

ACT

on the Central Bank of Iceland

THE PRESIDENT OF ICELAND

makes known: The Parliament of Iceland has approved this Act, and I ratify it with my assent:

CHAPTER I

General provisions

Article 1

The institution

The Central Bank of Iceland is an independent institution owned by the State and operating under the auspices of the Minister.

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

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

Article 2

Objectives and tasks

The Central Bank of Iceland shall promote price stability, financial stability, and sound and secure financial activities. The Bank shall also undertake such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting a safe, effective financial system, including payment intermediation domestically and with foreign countries.

With the approval of the Minister, the Central Bank may declare a quantitative target for inflation.

The Central Bank is authorised, with the approval of the Minister, to declare a target for the exchange rate of the Icelandic króna versus foreign currencies.

The Central Bank shall undertake those tasks that are entrusted by law and Governmental directives to the Financial Supervisory Authority, and the Financial Supervisory Authority shall be part of the Central Bank. The Bank shall monitor supervised entities to ensure that their activities are in compliance with the law and with Governmental directives, and that they are in other respects consistent with sound and appropriate business practice; cf. the Act on Official Supervision of Financial Activities.

The Central Bank shall promote the implementation of the Government's economic policy as long as it does not consider this inconsistent with its objectives.

CHAPTER II

Organisation

Article 3

Administration

The Governor of the Central Bank directs and is responsible for the Bank's operations and is authorised to take decisions on all matters not entrusted to others by law.

Decisions on the application of the Central Bank's monetary policy instruments shall be taken by the Monetary Policy Committee; cf. Article 9. Decisions on the application of the Central Bank's financial stability policy instruments shall be taken by the Financial Stability Committee; cf. Article 12. Decisions entrusted to the Financial Supervisory Authority by law or Governmental directives shall be under the auspices of the Financial Supervision Committee; cf. Article 15.

Decisions on managing the international reserves, cf. Article 30, and granting guarantees or loans to credit undertakings experiencing liquidity problems on the basis of Article 19, Paragraph 2, shall be taken by the Governor and Deputy Governors at a meeting called by the Governor. Decisions on setting the Rules on Special Reserve Requirements for New Foreign Currency Inflows on the basis of the Foreign Exchange Act, decisions on setting rules on the operation of regulated foreign exchange markets, cf. Article 27, Paragraph 2, and decisions on organisation and the setting of rules on the Bank's activities shall be taken in the same manner. The Governor shall call a meeting when at least two Deputy Governors request it. Meetings shall be deemed to have a quorum if a majority of Governors are in attendance. Decisions shall be taken by majority vote. In case of a tie, the Governor shall cast the deciding vote. A record of minutes shall be maintained for meetings of the Governor and Deputy Governors and their joint decisions recorded therein.

Article 4

Appointment and eligibility

The Minister shall appoint the Governor for a term of five years. The Minister also appoints three Deputy Governors for a term of five years. One Deputy Governor oversees matters relating to monetary policy, another oversees matters relating to financial stability, and the third oversees matters relating to financial supervision. The Deputy Governor for Financial Stability and the Deputy Governor for Financial Supervision shall be appointed upon nomination by the Minister responsible for matters relating to the economy and financial markets.

The same person may only be appointed Governor or Deputy Governor twice.

The Governor and the Deputy Governor for Monetary Policy shall have completed a university degree in economics or a related subject and possess extensive experience and expertise in financial activities and in economic and monetary affairs. The Deputy Governor for Financial Stability and the Deputy Governor for Financial Supervision shall have completed a university degree in a field relevant to the position and shall possess extensive experience and expertise in financial activities.

The Governor and Deputy Governors shall be legally competent to manage their own affairs and shall have no record of deprivation of control of their estate. They must have a good reputation and may not, in connection with business operations, have been convicted of a punishable offence under the General Penal Code; acts of law on public limited companies, private limited companies,

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accounting, financial statements, or bankruptcy; or other special legislation applying to regulated entities.

The Minister shall advertise available positions for the Governor and Deputy Governors in accordance with the Act on the Rights and Obligations of State Employees.

The Minister shall appoint a three-member committee to consider the qualifications of applicants for the positions of Governor and Deputy Governor for Monetary Policy. One member shall be appointed pursuant to nomination by the Icelandic Rectors' Conference, one shall be appointed pursuant to nomination by the Central Bank of Iceland Supervisory Board, and one, who shall chair the committee, shall be appointed without nomination.

The Minister responsible for the economy and financial markets shall appoint a three-member committee to consider the qualifications of applicants for the positions of Deputy Governor for Financial Stability and Deputy Governor for Financial Supervision. One member shall be appointed pursuant to nomination by the Icelandic Rectors' Conference, one shall be appointed pursuant to nomination by the Central Bank of Iceland Supervisory Board, and one, who shall chair the committee, shall be appointed without nomination.

The Minister shall set rules on the qualifications of the committees' members as specified in Paragraphs 6 and 7, and on the committees' procedures.

Article 5

Remuneration and terms of employment

The Governor's salary shall be 1,936,202 kr. per month.

The Deputy Governors' salary shall be 1,742,581 kr. per month.

The salaries according to Paragraphs 1 and 2 shall change each year on 1 July. Before 1 June, Statistics Iceland calculates and publishes the percentage change in Government employees' average regular salary for the following calendar year. In assessing changes in salary, Statistics Iceland gathers the reports and data it deems necessary and conducts its own research on employment terms insofar as it considers this necessary. For the July salary payment, the Central Bank shall update the amount in krónur to accord with Statistics Iceland figures.

The Governor and Deputy Governors may not sit on the board of directors of an institution or commercial enterprise outside the Bank, nor otherwise participate in commercial operations except as required by law or in the case of an institution or commercial enterprise in which the Bank is involved. Should a dispute arise concerning the application of this provision, the Minister shall decide the issue.

Employees of the Central Bank of Iceland may not serve as executives, employees, auditors, attorneys, or actuaries of regulated entities. Provisions on Central Bank employees' participation in the boards of directors of institutions and commercial enterprises shall be laid down in rules on the Bank's activities set by the Governor and Deputy Governors.

The Minister shall set rules on business transactions conducted with supervised entities by the Governor; Deputy Governors; external members of the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee; and Bank employees. These rules

shall, among other things, provide for restrictions on their authorisation to undertake financial obligations towards regulated entities or to own holdings in them.

Article 6

Election of Supervisory Board

The Supervisory Board of the Central Bank of Iceland shall be elected following Parliamentary elections. The Supervisory Board comprises seven representatives who are elected by proportional vote, and an equal number of alternates. It is prohibited to elect board members or employees of supervised entities, or owners of qualifying holdings in supervised entities, to sit on the Supervisory Board. The same applies to members of Parliament, alternate members of Parliament, and Cabinet ministers. Supervisory Board members shall possess sound knowledge of administration and of the regulatory instruments applying to the Central Bank. Attempts shall be made to ensure that Supervisory Board members have broad-based knowledge of the Icelandic economy, the financial market, management, and commercial operations.

The mandate of the Supervisory Board shall expire once a new Board is elected. If a principal member of the Supervisory Board vacates the position, an alternate shall assume this seat until Parliament has elected a new principal member for the remainder of the term of the Supervisory Board.

The Supervisory Board selects a chairman and deputy chairman from among its members. The Minister shall determine the remuneration paid to the Supervisory Board by the Central Bank.

Article 7

Meetings of the Supervisory Board

The Chairman of the Supervisory Board shall convene meetings of the Board. Meetings must always be called, however, if two members of the Board so request. Meetings of the Supervisory Board shall be deemed to have a quorum if a majority of members are in attendance. Decisions shall be taken by majority vote. In case of a tie, the Chairman shall cast the deciding vote. Minutes shall be kept of the meetings of the Supervisory Board.

The Supervisory Board shall determine its own rules of procedure, which shall set forth its tasks and working methods. The Supervisory Board is authorised to entrust the Chairman with resolving specific matters. The Supervisory Board may also appoint subcommittees from among its members and entrust them with preparing matters for its general meetings.

The Governor of the Central Bank shall attend meetings of its Supervisory Board with the right to speak and make motions. The Governor shall leave the meeting, however, if the Supervisory Board so decides.

The Internal Auditor is entitled to attend Supervisory Board meetings and shall inform the Board regularly about his/her work.

Article 8

Role of the Supervisory Board

The Supervisory Board monitors the Bank's compliance with the statutory provisions applying to its activities. Monitoring by the Supervisory Board does not include case handling or decisions on specific matters, however. In other respects, the Supervisory Board shall carry out the following specific tasks:

- a) Endorse proposals by the Governor and Deputy Governors concerning the organisation of the Bank.
- b) Determine remuneration and terms of employment for members of the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee.
- c) Endorse the rules of procedure for the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee; cf. Articles 11, 14, and 16.
- d) Oversee the Bank's internal auditing and appoint the Chief Auditor.
- e) Endorse wage agreements with Bank employees, consider rules on their pension fund, and endorse the appointment of the Bank's representative on the board of the pension fund when called for.
- f) Endorse the Central Bank's proposal to the Minister on the rules for the Bank's accounting and annual accounts, cf. Article 37.
- g) Endorse the Bank's annual accounts, cf. Article 38.
- h) Endorse the Bank's decision on capital adequacy criteria and disposition of profit; cf. Article 40.
- i) Endorse the Bank's operating budget as presented by the Governor at the beginning of each operational year.
- j) Monitor the Bank's assets and operations and endorse decisions on major investments in housing and other facilities for its activities.
- k) Endorse the tariff according to Article 43.

The Supervisory Board shall be furnished with such information on the Central Bank of Iceland and companies owned by the Bank as is necessary for it to carry out its legally mandated role. The Governor shall inform the Supervisory Board of the main elements of the Bank's monetary policy and of the rules adopted by the Bank.

CHAPTER III

Monetary Policy Committee

Article 9

Role and structure of the Monetary Policy Committee

Decisions on the application of the Central Bank's monetary policy instruments, cf. Article 10, shall be taken by the Monetary Policy Committee. Decisions by the Monetary Policy Committee must be based on the Bank's price stability objective and a thorough assessment of the economic situation and outlook.

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The Monetary Policy Committee shall comprise the Governor, the Deputy Governor for Monetary Policy, the Deputy Governor for Financial Stability, and two experts in the field of economics and monetary policy who shall be appointed by the Minister for a term of five years. The Minister may only appoint the same person to the Monetary Policy Committee twice. The Governor shall chair the Monetary Policy Committee, and the Deputy Governor for Monetary Policy shall be vice-chair.

Monetary Policy Committee members appointed by the Minister shall appear before the Parliamentary committee of the Speaker's choosing before the appointment takes effect, or as soon as possible. They shall be legally competent to manage their own affairs and shall have no record of deprivation of control of their estate. They must have a good reputation and may not, in connection with business operations, have been convicted of a punishable offence under the General Penal Code; acts of law on public limited companies, private limited companies, accounting, financial statements, or bankruptcy; or other special legislation applying to regulated entities. Furthermore, they may not undertake work outside the Bank that could cast doubt on their impartiality. Should a dispute arise concerning the application of this provision, the Minister shall decide the issue. The Minister may, in a Regulation, set more detailed provisions on the qualifications of Monetary Policy Committee members.

Article 10

Tasks of the Monetary Policy Committee

The Monetary Policy Committee takes decisions on interest rates pursuant to Article 22, in order to implement the Bank's monetary policy. The Committee shall also take decisions on transactions with credit undertakings other than those specified in Article 19, Paragraph 2. Furthermore, the Committee takes decisions on minimum reserve requirements pursuant to Article 23, foreign exchange market transactions pursuant to Article 27, and transactions with securities pursuant to Article 20 that are intended to contribute to the attainment of the Bank's price stability objectives.

Article 11

Meetings of the Monetary Policy Committee

Meetings of the Monetary Policy Committee shall have a quorum if four of its five members are in attendance. Decisions by the Monetary Policy Committee shall be taken by a simple majority of votes; in the case of a tie, the Chairman shall cast the deciding vote.

The Monetary Policy Committee shall meet at least six times each year. In addition, the Monetary Policy Committee may meet if its Chairman or three members of the Committee so request. The Monetary Policy Committee shall adopt rules of procedure concerning the preparation of, rationale for, and presentation of its decisions. Minutes of Monetary Policy Committee meetings shall be made public and an account given of the Committee's decisions and the premises upon which they are based. The Monetary Policy Committee may decide not to give account of decisions on foreign exchange market transactions according to Article 27, however.

The Monetary Policy Committee shall report to Parliament on its work twice each year. The contents of the report shall be discussed in the Parliamentary committee of the Speaker's choosing.

CHAPTER IV
Financial Stability Committee

Article 12

Role and structure of the Financial Stability Committee

Decisions on the application of the Central Bank's financial stability policy instruments, cf. Article 13, shall be taken by the Financial Stability Committee. Decisions taken by the Financial Stability Committee must be based on the law and on a thorough assessment of the current situation of and outlook for the financial system. In the Committee's work, the Central Bank shall cooperate with other Governmental authorities, including the Ministry entrusted with matters relating to financial stability.

The Financial Stability Committee shall comprise the Governor, Deputy Governors, and three experts in financial market affairs or economics who shall be appointed by the Minister responsible for financial stability, for a term of five years. The Permanent Secretary or an appointed official from the Ministry responsible for financial stability shall also participate in Committee meetings as a non-voting member with the right to address the meeting and present proposals. The composition of the Financial Stability Committee shall be such that the Committee collectively possesses sufficient expertise, qualifications, and experience to carry out the tasks entrusted to it. The Minister may only appoint the same person to the Financial Stability Committee twice. The Governor shall chair the Financial Stability Committee, and the Deputy Governor for Financial Stability shall be vice-chair.

Financial Stability Committee members appointed by the Minister shall appear before the Parliamentary committee of the Speaker's choosing before the appointment takes effect, or as soon as possible. They shall be legally competent to manage their own affairs and shall have no record of deprivation of control of their estate. They must have a good reputation and may not, in connection with business operations, have been convicted of a punishable offence under the General Penal Code; acts of law on public limited companies, private limited companies, accounting, financial statements, or bankruptcy; or other special legislation applying to regulated entities. Furthermore, they may not undertake work outside the Bank that could cast doubt on their impartiality. Should a dispute arise concerning the application of this Paragraph, the Minister shall decide the issue. The Minister may, in a Regulation, set more detailed provisions on the qualifications of Financial Stability Committee members.

Article 13

Tasks of the Financial Stability Committee

The tasks of the Financial Stability Committee are to:

- a) Assess the current situation of and outlook for the financial system, systemic risk, and financial stability.
- b) Discuss and define the actions deemed necessary at any given time in order to affect the financial system so as to strengthen and preserve financial stability, and to this end, direct comments to the appropriate Governmental authorities when warranted.
- c) Approve Governmental directives and take the decisions entrusted to the Committee by law.
- d) Decide which supervised entities, infrastructure, and markets shall be considered systemically important and of a nature that their activities could affect financial stability.

Article 14

Meetings of the Financial Stability Committee

Meetings of the Financial Stability Committee shall be deemed to have a quorum if five of its seven members are in attendance. Decisions by the Financial Stability Committee shall be taken by a simple majority of votes; in the case of a tie, the Chairman shall cast the deciding vote.

The Financial Stability Committee shall meet at least four times a year. In addition, the Financial Stability Committee may meet if its Chairman or three members of the Committee so request. The Financial Stability Committee shall adopt rules of procedure concerning the preparation of, rationale for, and presentation of its decisions. The Financial Stability Committee shall maintain a record of minutes of its meetings. The Financial Stability Committee's decisions on the application of financial stability policy instruments shall be published and an account given of the rationale for the decisions, together with an assessment of the situation, and minutes on the topic shall be published unless such publication can be expected to have an adverse impact on financial stability. Minutes and data prepared for or handled by the Financial Stability Committee are exempt from the provisions of the Access to Information Act and the Administrative Procedures Act concerning access to information.

The Financial Stability Committee shall report to Parliament on its work once a year. The contents of the report shall be discussed in the Parliamentary committee of the Speaker's choosing.

CHAPTER V

Financial Supervision Committee

Article 15

Role and structure of the Financial Supervision Committee

The Financial Supervision committee shall take decisions entrusted to the Financial Supervisory Authority by law or Governmental directives. The Committee may assign to the Deputy Governor for Financial Supervision its authority to take non-major decisions.

The Financial Supervision Committee shall comprise the Deputy Governor for Financial Supervision, the Deputy Governor for Financial Stability, and three experts in financial market affairs who shall be appointed by the Minister responsible for the financial market, for a term of

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five years. The composition of the Financial Supervision Committee shall be such that the Committee collectively possesses sufficient expertise, qualifications, and experience to carry out the tasks entrusted to it. The Minister may only appoint the same person to the Financial Supervision Committee twice. The Deputy Governor for Financial Supervision shall chair the Financial Supervision Committee, and the Deputy Governor for Financial Stability shall be vice-chair. When decisions are taken on the adoption of rules of procedure pursuant to Article 16, Paragraph 2; and on entrusting the Deputy Governor for Financial Supervision with taking non-major decisions and decisions concerning systemically important financial institutions' equity, liquidity, and funding; the Governor shall take a seat on the Financial Supervision Committee as its Chairman, and the Deputy Governor for Financial Supervision shall be vice-chair.

Financial Supervision Committee members appointed by the Minister shall appear before the Parliamentary committee of the Speaker's choosing before the appointment takes effect, or as soon as possible. They shall be legally competent to manage their own affairs and shall have no record of deprivation of control of their estate. They must have a good reputation and may not, in connection with business operations, have been convicted of a punishable offence under the General Penal Code; acts of law on public limited companies, private limited companies, accounting, financial statements, or bankruptcy; or other special legislation applying to regulated entities. Furthermore, they may not undertake work outside the Bank that could cast doubt on their impartiality. Should a dispute arise concerning the application of this provision, the Minister shall decide the issue. The Minister may, in a Regulation, set more detailed provisions on the qualifications of Financial Supervision Committee members.

Article 16

Meetings of the Financial Supervision Committee

Meetings of the Financial Supervision Committee shall be deemed to have a quorum if four of its members are in attendance. Decisions by the Financial Supervision Committee shall be taken by a simple majority of votes; in the case of a tie, the Chairman shall cast the deciding vote.

On average, the Financial Supervision Committee shall meet ten times each year. In addition, the Financial Supervision Committee may meet if its Chairman or three members of the Committee so request. The Financial Supervision Committee shall adopt rules of procedure concerning the preparation of, rationale for, and publication of its decisions. The Financial Supervision Committee shall maintain a record of minutes of its meetings. The Financial Supervision Committee is authorised to make its decisions public. Decisions shall not be published, however, if such publication can be considered to jeopardise the interests of the financial market, does not affect the interests of the market as such, or could be expected to cause damage to the parties involved that is disproportionate to the matter in question.

The Financial Supervision Committee shall report to Parliament on its work once a year. The contents of the report shall be discussed in the Parliamentary committee of the Speaker's choosing.

CHAPTER VI
Issuance of banknotes and coin

Article 17

The Central Bank of Iceland has the sole right to issue banknotes and to mint and issue coin or other currency that could circulate in place of banknotes or lawful coin.

The banknotes and coin issued by the Central Bank shall be legal tender for all payments at full nominal value.

Commemorative coins issued by the Central Bank shall be legal tender for all payments at full nominal value. The Central Bank is authorised to decide that commemorative coins shall be sold at a premium on their nominal value. Profits on the sale of commemorative coins shall be used to support artistic, cultural, or scientific endeavours as determined by the Minister.

Upon receiving proposals from the Central Bank, the Minister shall determine the form, appearance, and denominations of the banknotes and coin issued by the Central Bank and shall have an advertisement to this effect published.

CHAPTER VII
Transactions by the Central Bank, etc.

Article 18

Deposits

The Central Bank of Iceland shall accept deposits from those credit undertakings classified as commercial banks, savings banks, Icelandic branches of foreign deposit undertakings, and other entities authorised by law to accept deposits from the public for safekeeping and earning of interest.

The Central Bank is authorised to accept deposits from participants in Central Bank payment systems, credit undertakings other than those listed in Paragraph 1, credit funds, securities undertakings, mutual fund management companies, and securities depositories.

The Central Bank shall set detailed rules on its activities according to this Article, including which undertakings specified in Paragraph 2 are authorised to hold deposits with the Bank.

Article 19

Lending activity

In order to implement its monetary policy measures and to strengthen and preserve financial stability, the Central Bank of Iceland may grant loans to commercial banks, savings banks, and others authorised to accept deposits from the public pursuant to the Act on Financial Undertakings, through the purchase of securities or by other means, against collateral deemed eligible by the Bank. The Central Bank is authorised to grant loans to participants in Central Bank payment systems and credit undertakings other than those listed in Article 18, Paragraph 1, through the purchase of securities or by other means, against collateral deemed eligible by the Bank. These credit transactions undertaken by the Bank may be in domestic or foreign currency. The Central Bank lays down further rules concerning its transactions pursuant to this Paragraph.

Under extraordinary circumstances, and when the Central Bank deems it necessary in order to preserve the stability of the domestic financial system, the Bank may grant guarantees to credit

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undertakings in liquidity difficulties or grant them loans other than those listed in Paragraph 1, on special terms and against collateral other than that stipulated in the same Paragraph, or subject to other conditions set by the Bank. This authorisation does not apply to facilities for credit undertakings so as to enable them to satisfy statutory minimum capital requirements.

Decisions on the granting of guarantees and loans pursuant to Paragraph 2 shall be taken by the Governor and Deputy Governors; cf. Article 3, Paragraph 3.

The Central Bank shall inform the Minister responsible for economic and financial affairs of loans granted on the basis of Paragraph 2.

Article 20

Securities transactions

In order to achieve its objectives of promoting price stability, financial stability, and sound and secure financial activities pursuant to Article 2, the Central Bank of Iceland shall buy and sell Government-guaranteed securities and other sound domestic securities on a securities market or through direct transactions with credit undertakings.

Article 21

Issuance of securities

The Central Bank of Iceland is authorised to issue negotiable securities in domestic or foreign currency for sale to credit undertakings authorised to hold deposits with the Bank, cf. Article 18.

Article 22

Interest rates

The Central Bank of Iceland shall determine the rate of interest on deposits with the Bank, on loans that it grants, and on securities that it issues.

Article 23

Minimum reserve requirements

The Central Bank of Iceland is authorised to decide that credit undertakings shall be obliged to maintain funds in reserve accounts with the Bank. It is also authorised to decide that a specific portion of the increase in each undertaking's deposits or disposable funds shall be placed in a reserve account with the Bank, provided that the total amount the undertaking concerned is obliged to hold with the Central Bank does not exceed the maximum specified in the first sentence. Furthermore, the Bank is authorised to decide that mutual funds must maintain funds in reserve accounts with the Bank.

The Central Bank shall set detailed rules on the basis and implementation of reserve requirements pursuant to this Article, including to which credit undertakings they apply. The rules may prescribe varying reserve requirements depending upon the nature of the credit undertakings and mutual funds and the classes of deposits and other obligations subject to reserve requirements. Non-discrimination shall be observed in determining reserve requirements so that they do not alter the relative competitive position of the domestic firms to which they apply.

Article 24

Foreign exchange balance

The Central Bank of Iceland is authorised, upon receiving approval from the Financial Stability Committee, to impose rules on foreign exchange balance upon credit undertakings. The Central Bank defines which assets and liabilities shall be considered part of the foreign exchange balance, as well as their breakdown and their weight. It is permissible to include obligations and claims linked to off-balance sheet items denominated in foreign currencies, such as forward contracts and options, in such balances. The rules on foreign exchange balance may set forth different provisions for different classes of credit undertakings.

Article 25

Service to the Treasury

The Central Bank of Iceland shall undertake all types of banking service for the Treasury apart from the provision of credit facilities, cf. Article 26. Unless extraordinary conditions warrant otherwise, Treasury deposits shall be held in accounts with the Central Bank.

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

Article 26

Prohibition on lending

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

Securities that are listed on a regulated securities exchange or market for financial instruments and are issued by parties specified in Paragraph 1, and are purchased by the Central Bank on a securities exchange or from credit undertakings in order to achieve its objectives, shall not be considered credit pursuant to this Article.

Article 27

Foreign exchange transactions, etc.

The Central Bank of Iceland engages in transactions with foreign currency, acts as an intermediary in foreign exchange transactions, and conducts other foreign transactions consistent with its purpose and role.

The Central Bank shall set rules on the operation of regulated foreign exchange markets in accordance with the provisions of the Foreign Exchange Act.

Under exceptional circumstances, the Central Bank may temporarily restrict or suspend trading on regulated foreign exchange markets.

Article 28

Other transactions by the Central Bank

The Central Bank of Iceland conducts other banking and securities transactions that are consistent with its role as a central bank. To this end, the Central Bank is authorised, among other things, to establish or participate in and own holdings in companies and institutions in the fields of securities exchange activities, securities registration, payment intermediation, and administration of appropriated assets and claims, as well as other tasks relating to the Bank's activities.

The Central Bank may not undertake transactions with individuals or companies that, according to law, custom, or the nature of the case, are considered the function of others. It is authorised, however, to handle the primary sale and redemption of securities issued by the Treasury.

CHAPTER VIII

Exchange rate matters, foreign exchange market, and foreign communications

Article 29

Exchange rate listing

On each day when regulated foreign exchange markets are generally open, the Central Bank of Iceland shall quote the exchange rate of the Icelandic króna against major foreign currencies. This rate shall be used as the reference rate for official agreements, court cases, and other contracts between parties when another reference exchange rate is not specified. Furthermore, the Central Bank may decide to quote the exchange rate of the króna on days when regulated foreign exchange markets are generally not open. Under exceptional circumstances, the Central Bank may temporarily suspend its own quotation of the exchange rate of the króna.

Article 30

International reserves

The Central Bank of Iceland shall maintain international reserves in accordance with its objectives and role. The Governor and Deputy Governors shall set rules of procedure on the management of the reserves.

The Central Bank is authorised to borrow funds in order to expand the international reserves. It is also authorised to participate in cooperative efforts among central banks and international banking or financial undertakings for the purpose of strengthening the reserves of other participants.

Article 31

Communications with international institutions

The Central Bank of Iceland shall communicate and conduct transactions with international institutions in its field, as a central bank and financial market supervisor, on behalf of the Government or in accordance with its statutory role.

The Central Bank shall be responsible for financial relations with the International Monetary Fund on behalf of the Government. The Minister shall appoint one person and one alternate for a five-year term to the Board of Governors of the International Monetary Fund.

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

CHAPTER IX
Information gathering, research, and reporting

Article 32

Information gathering

In order to carry out its tasks according to Article 2 and conduct satisfactory monitoring of rules set pursuant to this Act, the Central Bank of Iceland may collect information directly from parties conducting transactions with the Bank on the basis of Article 18, cf. Article 19, as well as undertakings engaged in payment intermediation and other companies or parties subject to official supervision, cf. the Act on Official Supervision of Financial Activities. For the same purpose, the Central Bank may also collect information from legal entities on assets and financial obligations in domestic and foreign currency, such as direct investment, portfolio investment, other investments in negotiable financial instruments, lending activity, guarantees, derivatives transactions, and issuance of bonds and other debt instruments. The information pursuant to the first and second sentences shall be provided in the form decided by the Central Bank. It is required to provide the Central Bank with all information and data the Bank considers necessary; failure to do so shall be liable to penalties as provided for in Articles 44 and 45. Statutory provisions on confidentiality shall not limit the obligation of other Governmental authorities, financial undertakings, payment institutions, and electronic money institutions to provide information and access to data.

All parties are obliged to provide the Central Bank with the information that it needs for the purpose of compiling statistical reports; failure to do so shall be liable to penalties as provided for in Articles 44 and 45.

The Central Bank may set more detailed rules on the implementation of this Article.

Article 33

Information from Governmental authorities

Governmental authorities shall provide the Central Bank of Iceland with such information on the economy, public sector finances, and borrowing as is necessary for the Bank's activities.

Article 34

Central Bank of Iceland reports

The Central Bank of Iceland shall prepare reports and forecasts on monetary issues, financial stability, financial operations, the balance of payments, exchange rate and foreign exchange issues, and other matters pertaining to its functions and policies, including its performance in achieving its objectives. The Central Bank shall issue an annual report in which it explains its activities in detail.

Article 35

Economic research and education

The Central Bank of Iceland shall carry out economic research relating to its tasks in the fields of monetary policy, financial stability, and the financial system. The Bank is also authorised to promote research by others in these areas.

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The Central Bank shall promote increased education on monetary policy and the role of the Central Bank in ensuring financial stability and a sound financial system.

Article 36

External evaluation

Every five years, the Minister shall task three impartial experts in the fields of monetary and financial economics and financial supervision to carry out an appraisal of the Central Bank of Iceland's performance in the attainment of its objectives concerning price stability, financial stability, and the conduct of financial supervision. The appraisal shall also cover other aspects of the Bank's operations, such as organisational structure, distribution of tasks, and authorisations. One of the experts shall have sound knowledge of the Icelandic economy, and the other two shall have wide-ranging knowledge and experience of international financial activities and the operation of central banks outside Iceland.

CHAPTER X

Accounting and disposition of profit

Article 37

Financial reporting

The fiscal year of the Central Bank of Iceland shall be the calendar year. Annual accounts shall be prepared for each fiscal year and completed within three months of the end of each fiscal year. The annual accounts shall be prepared in accordance with the Annual Accounts Act, the Accounting Act, and rules set on the basis of these Acts, insofar as is applicable.

Callable equity, cf. Article 40, Paragraph 3, that is not paid in shall be shown in the equity accounts. The portion that is not paid in shall also be deducted.

In preparing Central Bank accounts, it is permissible to keep separate accounts in the equity accounts for unrealised revenues and expenses.

The Minister shall set detailed rules on the accounting and annual accounts, after receiving proposals from the Central Bank, cf. Article 8, Paragraph 1, Item (f).

Article 38

Auditing

The Icelandic National Audit Office shall audit the Central Bank of Iceland.

Once auditing is completed, the annual accounts shall be signed by the Governor and endorsed by the Supervisory Board, cf. Article 8, Paragraph 1, Item (g). If a member of the Supervisory Board has any comments on the annual accounts, that member shall sign with a reservation and specify the nature of this reservation.

The audited accounts shall be submitted to the Minister for ratification no later than three months after the end of the fiscal year.

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The Central Bank's annual accounts shall be published in its *Annual Report*, cf. Article 34. The Bank shall also publish a monthly balance sheet summary. In addition, the Bank shall publish unaudited quarterly accounts within four weeks after the end of each quarter.

Article 39
Internal audit

The Supervisory Board oversees internal audit for the Central Bank of Iceland and engages the Internal Auditor; cf. Article 8.

The Internal Auditor shall have expertise in the field of internal audit, have completed a university degree in a field relevant to the position, and have sufficient experience to fulfil the requirements of the position.

The Internal Auditor shall conduct systematic, impartial, and objective assessments of the efficacy of the risk management, internal monitoring, and governance practices of the Central Bank. The Internal Auditor shall work according to a risk-oriented auditing plan that is endorsed by the Supervisory Board and updated on a regular basis.

Article 40
Capital adequacy criteria

The Central Bank of Iceland shall have the financial strength needed to enable it to carry out its legally mandated role. To this end, each year the Bank shall determine its own capital adequacy criteria. The capital adequacy criteria reflect the Bank's need for capital and interest-bearing assets and shall take account of the cost of operating the Bank and the risks and uncertainties it faces at any given time. The decision on capital adequacy criteria as endorsed by the Supervisory Board shall be published in the Bank's Annual Report, cf. Article 34.

The Bank's profit from the prior fiscal year, adjusted for unrealised calculated revenues and expenses, cf. Article 37, Paragraph 3, shall revert to the Treasury to the extent that it is not used to strengthen the Bank's capital position. The payment shall be made no later than 30 April each year. If the Bank decides to use part or all of its profit to strengthen its capital position, this shall be done to meet the capital adequacy criteria according to Paragraph 1, and upon receiving a statement from the Minister. The Bank shall then notify the Minister of its assessment of the capital adequacy criteria and the disposition of its profit for the next three years.

The Treasury pledges, based on the authority contained in the National Budget, to contribute capital to the Central Bank in the form of marketable assets according to the Bank's call-ins in this respect, provided that the Bank considers this necessary in order to fulfil its minimum requirements for paid-in capital. The total amount of callable equity in accordance with this Paragraph is 57.2 billion krónur. The outstanding balance of callable equity shall be written up at year year-end to accord with the increase in the consumer price index. The National Budget shall be based on the consumer price index as of 1 January of the year in which the budget proposal is introduced. The Minister, on behalf of the Treasury, and the Central Bank of Iceland are authorised to conclude an agreement between them on the further implementation of this provision.

CHAPTER XI
Miscellaneous provisions

Article 41
Confidentiality

Supervisory Board members; the Governor; Deputy Governors; members of the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee; and other employees of the Central Bank of Iceland are obliged to observe confidentiality concerning the affairs of the Bank's customers; transactions and operations of supervised entities, related parties, or others; and the affairs of the Bank itself; as well as other matters of which they may become aware in the course of their work and which should remain secret in accordance with law or the nature of the case, unless a judge rules that information must be disclosed in court or to law enforcement officers, or there is a legal obligation to provide the information. The same applies to experts, contractors, and others who work for or on behalf of the Bank. The obligation to observe confidentiality remains in effect after employment ceases.

Supervisory Board members; the Governor; Deputy Governors; members of the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee; and other employees of the Central Bank are prohibited to use confidential information that they acquire through their employment with the Bank, including using it for financial gain or to avoid financial loss in business transactions.

The information provided for in Paragraph 1 may be provided in summarised form, so that individual parties cannot be identified.

Notwithstanding the provisions of Paragraph 1, the Central Bank is authorised to exchange information with public entities concerning matters falling under the scope of this Act if the exchange of information is consistent with the legally mandated role of the Central Bank or the recipient. Recipients of information of the type referred to in Paragraph 1 shall be bound by an obligation to observe confidentiality in the manner described therein.

Information subject to obligations of confidentiality in accordance with special legislation or other legislation shall be subject to similar obligations of confidentiality after being delivered to the Central Bank.

Notwithstanding the provisions of Paragraph 1, the Central Bank is authorised to release information publicly, provided that the public interest in releasing the information outweighs the interests in favour of confidentiality. If a customer of the Bank or a supervised entity becomes insolvent or if forced liquidation takes place, information that would otherwise be subject to confidentiality pursuant to Paragraph 1 may be disclosed during civil proceedings. The obligation to observe confidentiality applies, however, to information on third parties involved in attempts to rescue a customer or supervised entity.

The Central Bank of Iceland is authorised to provide information subject to the confidentiality provisions laid down in Paragraph 1 to supervisory authorities in other EEA member states, EFTA institutions, the European Central Bank, and European financial supervisory authorities, cf. the Act on the European System of Financial Supervision, if this is an element in the countries' cooperation on supervision of financial market entities' operations and such information disclosure is useful in

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facilitating the implementation of legally mandated supervision. Such information may only be provided on the condition that it is subject to confidentiality provisions in the state or institution concerned. The confidentiality requirement provided for in Paragraph 1 applies to comparable information that the Central Bank of Iceland receives from other member states' supervisory authorities, EFTA institutions, and European financial supervisory authorities.

Article 42

Exemption from income tax

The Central Bank of Iceland shall be exempt from income tax in accordance with the currently applicable Income Tax Act.

Article 43

Tariff

The Central Bank of Iceland is authorised to charge fees for its services, such as for transactions it is authorised to conduct on the basis of this Act, including purchases and sales of foreign currency; deposits, loans, and securities transactions; payment intermediation; and operation of financial market infrastructure. The fees charged by the Central Bank shall aim to defray the expense incurred in providing the service concerned.

The Central Bank shall set a tariff for all types of service according to Paragraph 1, and the tariff shall be endorsed by the Supervisory Board, cf. Article 8, Paragraph 1, Item (k), and published in the *Law and Ministerial Gazette (Stjórnartíðindi)*.

Article 44

Per diem fines

The Central Bank of Iceland may impose *per diem* fines on credit undertakings and mutual funds that do not comply with the Bank's rules on minimum reserve requirements, foreign exchange balance, and foreign currency-linked lending. The Central Bank is also authorised to impose *per diem* fines upon parties that fail to provide the Bank with information to which it is entitled pursuant to this Act, or that deliberately provide the Bank with incorrect information. *Per diem* fines shall be paid until the party in question has complied with the Central Bank's request. Fines may range from 10,000 kr. to 1 million kr. per day. In determining the amount of *per diem* fines, consideration may be given to the nature of the violation and the financial strength of the party in question.

If proceedings are initiated to demand invalidation of a decision according to Paragraph 1 within 14 days of the date the party concerned was notified of it, and the party concerned requests expedited case handling, it is prohibited to collect *per diem* fines before a judgment has been rendered. Notwithstanding the initiation of proceedings to invalidate a decision according to Paragraph 1, *per diem* fines shall continue to accrue against the party concerned.

Uncollected *per diem* fines shall not be cancelled even though parties later accede to the demands of the Central Bank, unless the Bank so decides explicitly.

Decisions on *per diem* fines provided for in this Article are enforceable by execution.

Collected *per diem* fines, net of collection costs, shall accrue to the National Treasury.

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Further provisions on the determination and collection of *per diem* fines may be laid down in a Regulation.

Article 45

Penalties

Violations of this Act shall be punishable by fines or imprisonment for up to one year, unless more severe penalties are provided for under other legislation. Attempted violations of this Act or participation in such violations shall be punishable according to the General Penal Code.

A legal entity may be fined for violations of this Act, irrespective of whether guilt is proven against a specified officer or employee of the legal entity or another party working on its behalf.

Article 46

Regulations and Central Bank Rules

After receiving the opinion of the Central Bank of Iceland, the Minister may issue a Regulation setting forth details on the implementation of individual provisions of this Act.

The Central Bank of Iceland is authorised to set rules on its tasks according to this Act. The Central Bank shall publish the rules it sets pursuant to this Act so that they are accessible to the general public.

Article 47

Entry into force

This Act shall enter into force on 1 January 2020. At the same time, the Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, shall be repealed. Upon the entry into force of this Act, all of the tasks of the Financial Supervisory Authority shall be transferred to the Central Bank of Iceland.

Temporary Provisions

I.

Notwithstanding the provisions of Article 46, the Minister is authorised to advertise the positions of and appoint Deputy Governors prior to 1 January 2020. Furthermore, the Minister is authorised, prior to 1 January 2020, to appoint a task force to prepare the entry into force of the Act. The task force shall comprise one representative of the Minister responsible for matters relating to the Central Bank of Iceland, one representative of the Minister responsible for matters relating to the financial markets, one representative from the Central Bank of Iceland, and one representative from the Financial Supervisory Authority.

II.

Upon the entry into force of this Act, the Governor of the Central Bank shall retain that position until the end of the term of appointment.

The [current] position of Deputy Governor shall be abolished when this Act enters into force, and the Minister is authorised to transfer the current Deputy Governor to a new position as Deputy

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Governor pursuant to Article 36 of the Act on the Rights and Obligations of State Employees, no. 70/1996. The salaries of persons transferred to Deputy Governor positions in accordance with that Article shall change each year on 1 July based on the criteria described in Article 5, Paragraph 3 of this Act.

III.

Members of the Central Bank of Iceland Supervisory Board at the time this Act enters into force, as well as their alternates, shall retain their positions on the Board until a new Supervisory Board has been elected following the next Parliamentary elections.

IV.

The two experts in the field of economics and monetary policy who are members of the Monetary Policy Committee at the time this Act enters into force shall retain their positions on the Committee until the end of the term of appointment.

V.

Notwithstanding the provisions of Article 28, Paragraph 2, the Central Bank of Iceland shall be authorised to conduct transactions with individuals and companies, provided that the Bank considers the transactions necessary for the removal of the restrictions that have been imposed on capital movements and foreign exchange transactions. The Central Bank shall also be authorised, for the purpose of mitigating or preventing adverse effects on monetary and exchange rate stability, or facilitating responses to such adverse effects, to take receipt of any type of financial assets, including claims rights, financial instruments, ownership shares in companies, and other rights over them, in connection with strategies for liberalisation of capital controls.

The assets received by the Central Bank as is provided for in the second sentence of Paragraph 1 shall revert to the Treasury. Liquid assets, including the proceeds of asset sales net of expenses due to processing and disposal of the assets, shall be held in special Treasury accounts with the Bank. Icelandic State Financial Investments shall administer the State's holdings in Íslandsbanki.

The State shall dispose of the assets according to the second sentence of Paragraph 1 in a manner consistent with objectives concerning economic and financial stability. The fiscal budget proposal shall contain provisions for the planned treatment and disposal of the assets. The Minister shall consult with the Central Bank concerning the estimated impact of this on economic and financial stability and shall report on it to the Economic Affairs and Trade Committee during the preparation of the fiscal budget proposal.

VI.

Before the end of 2021, the Minister shall submit to Parliament a report from three impartial experts in the fields of monetary and financial economics and financial supervision, concerning the experience of the work of the Central Bank of Iceland committees after the Act entered into force, including with reference to the distribution of tasks between the Financial Stability Committee and the Financial Supervision Committee. The experience of prudential oversight and governance

This is a translation of the authoritative Icelandic text. In the event of any discrepancies between the translation and the original Icelandic text, the original text shall prevail.

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oversight within the Bank shall be assessed in particular, as shall potential reputational risk in connection with such oversight.

VII.

The first assessment pursuant to Article 36 shall be prepared by the end of 2022.

Done at Bessastaðir, 1 July 2019

Guðni Th. Jóhannesson
(L. S.)

Katrín Jakobsdóttir

Section A — Date of publication: 15 July 2019