwithstanding the conditions laid down in Article 14, Paragraph 2 of the Foreign Exchange Act concerning resident legal entities' obligation to notify the Central Bank of Iceland of foreign exchange transactions and cross-border movement of capital on the basis of that provision within three weeks, resident legal entities are permitted to send the Central Bank of Iceland a monthly summary of the aforementioned transactions. Such a summary shall be received by the Central Bank no later than one month after the establishment of the youngest obligation.

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<sup>17</sup> Article 5, Item (a) of Rules no. 568/2017.

<sup>18</sup> Article 4 of Rules no. 311/2019.

<sup>19</sup> Article 6, Item (a) of Rules no. 568/2017.

<sup>20</sup> Article 6, Item (b) of Rules no. 568/2017.

<sup>21</sup> Article 6, Item (c) of Rules no. 568/2017.

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Notifications pursuant to Article 14, Paragraph 2 of the Foreign Exchange Act, cf. Paragraph 1, shall be sent in electronic form to the Central Bank of Iceland, in accordance with the Central Bank's guidelines on the implementation of these Rules, cf. Article 18, which are published on the Bank's website.

### CHAPTER III

#### **Guidelines, sanctions, and entry into force**

##### Article 18

##### *Guidelines*

The Central Bank issues guidelines concerning further implementation of these Rules and publishes them on its website.

##### Article 19

##### *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) of Act no. 87/1992, with subsequent amendments.

##### Article 20

##### *Entry into force*

These Rules are set in accordance with the authority contained in Article 13(b), Paragraph 4; Article 13(c), Paragraph 5; Article 13(j), Paragraph 9; Article 13(n), Paragraph 15; Article 13(o), Paragraphs 4 and 5; Article 13(p), Paragraph 3; and Article 14, Paragraph 2 of Act no. 87/1992, with subsequent amendments, and take effect immediately. At the same time, the Rules on Foreign Exchange, no. 1266/2016, are abrogated.

Reykjavík, 12 March 2017

*Central Bank of Iceland*

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