ACT ON FINANCIAL UNDERTAKINGS
no. 161/2002

20 December 2002

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

No. 161/2002 20 December 2002

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Act no.61/2009 (entered into force on 31 May 2009). Act no.74/2009 (entered into force on 14 July 2009). Act no.76/2009 (entered into force on 16 July 2009). Act no.98/2009 (entered into force on 1 Oct. 2009, except for Art. 69 and 70, which entered into force on 1 January 2010). Act no.125/2009 (entered into force on 30 Dec. 2009). Act no.65/2010 (entered into force on 27 June 2010). Act no.75/2010 (entered into force on 26 June 2010; except for the second paragraph of Art.8, Art. 10 and 13, which entered into force on 1 January 2011, third paragraph of Art.39, which entered into force on 1 July 2011 and fourth paragraph of Art.39 which entered into force according to instructions in point 5 of temporary provisions II). Act no.127/2010 (entered into force on 12 Oct. 2010). Act no.132/2010 (entered into force on 17 November 2010). Act no.162/2010 (entered into force on 1 January 2011). Act no.32/2011 (entered into force on 14 April 2011). Act no.78/2011 (entered into force on 29 June 2011). Act no.119/2011 (entered into force on 29 Sept. 2011). Act no.120/2011 (entered into force on 1 Dec. 2011; *EEA Agreement:* Annex IX to Directive 2007/64/EC). Act no.126/2011 (entered into force on 30 Sept. 2011). Act no.146/2011 (entered into force on 26 Oct. 2011). Act no.72/ 2012, (entered into force on 4 July 2012 except for Art.7, which entered into force on 15 July 2012). Act no.77/2012 (entered into force on 5 July 2012). Act no.17/ 2013 (entered into force on 1 April 2013; *EEA Agreement:* Annex IX to Directive 2009/110/EC). Act no.47/2013 (entered into force on 11 April 2013). Act no.29/2014 (entered into force on 08 April 2014). Act no.57/ 2015 (entered into force on 17 July 2015 and was implemented according to instructions in Art.44.) Act no.58/2015 (entered into force on 17 July 2015). Act no.59/2015 (entered into force on 17 July 2015). Act no.107/2015 (entered into force on 6 November 2015; implemented according to instructions in Art.6). Act no.116/2015 (entered into force on 19 Dec. 2015). Act no.34/2016 (entered into force on 19 May 2016).
Act no.96/2016 (entered into force on 21 Sept. 2016). Act no.23/2017 (entered into force on 23 May 2017). Act no.61/2017 (entered into force on 21 June 2017). Act no.94/2017 (entered into force on 31 Dec. 2017). Act no.34/2018 (entered into force on 17 May 2018). Act no.54/2018 (entered into force on 22 June 2018). Act no.90/ 2018 (entered into force on 15 July 2018; *EEA Agreement:* Annex XI of Regulation 2016/679). Act no.8/2019 (came into effect on 22 Feb 2019, except for Art.3 and sub-paragraph (a), which entered into force on 1 January 2020). Act no.91/2019 (entered into force on 1 January 2020, except for Art.133, which entered into force on 16 July 2019). Act no.94/2019 (entered into force on 1 January 2020 except for Art.46 which comes into effect according to instructions in Art.55; The EEA Agreement: Annex XXII of Directive 2014/56/EU, reg. 537/2014).
Act no.121/2019 (entered into force on 24 Oct. 2019, except for Art.3 and points 1-3 of Art.5, which entered into force on 1 Feb. 2020, cf. Advertisement A 6/ 2020, and sub-paragraphs 4,5 and 7 of Art.5, which did not enter into force; implemented according to instructions in Art.4.) Act no.137/2019 (entered into force on 31 Dec. 2019). Act no.45/ 2020 (entered into force on 4 June 2020; *EEA Agreement:* Annex IX of Directive 2011/61 / EU 2013/14/EC Act no.70/2020 (entered into force on 1 Sept. 2020). Act no.11/2021 (entered into force on 1 January 2022). Act no.19/2021 (entered into force on 1 Sept. 2021). Act no.38/ 2021 (entered into force on 21 May 2021; *EEA Agreement:* Annex XXII to Directive 2014/59 / EU Annex IX to Directive 2017/ 2399 Act no.44/ 2021, (entered into force on 5 June 2021 except for Art. 1-4, which entered into force on 28 June 2021). Act no.82/ 2021 (entered into force on 7 July 2021; *EEA Agreement:* Annex IX of regulations 2017/2358, 2017/2359). Act no.115/2021

(entered into force on 1 Sept. 2021, except for Art.39, which entered into force on 1 Nov 2021 and Paragraph 5 of Art.48, which entered into force on 28 Feb. 2023; for applicable laws, see Art.147; EEA Agreement: Annex IX to Directive 2014/65/EU, 2016/1034, Regulation 600/2014, 2016/1033, 2017/565, 2017/567). Act no.116/2021 (entered into force on 1 Sept. 2021; for applicable laws, see Art.136; EEA Agreement: Annex IX to Directive 2007/16/EC, 2009/65/ EC, 2013/14/ EU, 2014/91/ EU, 2010/78/ EU). Act no.38/2022 (entered into force on 1 July 2022, except for Art.76, Art.82(a), Art.177(d), Art.206(d) and Art.65, which take effect according to the instructions in Art.215. *EEA Agreement:* Annex IX to Regulations 575/2013, 2015/62, 2016/1014, 2017/2188, 2017/2395, 2019/630, 2019/876, 2020/873). Act no.50/ 2022 (entered into force on 8 July 2022; *EEA Agreement:* Annex IX to Regulations 2017/2294, 2019/1011, 2021/527, 2019/2115, 2018/1717, Directive 2014/ 51/ESB, Annex XXII to Directive 2004/25/EB). Act no.80/2022 (entered into force on 14 July 2022, except for point (b) of Paragraph 2 of Art.170, point (b) of Paragraph 1 of Art.171 regarding European common u-space services and point (c) of Paragraph 1 of Art.171 which comes into force on 26 Jan. 2023 and point (d) of Art.258 which comes into force on 1 Jan. 2023; *EEA Agreement:* Annex XIII to Regulation 2027/ 97, 889/2002, Directive 2000/79/EU, 2009/12/EU).

Any mention in this Act of the Minister or Ministry, without specifying or referring to the function, refers to the **Minister of Finance and Economic Affairs** or **Ministry of Finance and Economic Affairs**, which administers this Act.

Chapter I

[General provisions.][1)]

[1)] *Act no.38/2022, Art.5.*

Article 1

[*Objectives.*][1)]

[The purpose of this Act is to ensure that financial undertakings are operated in a sound and customary manner in the interests of customers, shareholders, guarantee capital owners and the entire economy.][2)]

. . . [1)]

[1)] *Act no.38/2022, Art.1.* [2)]*Act no.75/2010, Art.1.*

[Article 1(a)

Scope.

This Act applies to domestic financial undertakings, financial holding companies, mixed financial holding companies and mixed holding companies and to the activities of foreign financial undertakings, financial holding companies, mixed financial holding companies and mixed holding companies in Iceland. The provisions of the Act that apply to investment firms also apply to local companies and companies as provided for in the eighth paragraph of Art 14(a). The provisions of Art.18, Part C of Chapter VII, Part A of Chapter XII, Art. 104 and 105 of this Act and Regulation (EU) no. 575/2013 do not apply to undertakings referred to in the second sentence unless otherwise stated.

The Act does not apply to central banks, post office giro institutions or the entities listed under points 4-24 in the fifth paragraph of Art.2 of Directive 2013/36/EU of the European Parliament and of the Council. However, the provisions of this Act shall be applied to cross-border activities within the European Economic Area and the consolidated supervision of post office giro institutions and the entities listed in points 4-24 in the fifth paragraph of Art.2 of Directive 2013/36/EU of the European Parliament and of the Council as if they were financial institutions. This paragraph does not apply to the Regional Development Institute (Byggðastofnun) and Municipality Credit Iceland Plc. (Lánasjóður sveitarfélaga ohf.)][1)]

[2)] *Act no.38/2022, Art.2.*

[Article 1(b)][1)]

Definitions.

For the purpose of this Act, the following definitions shall apply:

[1. *Financial undertaking:* Credit institutions or investment firms.

2. *Credit institution:* An undertaking that operates by accepting deposits or other repayable funds from the public and provides loans for its own account.

3. *Investment firm:* Investment firms according to the Market for Financial Instruments Act, excluding credit institutions, local businesses and undertakings as provided for in the eighth paragraph of Art.14(a).

4. *Local firm:* An undertaking that trades for its own account in the markets for standard futures contracts, options or other derivatives and in the liquidity markets, solely for the purpose of hedging positions in the derivative markets, or one that trades for the account of others who are members of the same markets and where it is assumed that the settlement parties guarantee that the contracts entered into by such a company will be fulfilled.][1)]

5. [*Financial conglomerate:* A financial conglomerate in accordance with the Act on Additional Supervision of Financial Conglomerates.][2)]

6. *Managing Director:* The person whom the board of directors of a financial undertaking engages to direct its operations in accordance with the provisions of the Act on Public Limited Companies or this Act, regardless of his/her actual title.

7. [*Key employee:* An employee in a financial undertaking, other than the managing director, whose position can have a significant impact on the undertaking's policy.][1)]

8. *Bonus:* The remuneration of an employee of a financial undertaking which, as a rule, is defined in relation to their performance and is not part of the employee's fixed remuneration, since the final amount or scope is not precisely known in advance.

9-11. . . . [1)]

12. *Branch:* A place of business, which according to the law is dependent on a financial undertaking, of which it is a part, and directly handles all or part of the business conducted by the financial undertaking. [All offices established in a Member State by a credit institution, which has its head office in another Member State shall be considered as one branch.][1)]

13-18. . . . [1)]

19. *Associates:* A company which a financial undertaking has a significant influence over or where its direct or indirect holding amounts to 20% or more of voting rights or share capital.

20. *Connected parties:* Connected parties are considered related parties according to the established accounting regulations, cf. the Annual Accounts Act. Connected parties may also include other parties which the Financial Supervisory Authority deems to have a direct and related interest in the operations of a financial undertaking.

21-25. . . . [1)]

26. *Member State:* a state which is a member of the European Economic Area (EEA), the European Free Trade Association (EFTA) or the Faroe Islands.

27-45. . . . [1)]

46. *Parent company at the top level of a group in the European Economic Area:* A parent company that is a parent company in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area.

47. . . . [1)]

[[48.][3)] *Netting agreement:* An agreement which makes it possible to convert the agreed claims or obligations of a financial undertaking and its counterparty into a single net claim, including a close-out netting agreement.][4)]

[49. *Internal approaches:* Internal ratings-based approach as provided for in the first paragraph of Art.143, the Internal Models Approach, as provided for in Art.221, the Own Estimates Approach as provided for in Art.225, Advanced Measurement Approaches as

provided for in the second paragraph of Art.312, the internal model approach as provided for Art. 283 and 363 and the Internal Assessment Approach as provided for in the third paragraph of Art.259 of Regulation (EU) no. 575/2013.

50. *Systemic risk:* Risk of disruption to the financial system that could have significant negative consequences for the financial system and real economy.

51. *Beneficial owner:* The beneficial owner in accordance with the Act on Measures against Money Laundering and Terrorist Financing.

52. *Third-country group:* A group where the parent company is established in a country outside the European Economic Area.][1)]

[Other terms used in this Act are defined in Regulation (EU) no. 575/2013.][1)]

[In order to ensure that the requirements or supervisory powers laid down in this Act apply on a consolidated or sub-consolidated basis in accordance with the Act, the terms *financial undertaking, parent institution in a Member State, parent institution in the European Economic Area* and *parent company* also cover:

1. Financial holding companies and mixed financial holding companies in financial activities that have received approval in accordance with Part B of Chapter VI.

2. Designated financial undertakings that are under the control of a parent financial holding company in the European Economic Area, a mixed parent financial holding company in the European Economic Area, a parent financial holding company in a Member State or a mixed parent financial holding company in a Member State, if the relevant parent company does not require approval, cf. the second paragraph of Art.49(b).

3. Financial holding companies, mixed financial holding companies or financial undertakings that are responsible for compliance with the requirements of this Act on a consolidated basis as provided for in point 4 of the third paragraph of Art.49(g)][1)][5)][6)]

[1)]Act no.38/2022 Art.3. [2)]Act no.61/2017 Art.34. [3)]Act no.54/2018, Art.1. [4)]Act no.34/2018 Art.1. [5)]Act no.96/2016, Art.1. [6)]Act no.75/2010, Art.2.

[Article 1(c)

Adoption into law.

The provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements with regard to credit institutions and investment firms and the amendment of Regulation (EU) no. 648/2012, which is published on page 1 of issue no.12 of the EEA supplement to the Official Journal of the European Union of 27 February 2020, have legal force in Iceland with the adjustments resulting from the EEA Joint Committee's decision no. 79/2019 of 29 March 2019, which is published on page 1 of Issue no.99 of the EEA supplement to the Official Journal of the European Union of 12 December 2019, and Protocol 1 to the Agreement on the European Economic Area, cf. Act on the European Economic Area, no. 2/1993, where the protocol is implemented, with amendments according to:

1. Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) no. 575/2013 of the European Parliament and the Council (EU) regarding the leverage ratio, which is published on p. 303 of the EEA supplement to the Official Journal of the European Union no. 26 from 21 April 2022.

2. Regulation (EU) 2016/1014 of the European Parliament and of the Council of 8 June 2016 amending Regulation (EU) no. 575/2013 regarding exemptions for commodity dealers, which is published on page 342 of issue no. 50 of the EEA supplement to the Official Journal of the European Union from 23 July 2020.

1. Commission Delegated Regulation (EU) 2017/2188 of 11 August 2017 amending Regulation (EU) no. 575/2013 of the European Parliament and the Council regarding

exemption from own funds requirements for specific covered bonds, which is published on page 30 of issue no. 49 of the EEA supplement to the Official Journal of the European Union from 22 July 2021.

2. Regulation (EU) 2017/2395 of the European Parliament and the Council of 12 December 2017 amending Regulation (EU) no. 575/2013 with regard to transition arrangements to mitigate the impact on own funds due to the implementation of IFRS standard 9 and regarding the treatment of certain exposures of public entities denominated in the home currency of a Member State as large exposures, which is published on page 94 of issue no. 42 of the EEA supplement to the Official Journal of the European Union of 25 June 2020.

3. Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019, amending Regulation (EU) no. 575/ 2013 regarding the minimum insurance coverage for losses due to non-performing exposures, which is published on p. 22 of issue no. 19 of the EEA supplement to the Official Journal of the European Union of 18 March 2021, with the adjustments resulting from decision no. 16/2020 of 7 February 2020 of the EEA Joint Committee, which is published as advertisement no. 4/2022 in Section C of the Official Journal of Iceland (Icel. Stjórnartíðindi).

4. Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019, amending Regulation (EU) no. 575/ 2013 regarding the leverage ratio, net stable funding ratio, own funds requirements and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012, which is published on page 8 of issue no. 29 of the EEA supplement to the Official Journal of the European Union of 5 May 2022, with the adjustments resulting from decision no. 301/2021 of 29 October 2021 of the EEA Joint Committee, which is published as advertisement no. 4/2022 in Section C of the Official Journal of Iceland (Icel. Stjórnartíðindi).

5. Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulation (EU) no. 575/ 2013 and Regulation (EU) no. 2019/876 regarding adjustments in response to the COVID-19 pandemic, which is published on page 234 of issue no. 29 of the EEA supplement to the Official Journal of the European Union of 5 May 2022, with the adjustments resulting from decision no. 301/2021 of 29 October 2021 of the EEA Joint Committee, which is published as advertisement no. 4/2022 in Section C of the Official Journal of Iceland (Icel. Stjórnartíðindi).

This Act refers to Regulation (EU) no. 575/ 2013 with amendments as provided for in the first paragraph as Regulation (EU) no. 575/2013.

The Central Bank of Iceland is a competent authority within the meaning of Regulation (EU) no. 575/2013 and the Financial Supervisory Authority carries out the tasks entrusted to it. The Resolution Authority, in accordance with the Act on Resolution of Credit Institutions and Investment Firms, carries out the tasks assigned to resolution authorities as provided for in the second paragraph of Art.2 of the Regulation.][1)]

[1)]Act no.*38/2022, Art.4.*

Chapter II
[Operating Licences of credit institutions][1)]

[1)] Act no.38/2022, Art.16.

A. Granting of an operating licence

Article 2
Issuer of operating licences.

The Financial Supervisory Authority shall grant operating licences to [credit institutions][1)] as provided for in this Act. A [credit institution][1)] may commence operations upon receiving an operating licence from the Financial Supervisory Authority.

[The Financial Supervisory Authority shall consult with competent authorities in other Member States in assessing an application for an operating licence from a [credit institution][1)] which is:

a. a subsidiary of a financial undertaking or insurance company licensed to operate in another Member State,

b. a subsidiary of the parent company of a financial undertaking or insurance company licensed to operate in another Member State or

c. controlled by a party, either a natural person or legal entity, which has [control][1)] over a financial undertaking or insurance company in another Member State.

Consultation as referred to in the second paragraph shall include information on the eligibility of shareholders and management, [cf. Art.42(a) and Art.52.][1)]

Consultation as referred to in the second paragraph shall furthermore apply to ongoing supervision to ensure that conditions for operations are satisfied... [2)]][3)]

[1)]Act no.38/2022, Art.6. [2)]Act no.75/2010, Art.4. [3)]Act no.130/2004, Art.1.

Article 3

[Activities subject to operating licences.

Only legal entities that are licensed as credit institutions may operate by collecting deposits or other repayable funds from the public.

Other authorised activities of financial credit institution are governed by the provisions of Chapter IV, according to how they are defined in their operating licences.][1)]

[1)]Act no.38/2022, Art.7.

Article 4

[Types of operating licences

A credit institution can obtain an operating licence as a commercial bank, savings bank or credit undertaking.

[1)]Act no.38/2022, Art.8.

Article 5

Application.

An application for an operating licence must be made in writing and shall be accompanied by:

1. Information on the type of operating licence applied for, cf. Art.4, on activities subject to authorisation, cf. the first paragraph of Art.3, and other proposed activities, cf. Chapter IV;

2. The company's Articles of Association.

3. Information on the structure of the organisation, including information, *inter alia*, on how the proposed activities are to be pursued.

4. Information on the internal organisation of the undertaking, including rules on supervision and work procedures.

5. A business plan and budget, indicating *inter alia* the expected growth and composition of own funds.

6. Information on founders, shareholders or guarantee capital owners, who directly or indirectly control qualifying holdings and the proportional holdings of all parties. If no

one has a qualifying holding, information on the 20 largest shareholders or guarantee capital owners must be provided.][1)]

7. Information on the board of directors, managing director and other managers.

8. Auditor's confirmation that share capital or guarantee capital has been paid up.

[9. Information about the group to which the company belongs, including parent companies, financial holding companies and mixed financial holding companies in the group.][1)]

10. Information on close links between the undertaking and individuals or legal entities, cf. [...[1)] of the third paragraph of Art.7][2)]

[11.][1)] Other relevant information as determined by the Financial Supervisory Authority.

[1)]Act no. 38/2022, Art.9. [2)]Act no. 96/2016, Art.3.

Article 6

Granting of an operating licence.

A decision by the Financial Supervisory Authority on the granting of an operating licence must be notified to the applicant in writing as promptly as possible and no later than three months after receipt of a complete application. The Financial Supervisory Authority must notify an applicant when an application is considered to be satisfactory.

The operating licence must indicate what type of authorisation is involved, cf. Art.4, what activities subject to licence may be carried out on that basis, and what other activities are to be carried out in accordance with Chapter IV. [. . . [1)] A [credit institution][1)] intending to expand its activities so as to include other activities referred to in Chapter IV, which are not covered by its operating licence, must apply to the Financial Supervisory Authority for a license to pursue those services.][2)]

A [credit institution][1)] may not commence activities until its share capital or guarantee capital has been paid up in full in cash.

The Financial Supervisory Authority must publish notifications of licences granted to [credit institutions][1)] in the Legal Gazette (Icel. Lögbirtingarblaðið).

The Financial Supervisory Authority shall notify the European Banking Authority of licences it grants to [credit institutions][1)].

[1)]Act no.38/2022, Art.10. [2)]Act no.111/2007, Art.3.

Article 7

Refusal of an operating licence.

[If the application or the applicant does not fulfil the conditions of this Act, including the risk control system and the eligibility of board members, managing directors and owners of qualifying holdings, in the opinion of the Financial Supervisory Authority, it shall refuse to grant an operating licence.][1)]

If the Financial Supervisory Authority rejects an application, grounds must be given and the applicant informed thereof within three months of receipt of a complete application. A refusal must, however, always be received by the applicant within 12 months from the receipt of an application. [In the assessment of an operating licence application, it is not permitted to base the assessment of the application or its refusal on considerations of the needs of the financial market in Iceland.][2)]

[An operating licence shall not be granted if close links between an applicant and individuals or legal entities obstruct supervision of the undertaking by the Financial Supervisory Authority. The same applies if laws or regulations of a state outside the European Economic Area which apply to such connected parties or problems related to their implementation hinder supervision.][1)]

[1)]Act no.38/2022, Art.11. [2)]Act no.57/2015, Art.3.

Article 8

[*Register of credit institutions.*][1)]

The Financial Supervisory Authority shall keep a register of [credit institutions][1)] and their branches, including all the principal details of the undertakings concerned. [The Financial Supervisory Authority shall be notified, in advance as applicable, of any changes in previously submitted information, including information concerning the board of directors or managing director, any increase or decrease in the number of branches, and if the [credit institutions][1)] no longer fulfils the requirements for granting an operating licence.][2)]

[1)]Act no.38/2022, Art.12. [2)]Act no.111/2007, Art.4.

B. Withdrawal of an operating licence

Article 9

Grounds for revocation

The Financial Supervisory Authority may withdraw a [credit institution's][1)] operating licence in full or in part if:

1. the undertaking has obtained the operating licence based on incorrect information or by other improper means;

2. [if the undertaking does not meet the prudential requirements set out in part 3, 4 or 6 of Regulation (EU) no. 575/ 2013, excluding the provisions of Art.92(a) and Art.92(b) of the regulation, or the requirements of the Financial Supervisory Authority as provided for in point 1 or 10 in the third paragraph of Art.107(a)][1)]

3. the undertaking does not make use of its operating licence within 12 months of its granting, expressly relinquishes the licence or ceases operations for a continuous period of over six months;

4. if the shareholders, board members and management of the undertaking do not satisfy the eligibility requirements laid down in [Art.42(a) and Art.52],[1)]

5. [if the undertaking's close relationship with individuals or legal entities or the laws or regulations of a state outside the European Economic Area that apply to such related parties or problems related to their implementation hinder supervision of the undertaking by the Financial Supervisory Authority],[1)]

6. [if measures taken on the basis of provisions of [Art.107(c) – Art.107(e)][1)] on the early intervention of the Financial Supervisory Authority. . .[2)] have not proven successful or if a ruling has been issued on the winding up of the undertaking, in accordance with Chapter XII.],[3)]

7. the undertaking in other respects seriously or repeatedly violates this Act, rules, Articles of Association or regulations adopted by virtue of them,

[8. if an [undertaking][1)] no longer meets the statutory conditions it had to meet to receive a licence,

9. If an [undertaking][1)] cannot demonstrate that it can meet its obligations towards creditors and/or depositors,

10. [if the company violates the obligation to maintain a systemic risk buffer as provided for in Art.86(g) and restrictions based on Section X have not achieved the desired results],[1)]][4)]

[11. if the undertaking seriously or repeatedly violates the Act on Measures against Money Laundering and Terrorist Financing.].[1)]

Before a withdrawal is effected as referred to in the first paragraph, the undertaking shall

be granted a suitable time limit to rectify the situation, if such is possible in the estimation of the Financial Supervisory Authority.

[Notwithstanding the revocation of an operating licence in accordance with point 6 of the first paragraph, the [[interim board of directors],[2] or Winding-up Board in winding up proceedings of a [credit institution][1] or administrators of [its][1]][5] estate are authorised, with the consent of and under the supervision of the Icelandic Financial Supervisory Authority, to continue to undertake specific licensed activities to the extent necessary to manage the estate and to dispose of the interests of the insolvency estate.] [6]

The Financial Supervisory Authority may prohibit a [credit institution][1] from pursuing certain activities for which it is authorised in accordance with Chapter IV. The provisions of paragraphs 1 and 2 govern such bans.

[1]Act no.38/2022, Art.13. [2]Act no.70/2020, Art.103. [3]Act no.54/2018, Art.2. [4]Act no.57/2015, Art.[5]Act no.44/2009, Art.1. [6]Act no.129/2008, Art.1.

Article 10

[Notification of revocation and winding up of a credit institution.][1]

[The Financial Supervisory Authority shall notify the board of directors of a credit institution of the revocation of its licence. It shall also send a notification to the European Banking Authority including the reasons for the revocation and publish the notification in the Legal Gazette (Icel. Lögbirtingarblaðið) and advertise it in the media. If the financial undertaking operates branches or provides services in another Member State, the Financial Supervisory Authority shall also notify the competent supervisory authorities in the state concerned without delay.][1]

If the operating licence of a [credit institution][1] is withdrawn, the undertaking must be wound up and the provisions of Chapter XII shall apply to the winding-up.

[1]Act no.38/2022, Art.14.

[Article 10(a)

[Restrictions on the activities of a credit institution.][1]

The Financial Supervisory Authority may restrict the activities of individual establishments [credit institutions][1] if it sees specific reason to do so. In addition, the Authority may set special conditions for the continued operation of individual establishments of a [credit institution][1] Furthermore, the Financial Supervisory Authority may temporarily restrict the activities that a [credit institution][1] may pursue, in part or in full, whether the activity is subject to licence or not, if [it][2] sees specific reason to do so.

Before imposing restrictions, as provided for in the first paragraph, the [credit institution][1] concerned shall be given the opportunity to rectify the situation, if this is possible in the estimation of the Financial Supervisory Authority[1]. If a [credit institution][1] provides services in another Member State, notification of the content of [a decision pursuant to the first paragraph and its justification shall be sent to the competent authority][1] in that state.][3]

[1]Act no.38/2022, Art.15. [2]Act no.91/2019, Art.35. [3]Act no.75/2010, Art.6.

Chapter III
Establishment and activities.

Article 11.

[*Residence requirements for founders of credit institutions.*][1)]

Only individuals and legal entities resident in Iceland can be founders of [credit institutions].[1)]

[Nationals and legal entities of other states in the European Economic Area and Member States of the European Free Trade Association, as well as nationals and legal persons in the Faroe Islands, are exempt from the residence requirements in the first paragraph.][2)] [The Minister][3)] may grant nationals of other states the same exemption.

[1)]Act no.38/2022 Art.17. [2)]Act no.108/2006 Art.75. [3)]Act no.126/2011, Art.355.

Article 12

[*Names of credit institutions.*][1)]

[Only credit institutions may use in their firm name or as clarification of their activities the words “credit institution”, "bank", "commercial bank", “investment bank”, “savings bank” and “credit undertaking” either alone or linked to other words, in accordance with their operating licence.][1)]

If there is a danger of confusion between the names [of a foreign and domestic credit institution][1)] operating in Iceland, the Financial Supervisory Authority may demand that one of the undertakings be identified specifically.

A [credit institution][1)] may not identify its activities in such manner as might indicate that this could be the Central Bank of Iceland.

[1)]Act no.38/2022, Art.18.

Article 13

[*Legal form of credit institutions.*][1)]

[Commercial banks and credit undertakings][1)] shall operate as public limited companies. The provisions of Chapter VIII shall apply to the legal form of savings banks.

Act no.38/2022, Art.19.

Article 14

[Initial capital of a credit institution.

When granting an operating licence, the minimum initial capital from a credit institution must be equal to EUR 5 million in Icelandic króna. [Initial capital shall consist of one or more of the items referred to in points (a)-(e) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.][1)]

[Notwithstanding the first paragraph, the initial capital of a savings bank that is not licensed according to points 7-9, 11 and 12 of the first paragraph of Art.20 and does not provide services abroad, can amount to a minimum equivalent value of EUR 1 million in Icelandic króna.][1)]

If [initial capital][1)] as referred to in the first or second paragraphs is denominated in Icelandic krónur (ISK), the reference exchange rate shall be the current official quoted exchange rate (buying rate).

If a credit institution requests a new operating licence, the book value of equity rather than [initial capital][1)] shall not amount to less than that provided for in the first or second paragraph or Art.14(a).

Own funds of a credit institution may never amount to less than the amount stipulated in the first to second paragraphs at any given time.

[The Central Bank of Iceland][2] may set detailed rules on the implementation of this Article.

[The Minister is authorised to change the amounts provided for in this Article by means of a regulation in accordance with ancillary instruments approved by the European Commission based on Art.146 of Directive 2013/36/EU of the European Parliament and of the Council.]][1][3]

[1] Act no.38/2022, Art.20. [2] Act no. 91/2019, Art.34. [3] Act no. 96/2016, Art.7.

[Article 14 (a)

[*Initial capital of investment firms and related companies.*][1]

When granting an operating licence, the minimum paid-up initial capital of an investment firm [and a local firm][2] shall be as specified in this Article . [initial capital shall consist of one or more of the items referred to in points (a)-(e) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.][1]

The [initial capital][1] of an investment firm shall, as a minimum, amount to the equivalent of EUR 730 thousand denominated in Icelandic króna.

Notwithstanding the second paragraph, the [initial capital][1] of an investment firm can amount to a minimum equivalent of EUR 125 thousand in Icelandic króna, if the investment firm fulfils the following conditions:

1. It is not authorised for activities referred to in [items (c) and (f) of [point 16][3] of the first paragraph of Art.4 of the Act on Markets for Financial Instruments].[4]
2. It is licensed for activities as provided for in [item (a) of point 67 of the first paragraph of Art.4 of the Act on Markets for Financial Instruments and licensed for at least one of the activities provided for in items (a),(b) and (d) of [point 16][3] of the first paragraph of Art.4 of the same Act].[4]

The Financial Supervisory Authority may authorise an investment firm which is covered by the third paragraph and licensed to execute orders concerning financial instruments on behalf of clients to preserve such financial instruments on its own account if the following conditions are met:

1. Such positions in financial instruments can only be the result of a situation where it was not possible to carry out a client's orders precisely.
2. The total market value of financial instruments as provided for in this paragraph do not exceed 15% of the initial capital of the investment firm.
3. The provisions of Art.92-95 and Part 4 of Regulation (EU) no. 575/2013 are fulfilled.
4. The measures in question must be temporary and restricted to the time limits necessary to execute the orders.][1]

Notwithstanding the second and third paragraphs, the share capital of an investment firm can amount to a minimum equivalent of 50 thousand euros (EUR) in Icelandic króna if the investment firm does not have an authorisation according to [items (c) and (f) of [point 16][3] of the first paragraph of Art.4 of the Act on Markets for Financial Instruments and item (a) of [point 67][3] of the first paragraph of the same Act].[4]

[The authorisation of an investment firm to invest in non-trading book financial instruments in order to increase its own funds is not considered an authorisation as provided for in item (c) of point 16 of the first paragraph of Art.4 of Act no. 115/2021 on markets for financial instruments, as regards the third and fifth paragraphs of this Article ,.**][1]**

The [initial capital][1] of a local company must be at least the equivalent of 50 thousand euros (EUR) in Icelandic króna if it provides services in another State in the European Economic Area as provided for in Art.36 and/or Art.37.

[An undertaking which handles the reception and transmission of orders from customers regarding one or more financial instruments, the execution of instructions on behalf of customers, asset management, and/or investment advisory, cf. items (a), (b), (d) and (e) of point 16 of the first paragraph of Art.4 of Act no.115/2021 on markets for financial instruments, but does not engage in other investment services or investment activities

according to the same items and is not authorised to hold or manage one or more financial instruments for the account of clients cf. item (a) of point 67 of the same paragraph, nor to keep their client's money or securities for any other reason and may therefore never get into debt with them, shall have:

a. initial capital equivalent to a minimum of EUR 50 thousand denominated in Icelandic króna,

b. professional indemnity insurance that covers the entire European Economic Area or some other comparable insurance against liability arising from professional negligence amounting to a minimum of 1 million euros (EUR) for each claim and a total of 1.5 million euros (EUR) per year for all claims or

c. a combination of initial capital and professional indemnity insurance in a form resulting in a level of coverage equivalent to points (a) or (b).

Notwithstanding the eighth paragraph, an undertaking under this paragraph which is on the register of insurance brokers in accordance with Act no. 62/2019 on Insurance Distribution must have:

a. initial capital equivalent to a minimum of EUR 25 thousand denominated in Icelandic króna,

b. professional indemnity insurance that covers the entire European Economic Area or some other comparable insurance against liability arising from professional negligence amounting to a minimum of 500 thousand euros (EUR) for each claim and a total of 750 thousand euros (EUR) per year for all claims or

c. a combination of initial capital and professional indemnity insurance in a form resulting in a level of coverage equivalent to points (a) or (b).][1)]

If the [initial capital][1)] is denominated in Icelandic krónur (ISK), the reference exchange rate shall be the current official quoted exchange rate (buying rate).

Should a financial undertaking in accordance with this Article request a new operating licence, the book value of its equity rather than its [initial capital][1)] shall not amount to less than that provided for in this Article or Art.14.

Own funds of a financial undertaking in accordance with this Article shall at no time be less than the amount provided for in [the second to ninth paragraphs.][1)]

[The Central Bank of Iceland][5)] may set detailed rules on the implementation of this Article.

[The Minister is authorised to change the amounts provided for in this Article by means of a regulation in accordance with ancillary instruments approved by the European Commission based on Art.146 of Directive 2013/36/EU of the European Parliament and of the Council.][1)]][6)]

[1)]Act no.38/2022, Art.21. [2)]Act no.116/2021, Art.137. [3)]Act no.50/2022, Art.26. [4)]Act no.115/2021 Art.148. [5)]Act no.91/2019, Art.34. [6)]Act no.96/2016, Art.8.

Article 15

[*Head office of credit institutions.*][1)]

A [credit institution][1)], which has been granted an operating licence in accordance with Art.6, must have its head office in Iceland.

[1)] *Act no.38/2022, Art.22.*

Article 16

Audit section.

[A financial undertaking must have an audit section to handle internal audit. The internal

audit section shall operate independently of other departments in the financial undertaking's organisation; it is part of its organisational structure and an aspect of its internal system of controls. Employees of the internal audit section must jointly possess sufficient experience and expertise to handle the section's tasks and the number of employees shall reflect the size and activities of the financial undertaking. Employees of the internal audit section may not be shareholders of the financial undertaking concerned. [[The Central Bank of Iceland][1)] may stipulate more detailed provisions regarding the activities of internal audit sections.][2)]

The board of directors of a financial undertaking shall engage the director of the undertaking's audit section, who shall be responsible for internal audit on its behalf. He must have special expertise in the field of internal auditing, have completed a university degree relevant to the work and possess sufficient experience to carry out the task. The director may not have been declared bankrupt or been sentenced for any criminal action under the Penal Code, the Competition Act, the Acts on Public Limited Companies and Private Limited Companies, the Accounting Act, the Act on Annual Financial Statements, the Act on Bankruptcy etc. and provisions of the Act on Withholding Public Levies at Source, as well as special legislation applicable to parties subject to official supervision of financial activities. The Financial Supervisory Authority may at any time examine especially the eligibility of an internal audit section director if it sees reason to do so.[3)]

Internal audit shall report regularly to the board of directors and Audit Committee on its activities. Any comments considered important by the director of internal audit must be addressed at meetings of the board of directors and recorded in the minutes. The director of the internal audit section is entitled to attend board meetings where his/her comments are to be dealt with.

Internal audit must report on its conclusions to the Financial Supervisory Authority no less frequently than once each year. In addition, internal audit shall notify the Financial Supervisory Authority especially and without delay of any comments made and sent to the board of directors.

The Financial Supervisory Authority may, having regard to the nature and scope of the management of specific financial undertakings, grant an exemption from the operation of such an auditing section or particular aspects of its activities and set special conditions for undertakings that are granted such exemptions.][4)]

Article 17[1)]

Act no.38/2022, Art.23.

[Article 17(a)

Updated register of obligations.

A financial undertaking shall maintain a special list of all parties using its credit services. Credit as referred to in this Article includes direct lending to the party in question, purchases of bonds issued by the party, purchases of the portfolio of another lender containing a claim against the party and any other services, which may be equated with credit, provided that the gross debt owed by the party to the financial undertaking amounts to a minimum of ISK 300 million.

The financial undertaking shall send the Financial Supervisory Authority an updated list as of the end of each month. The list shall be itemised by the name and Reg./Id. No. of the borrower. Furthermore, a similar list shall be submitted of parties with close links, [connected parties][1)] and groups of connected clients, to the extent that such parties are not included in the above-mentioned list. In other respects, provisions of this Act and of the Act on Official Supervision of Financial Activities shall apply to the handling of information contained in this list.

[The Central Bank of Iceland][2)] may adopt detailed rules on the contents of the list.][3)]

[1)]Act no.96/2016, Art.10. [2)]Act no.91/2019, Art.36. [3)]Act no.75/2010, Art.10.

[Article 17(b)

Borrowers' information disclosure obligations.

Should the Financial Supervisory Authority be of the opinion that the borrowing of a single party included in the register of obligations referred to in Art.17(a), which is not subject to official supervision of financial activities, could have a systemic impact, the Authority may require information from the party in question concerning its obligations. Obligations as referred to in this Article include direct borrowings, drawn lines of credit, issues of debt instruments by the party, purchases of debt insurance or payment insurance for borrowings, call and put options and any other credit provision, on and off the balance sheet, that the party in question has used and may be equated with credit services or guarantees.

Should a party refuse to provide the Financial Supervisory Authority with information as referred to in the first paragraph, the Authority may instruct regulated entities not to provide further credit to the party in question.

The same shall apply if the party's information disclosure is unsatisfactory[1)]] [2)]

[1)]Act no.38/2022, Art.24. [2)]Act no.75/2010, Art.10.

[Article 17(c)

Register of trading and documented processes

Financial undertakings must register all their transactions and document the policies, systems and processes covered by this Act in a way that enables the Financial Supervisory Authority to verify at all times that the Act is being complied with.][1)]

[1)]Act no.38/2022, Art.25.

Article 18.

[Disclosure obligation of a financial undertaking.

Financial undertakings shall publicly disclose their risks, risk management and [the capital adequacy and liquidity position of the undertaking and other aspects listed in Part Eight of Regulation (EU) no. 575/2013].[1)] The Financial Supervisory Authority is authorised to determine the frequency of such disclosure, when the information must be published and whether it must be published in a special medium, other than the financial undertaking's annual accounts. The Financial Supervisory Authority can require that the parent company of a financial undertaking publish annually, either in full or by reference, a description of the structure of the company's group and information about its governance and organisational chart.

. . . . . [1)]][2)]

[1)]Act no.38/2022, Art.26. [2)]Act no.96/2016, Art.11.

Article 19

Good business practices and customs.

[A financial undertaking shall operate in accordance with proper and sound business

practices and customs on the financial market.

The [Central Bank of Iceland][1] shall set rules[2)] as to what are considered proper and sound business practices as referred to in this Act. [The rules shall, among other things, stipulate general communications between financial undertakings and their customers, disclosure obligations to customers and the handling of complaints.][3)]

. . . [3)]

[A financial undertaking shall specify on its website the names and proportional holdings of all parties owning more than 1% of share capital or guarantee capital in the undertaking at any given time. Financial undertakings have four days to update their website after ownership of holdings changes. If a legal entity owns more than 1% of share capital or guarantee capital the person or persons who are beneficial owners of the legal entity in question must also be disclosed [4)]][5)]][6)]

[1)]Act no.91/2019, Art.36. [2)] Reg. 353/2022. [3)]Act no.57/2015, Art.6. [4)]Act no.38/2022, Art.27 [5)]Act no.47/2013, Art.3. [6)]Act no.75/2010, Art.12.

[Article 19 (a)

[*Arbiters*][1)]

Financial undertakings shall make available information on the complaint and redress procedures of their clients if disputes arise between a client and a financial undertaking, including an appeal to [an arbiter as provided for in the Act on arbiters in consumer disputes].[1)]

… [1)]] [2)]

[1)]Act no.19/2021, Art.4. [2)]Act no.75/2010, Art.13.

[Article 19(b)

Information on clients.

Financial undertakings shall establish rules on the handling of information on individual clients. These shall state which employees shall have access to information for their work, how information is to be communicated to internal audit, supervisory authorities and the police, and how supervision of the implementation of the rules is to be arranged. The rules shall be accessible to clients.][1)]

Act no.75/2010, Art.14.

Chapter IV

Authorised Activities

[*Credit institutions.*][1)]

Act no.38/2022, Art.32.

Article 20

[*Authorised Activities of credit institutions.*][1)]

The activities of commercial banks and savings banks may include the following:

1. Acceptance of deposits and other repayable funds from the public.
2. Lending activities, including:

a. consumer credit,

b. [mortgages],[1)]

c. factoring and purchase of debt instruments and

d. commercial credit.

3. Financial leasing.

[4. The provision of payment services as provided for in the Act on Payment Services.

5. Issuing and administering payment documents such as travellers' cheques and bills of exchange.][2)]

6. [Providing guarantees and commitments.][1)]

7.[Trading for own account or for the accounts of customers in]:[1)]

a. money market instruments (cheques, bills, other comparable payment instruments etc.),

b. foreign exchange,

c. [standard forward contracts and swaps (options)][1)]

d. exchange rate and interest rate instruments and

e. Securities.

8. [participation in securities issues and provision of services related to such issues.][1)]

9. [Providing advice to undertakings on financial organisation, strategy and related issues, and advice as well as services related to mergers and acquisitions.][1)]

10. Money brokering.

11. [Asset management and advisory.][3)]

12.Custody and [administration][3)] of securities.

13. Credit reference (credit rating) services.

14. Rental of safety deposit boxes.

[15. Issue of electronic money.][4)]

[Commercial banks and savings banks must provide services as referred to in points 1 and 2 of the first paragraph.][1)]

Activities of credit undertakings may include points 1 [to 15][1)] of the first paragraph, with the exception that credit undertakings may not accept deposits.

[Commercial banks, savings banks with guarantee capital as provided for in the first paragraph of Art.14, and credit institutions may have authorisations for investment services and investment activities as provided for in the Market for Financial Instruments Act.][1)]

[A credit institution which is not permitted to deal on own account according to point 7 of the first paragraph may still invest in non-trading book financial instruments for the purpose of investing its own funds.][1)]

[1)]Act no.38/2022, Art.28. [2)]Act no.120/2011 Art.81. [3)]Act no.96/2016, Art.12. [4)]Act no.57/2015, Art.7

Article 21

Other services and ancillary activities.

[Credit institutions][1)] may pursue other activities naturally linked to their authorised activities listed in Art.20.

In addition to services as provided for in Art.20, [credit institutions][1)] may pursue ancillary activities, provided this is a normal extension of their financial services. The provisions of the first sentence of this paragraph shall also apply when a financial undertaking has a holding in or participates in other business activities. Notification must be sent to the Financial Supervisory Authority of any intention to pursue the activities provided for in this Article . Such notification must be accompanied by information on the proposed activity deemed to be satisfactory by the Financial Supervisory Authority. If the Financial Supervisory Authority raises no objection to the proposed activity within one month of receiving satisfactory notification, this shall be interpreted as authorisation for commencing the activity. The Financial Supervisory Authority may require that a separate company pursue these activities, in which case it must notify the party concerned of its decision within the time limit specified above. Failure to send a notification in accordance with this paragraph may result in the Financial Supervisory Authority prohibiting the activities or requiring that the activities be pursued by a separate company.

[A credit institution][1)] may, pursuant to special agreement upon receiving the

authorisation of the Financial Supervisory Authority, undertake to provide postal services on behalf of a party authorised to provide such services. [They are furthermore permitted to provide services as agents for other entities, such as insurance companies, pension funds and other financial undertakings, provided that the Financial Supervisory Authority does not consider such activities to prejudice their ability to provide services pursuant to their operating licences or prejudice its own ability to regulate the activities. The Financial Supervisory Authority shall be notified in advance of the intentions of the entity in question so that its assessment will be available before provision of the services commences.][2)]

[1)]Act no.38/2022 Art.29. [2)] Act no.76/2009, Art.1.

Article 22

Temporary activities and takeover of asset.

[A credit institution][1)] may therefore only pursue activities other than those listed in this Chapter on a temporary basis and for the purpose of completing transactions or restructuring clients' operations. [A notification, together with the grounds in this regard must be sent to the Financial Supervisory Authority. If a [credit institution][1)] or its subsidiary, has had to take measures as referred to in the first sentence and has taken over at least a 40% holding in a client, the provisions of [Chapters II and IV of the Act on the disclosure obligation of issuers of securities and flagging requirements][2)] shall apply to the client as applicable. The Financial Supervisory Authority may grant an exemption from the provisions of the third sentence, provided that financial restructuring is completed within six months from the time that the [credit institution][1)] or [its][1)] subsidiary, commenced the operation. The Financial Supervisory Authority shall assess whether the financial conditions in the first sentence are met, and restructuring shall be completed before twelve months have passed from the time that operations referred to in the first sentence began. The Financial Supervisory Authority may extend the time limit referred to in the fifth sentence; an application for such must explain what circumstances prevent a sale.[3)]

A [credit institution][1)] may acquire without limits assets to secure enforcement of claims. Such assets shall be sold as soon as this is considered favourable.

[1)]Act no.38/2022, Art.30. [2)]Act no.115/2021, Art.148. [3)]Act no.75/2010, Art.16.

Article 23

Authorisation for insurance activities.

Commercial banks, savings banks [with guarantee capital as provided for in the first paragraph][1)] of Art.14][2)] and credit undertakings may operate an insurance company as a separate company.

[1)]Act no.38/2022, Art.31. [2)]Act no.77/2012, Art.4.

B. . .

[1)]Act no.38/2022 Art.33.

C. [Holdings in undertakings and lending.][1)]

[1)]Act no.38/2022, Art.38.

Article 28.....[1)]

[1)] Act no.*38/2022, Art.34.*

[Article 28(a).

Restrictions on position taking of commercial banks and savings banks.

The direct and indirect positions of a systemically important commercial bank or savings bank in financial instruments, excluding non-trading book bonds and commodities, may not be so large that the combined capital requirements of the commercial bank or savings bank due to positions taken according to the criteria published by the Financial Supervisory Authority pursuant to [point 3 of the first paragraph of Art.107(i)],[1)] with regard to the risk factors discussed in [Regulation (EU no. 575/2013],[1)] exceed 15% of its own funds. A direct position refers to the ownership of a financial instrument or commodity by a commercial bank or savings bank. An indirect position means that a commercial bank or savings bank's risk of an unfavourable change in the price of a financial instrument or commodity is comparable to owning it itself. The proportion shall be calculated on a consolidated basis with the subsidiaries of commercial banks or savings banks.

The Financial Supervisory Authority can grant a temporary exemption from the maximum referred to in the first paragraph if it serves the interests of the owners of the secured deposits or supports financial stability.

The Central Bank of Iceland sets rules[2)] on the implementation of this Article , including what constitutes an indirect position. The rules may provide for the publication of information on the percentage as provided for in the first paragraph.][3)]

[1)]Act no.38/2022, Art.35. [2)] Reg. 1592/2021. [3)]Act no.11/2021, Art.1.

Article 29

Own Shares

[The aggregate holdings of a financial undertaking and its subsidiaries may not amount to over 10% of the nominal price of the paid-up share capital or guarantee capital of the undertaking. Should an undertaking acquire more of the share capital or guarantee capital in connection with concluding a transaction, cf. Art.22, the Financial Supervisory Authority shall be notified without delay. The Financial Supervisory Authority may grant a time limit of up to three months to reduce the holdings to within the limits prescribed by law. The provisions of Chapter VIII [of the Act on Public Limited Companies][1)] shall apply in other respects on the authorisations of financial undertakings to acquire own shares.

In calculations as referred to in the first sentence of the first paragraph regard shall be had for forward contracts and other derivative contracts, which a financial undertaking has concluded for its own shares.][2)]

[1)]Act no.96/2016 Art.17. [2)]Act no.75/2010, Art.19.

[Article 29(a)

[*Lending, including to connected parties.*][1)]

A financial undertaking or its subsidiaries may not grant loans secured by a mortgage on shares or guarantee capital certificates issued by the undertaking. The same applies to other contracts where the underlying exposure is to own shares. [The Central Bank of Iceland][2)] may issue rules excepting specific contracts from the prohibition of the second sentence, provided that they do not increase the financial undertaking's credit risk.

[A financial undertaking may not grant a board member, managing director, key employee or party who owns a qualifying holding in it, and [close family members or parties][1)] closely connected to the aforementioned parties, loans or other credit except against secure collateral. Credit is to be understood as loans, securities assets, holdings, guarantees provided by a financial undertaking, derivative contracts and other obligations towards a financial undertaking or loans to third parties secured by financial instruments issued by one or more parties who have a qualifying holding in it or [their close family members or parties][1)] closely connected to them. The total of loans and other credit facilities that may be

granted to each [person and close family members and persons closely related to them][1] as provided for in the first sentence may not exceed a maximum of ISK 200 million taking into account the restrictions [set in Part 4 of Regulation (EU) no. 575/2013].[3] Transactions between a financial undertaking and the owners of qualifying holdings, [[board members] [3] and immediate family members],[1] or parties closely related to them, shall be subject to the same rules as transactions with ordinary customers in similar transactions. Transactions of managing directors and key employees with the financial undertaking are governed by the second paragraph of Art.57. The limitation of the first sentence on loans or other credit facilities does not apply to loans to owners of qualifying holdings if the owner of the qualifying holdings is the state or a municipality. A loan or credit facility as provided for in the first sentence does not include deposits owned by another financial undertaking.

The [Central Bank of Iceland][4] sets rules[5] on the calculation of a loan or other credit facility as provided for in the second paragraph, on what is considered to be secure collateral, maximum amounts of loans or other unsecured credit facilities...[1] and about collateral which may exceed the amount provided for in the second paragraph. The Financial Supervisory Authority may grant exemptions for exceeding the amount provided for in the third sentence of the second paragraph in special cases [and the Central Bank of Iceland is authorised to provide more detail about such cases in the rules as provided for in the first sentence][6]][7]

The [Central Bank of Iceland][4] shall adopt rules on how loans secured by shares or guarantee capital certificates of another financial undertaking should be included in calculations of the risk and own funds and the assessment of capital requirements to ensure that the lending does not create a systemic risk in the financial system. The rules should also cover the procedures for assessing loans secured by a mortgage on asset portfolios, such as custody accounts and UCITS, which include shares or guarantee capital certificates, whether they are issued by the financial undertaking itself or other financial undertakings, so that such procedures comply with the provisions of the first paragraph and the first sentence of this paragraph.

The provisions of the first and second paragraph shall apply to the lending of subsidiaries as applicable.

[Loans to connected parties other than those discussed in the second and third paragraphs are subject to the fifth paragraph of Art.107][1)]][8]

[1)]Act no.96/2016, Art.18. [2)]Act no.91/2019, Art.34. [3)]Act no.38/2022, Art.36. [4)]Act no.91/2019,Art.36 [5)] Reg. 247/2017. [6)]Act no.91/2019, Art.37. [7)]Act no.57/2015, Art.9. [8)]Act no.75/ 2010, Art.20

[Art.**29(b) – Article 30(a)....**[1]

[1)]Act no.38/2022, Art.37.

[2]

Chapter V
Cross-border activities of financial undertakings.

A. Activities of foreign financial undertakings in Iceland.

Article 31
[Branches of credit institutions in the EEA.][1]

[A foreign credit institution, which is established and licensed to operate in another Member State of the European Economic Area (EEA), may establish a branch in Iceland two months after receipt by the Financial Supervisory Authority of notification of the proposed activity from the competent authority in the undertaking's home state. A branch may be established sooner with the approval of the Financial Supervisory Authority. The branch may

pursue any of the activities covered by this Act, provided the undertaking is authorised to do so in its home state. The Financial Supervisory Authority shall inform the foreign credit institution of the conditions to which the activity is subject and which have been set for the benefit of the public, if necessary. Swiss and Faroese credit institutions may establish branches as referred to in this paragraph, provided the same requirements are made of them as of credit institutions in a state of the European Economic Area and a co-operation agreement has been concluded between the Central Bank of Iceland and the competent Swiss or Faroese authorities.][1)]

. . . [2)]

The Financial Supervisory Authority shall verify that the foreign undertaking is subject to supervision in its home state and check its authorisations to operate and activities.
Provisions of the [Public Limited Companies Act][2)] concerning branches of foreign limited companies shall not apply to branches as referred to in the first paragraph.

[1)]Act no.38/2022 Art.39. [2)] Act no.96/2016, Art.24.

[Article 31(a)

A significant branch of a foreign financial undertaking in Iceland.

If a financial undertaking established in another country of the European Economic Area, other than an investment firm as provided for in Art.95 of regulation (EU) no. 575/2013, operates a branch in this country, the Financial Supervisory Authority can submit a request to the supervisory body on a consolidated basis or to a competent authority in the financial undertaking's home country for the branch to be considered important.

The request must be justified, in particular with regard to:

1. Whether the branch's share of deposits in Iceland is greater than 2%.
2. The likely effects of a temporary suspension or closure of the financial undertaking's operations on the systemic liquidity position and the payment and settlement system in Iceland.
3. The size and importance of the branch in terms of the number of customers within Iceland's banking or financial system.

The Financial Supervisory Authority shall endeavour to reach a joint conclusion with the relevant authority as to whether a branch is considered significant. If a joint decision is not reached within two months of receiving a request from the Financial Supervisory Authority, pursuant to the first paragraph, the Financial Supervisory Authority shall decide within the next two months whether the branch is considered significant. When making the decision, it shall take into account the opinions and reservations of the relevant authority. The Financial Supervisory Authority shall substantiate the decision and send it to the relevant authority.

If the competent authority of a financial undertaking, which is established in another Member State of the European Economic Area and operates an significant branch in Iceland, has not consulted with the Financial Supervisory Authority about the company's measures to ensure that a contingency plan to respond to a liquidity problem can be implemented immediately when it poses a significant liquidity risk in Iceland, or if the Financial Supervisory Authority considers the measures to be inadequate, the Financial Supervisory Authority may refer the matter to the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision.][1)]

[1)]Act no.38/2022, Art.40.

Article 32

[Services of a credit institution in the EEA without establishing a branch.][1)]

A [foreign credit institution],[1)] which is established and licensed to operate in another

state of the European Economic Area, may provide services pursuant to this Act in Iceland without establishing a branch. Such services may not commence until the Financial Supervisory Authority has received notification thereof from competent authorities in the undertaking's home state. Authorisations to provide services in Iceland from abroad in accordance with this Article may not, however, be more extensive than the operating authorisations held by the undertaking in its home state. [Swiss and Faroese credit institutions may provide services as referred to in this Article, provided the same requirements are made of them as of credit institutions established in a Member State of the European Economic Area and a co- operation agreement has been concluded between the [Central Bank of Iceland][2] and the competent Swiss or Faroese authorities.][3]

[1]Act no.38/2022, Art.41. [2]Act no.91/2019, Art.38. [3]Act no.108/2006, Art.77.

[Article 32(a)

Services or establishment of a branch of a financial institution in the EEA.

A foreign financial institution, which is a subsidiary of a credit institution or a joint subsidiary of two or more credit institutions and is established in another Member State of the European Economic Area, and a subsidiary of such a financial institution can establish a branch in Iceland or provide services in Iceland without establishing a branch, provided the undertaking is authorised to do so in its home state. Swiss and Faroese financial institutions and their subsidiaries may establish branches or provide services without establishing a branch as referred to in this Article , provided the same requirements are made of them as of financial institutions or their subsidiaries in a state of the European Economic Area and a co-operation agreement has been concluded between the Central Bank of Iceland and the competent Swiss or Faroese authorities.

The authorisation as provided for in the first paragraph is subject to the following conditions being met and the Financial Supervisory Authority receiving confirmation from the competent authority in the home state of the parent company or companies to that effect:

1. The financial institution is subject to the laws of another Member State and the parent company or companies are licensed as credit institutions in the same Member State.

2. The activity in question actually takes place in the territory of this same Member State.

3. The parent company or companies hold at least 90% of the voting power attached to shares in the financial institution.

4. The parent company or companies fulfil the Financial Supervisory Authority's requirements for the sound and prudent management of the financial institution and have also declared, with the approval of the competent authorities in their home state, that they bear sole responsibility for the obligations incurred by the financial institution.

5. The subsidiary is subject to supervision on a consolidated basis to which the parent company or each of the parent companies is subject in accordance with Chapter 3 of Title VII of Directive 2013/36/EU of the European Parliament and of the Council and Chapter 2 of Title II of Part 1 of Regulation (EU) no. 575/2013, particularly with regard to capital requirements as provided for in Art.92, large exposures as provided for in Part 4 and qualifying holdings outside the financial sector as provided for in Art.89 and Art.90 of the regulation.

Provisions of the Public Limited Companies Act concerning branches of foreign limited companies shall not apply to branches as referred to in the first paragraph.][1]

[1]Act no.38/2022, Art.42.

Article 33

[*Branches of credit institutions outside the EEA.*

The Financial Supervisory Authority may authorise a credit institution established in a

state outside the European Economic Area to open a branch in Iceland. The requirements for granting such authorisation is that the undertaking hold an operating licence for activities in its home state similar to those which it intends to pursue in Iceland and that these activities are subject to similar supervision in its home state.

A branch of a credit institution established in a state outside the European Economic Area must at least annually provide the Financial Supervisory Authority with information on:

1. Total assets that correspond to the activities of the branch.
2. The branch's access to liquid assets, especially in Icelandic krónur.
3. Own funds available to the branch.
4. A Deposit Guarantee Scheme available to owners of deposits at the branch.
5. Risk management of the branch.
6. Corporate governance of the branch and key personnel.
7. Recovery plan which the branch is subject to.
8. Other aspects of the branch's activities, which the Financial Supervisory Authority deems necessary to have a comprehensive supervision of.

The Financial Supervisory Authority shall inform the European Banking Authority of:

1. Licences it grants to credit institutions established in states outside the European Economic Area to open branches in Iceland and changes to previously granted licences.
2. The total assets and liabilities of branches of credit institutions established in states outside the European Economic Area in Iceland.
3. Names of third-country groups to which branches belong.][1)]

[1)]*Act no.38/2022, Art.43.*

Article 34

[*Remedies in connection with activities of foreign credit institutions*

The Financial Supervisory Authority may demand from foreign credit institutions that have branches in Iceland a report at regular intervals on their activities in Iceland for the purpose of obtaining information or statistics or for the implementation of the provisions of this Act on significant branches, in particular to assess whether a branch is significant or whether supervision complies with this Article . The Financial Supervisory Authority may require branches of foreign credit institutions licensed to provide financial services or engage in investment activities to provide any information necessary to ascertain whether the branch complies with applicable rules on investor protection and transaction transparency.

If the Financial Supervisory Authority has reason to believe, on the basis of information from the competent authorities in the home state of a foreign credit or financial institution operating in Iceland, with or without a branch, that the institution is in violation of the provisions of this or other Acts, or there is a significant risk of it doing so, the Financial Supervisory Authority shall notify the competent authorities in the home state. If the competent authority in the home state does not take adequate measures to stop the illegal conduct of the undertaking or the Financial Supervisory Authority believes that the authority will not do so, the Financial Supervisory Authority may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as applicable, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision.

Before the process as provided for in the second paragraph is completed, the Financial Supervisory Authority may take temporary measures, if there is urgent cause for so doing, in order to maintain financial stability to significantly protect the interests of depositors, investors and clients of credit institutions in Iceland. These may include suspensions of payments, as long as they do not mean that the creditors of a credit institution in Iceland enjoy better treatment than creditors in other Member States. The Financial Supervisory Authority shall repeal provisional measures when they are no longer needed or if the

authorities in the credit institution's home state decide to restructure its finances. The Financial Supervisory Authority shall inform the EFTA Surveillance Authority, the European Banking Authority and the competent authorities of the Member States concerned about provisional measures pursuant to this paragraph without undue delay.

The Financial Supervisory Authority may prohibit a foreign credit institution from pursuing activities in Iceland if the institution in question has blatantly or repeatedly violated the provisions of this Act or Articles of Association and rules adopted in accordance with them, or violated the provisions of other Acts on financial undertakings, provided the remedies provided in this Act have not succeeded in putting a stop to the above-mentioned violations.

If a foreign credit institution operating in Iceland is deprived of its operating licence, the Financial Supervisory Authority shall take appropriate measures to prevent the undertaking from conducting further business in Iceland and to protect the interests of deposit holders.

The procedure provided for in this Article shall accord with provisions of the EEA Agreement as appropriate.][1)]

[1)]Act no.38/2022, Art.44.

Article 35

Regulation.

[The Minister may adopt a Regulation[1)] regarding authorisations of foreign credit institutions to operate in Iceland and of Icelandic credit institutions to operate abroad. The Regulation shall provide for supervision of and specific requirements for the branches and agents' offices of foreign credit institutions, authorisations of [financial institutions][2)] and subsidiaries of credit institutions to pursue financial activities in Iceland and authorisations for Icelandic financial institutions to pursue financial activities abroad.][2)]

[1)]Reg. 307/1994. Reg. 308/1994, cf. no. 497/2004. Reg. no. 244/2004. Reg. no. 942/2011. Reg. no. 1030/2014. 2) Act no.38/2022, Art.45.

B. Activities of Icelandic financial undertakings abroad.

Article 36

Notification of establishment of a branch.

[[Domestic credit institutions][1)] intending to operate a branch in another state of the EEA, a Member State of the European Free Trade Association or the Faroe Islands shall notify the Financial Supervisory Authority of such intention in advance.][2)]

A notification as provided for in the first paragraph must include information as to the state in which a branch is to be established, a description of... [1)] its structure and proposed activities, together with information on the address of the branch and the names of its managers.

[If the Financial Supervisory Authority does not prohibit the establishment of the branch as provided for in the fourth paragraph, it shall send the information as referred to in the second paragraph to the competent authorities in the host state no later than three months after receiving it. Furthermore, the Financial Supervisory Authority shall send the competent authorities of the host state information on the amount and composition of the own funds of the undertaking and the capital requirements for it, as provided for in Art.92 of Regulation (EU) no. 575/2013.][1)] The undertaking in question must be notified concurrently that the above information has been sent.

The Financial Supervisory Authority may prohibit the establishment of a branch as referred to in the first paragraph if it has legitimate reason to expect that the [management or financial situation][3)] of the [credit institution][1)] concerned is not sufficiently sound. The undertaking

shall be notified of the Financial Supervisory Authority's decision as promptly as possible and no later than three months after receipt of satisfactory information as provided for in the second paragraph. [The Financial Supervisory Authority shall notify the EFTA Surveillance Authority and the European Banking Authority of such bans.][1)]

[Credit institution][1)] shall notify the Financial Supervisory Authority [and competent authorities of the state where it operates a branch in writing][1)] . . [4)] of any changes which may occur to information previously provided as referred to in the second paragraph no later than one month before the proposed changes take effect[1)] [Furthermore, the Financial Supervisory Authority shall be notified of any proposed closure of the branch within the same time limit.][3)]

[1)]Act no.38/2022 Art.46. [2)]Act no.108/2006 Art.78. [3)]Act no.75/2010, Art.22. [4)]Act no.47/2013, Art.5

[Article 36(a)

Significant branches in the EEA

The Financial Supervisory Authority shall recognise and comply with the decision of a competent authority in another Member State that a branch of an Icelandic financial undertaking in that state is considered significant.

The Financial Supervisory Authority shall:

1. Provide the competent authority of a significant branch of an Icelandic financial undertaking with information in accordance with points 4 and 5 of the first paragraph of Art.109 and cooperate with the authority in the implementation of point 3 of the first paragraph of Art.109(c).

2. Provide the competent authority with information on the results of the undertaking's risk assessment pursuant to Art.80 and, as the case may be, Art.109(d) to the extent that they concern the relevant branch.

3. Notify the competent authority of decisions made by the Financial Supervisory Authority as provided for in the third paragraph of Art.107(a) to the extent that they concern the relevant branch.

4. Consult with the competent authority about the undertaking's measures as provided for in the ninth paragraph of Art.78(h) to ensure that a contingency plan to respond to a liquidity problem can be implemented immediately when it poses a significant liquidity risk in the currency of the Member State where the branch is located.

The Financial Supervisory Authority shall establish and manage a supervisory college with competent authorities that supervise significant branches of an Icelandic financial undertaking in other Member States in order to facilitate cooperation as provided for in the second paragraph and Art. 109(v), unless Art. 109(j) applies. The Financial Supervisory Authority shall, in consultation with other competent authorities in the supervisory college, establish written criteria for its working arrangements. The Financial Supervisory Authority chairs the meetings of the supervisory colleges and invites the authorities concerned. All members of the supervisory colleges must be notified in advance of meetings with an agenda. The Financial Supervisory Authority shall, as soon as possible, inform the members of the supervisory colleges about the decisions made at meetings and what actions are taken.][1)]

[1)]Act no.38/2022, Art.47.

Article 37

Notification of services without the establishment of a branch.

A [credit institution][1)] intending to provide services pursuant to this Act in another state of

the EEA, a Member State of the European Free Trade Association or the Faroe Islands, without establishing a branch, shall notify the Financial Supervisory Authority thereof in advance.][1] [Such notification must include what state is concerned, what the proposed activities will involve, and when the [credit institution][1] intends to provide services on the basis of the Act [on Markets for Financial Instruments][3] it shall notify whether the undertaking intends to use tied agents.][4]

No later than one month after receiving a notification as provided for in the first paragraph, the Financial Supervisory Authority will forward the notification to the competent [authority][1] in the state concerned together with confirmation that the operating licence of the [credit institution][1] authorises the proposed activities.

The Financial Supervisory Authority may prohibit the activities provided for in this Article if it has legitimate reason to expect that the [management or financial situation][5] of the [credit institution][1] concerned is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible.

Any changes to aspects previously notified in accordance with this Article must be notified to the Financial Supervisory Authority... [6] no later than one month before they take effect. [The Financial Supervisory Authority shall notify the competent authorities of the state where the [credit institution][1] provides services of changes to information previously provided.][6]

[1]Act no.38/2022 Art.48. [2]Act no.108/2006 Art.79. [3]Act no.115/2021, Art.148. [4] Act no.57/2015 Art.11. [5]Act no.75/2010, Art.23. [6]Act no.47/2013, Art.6.

[Article 37(a)

Notification of establishment of a branch or services of a financial institution without the establishment of a branch.

A domestic financial institution which is a subsidiary of a credit institution or a joint subsidiary of two or more credit institutions intending to provide services pursuant to this Act in another state of the EEA, a Member State of the European Free Trade Association or the Faroe Islands, without establishing a branch, shall notify the Financial Supervisory Authority thereof in advance. The same applies to a subsidiary of such a financial institution.

Notification as provided for in the first paragraph must include information as stipulated in the second paragraph of Art.36 if a branch is to be operated, but information as stipulated in the second sentence of the first paragraph of Art.37, if it is possible to provide services without the establishment of a branch.

The Financial Supervisory Authority shall verify whether the conditions referred to in the first paragraph of Art.32(a) are satisfied and provide the financial institution or subsidiary with confirmation to that effect. If the conditions are met, the Financial Supervisory Authority shall also notify the competent authorities of the relevant state of the amount and composition of the own funds of the financial institution and the amount of the risk base of the credit institution that is the parent company of the financial institution, as the risk base is calculated, pursuant to the third and fourth paragraphs of Art.92 of Regulation (EU) no. 575/2013.

The Financial Supervisory Authority may prohibit activities as referred to in the first paragraph if it has legitimate reason to expect that the [management or financial situation][1] of the relevant financial institution or its subsidiary is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible.

Any changes to aspects previously notified in accordance with this Article must be notified to the Financial Supervisory Authority no later than one month before they take

effect. [The Financial Supervisory Authority shall notify the competent authorities of the state where the financial institution or its subsidiary provides services of changes to information previously provided.][1)]

[1)]Act no.38/2022 Art.49.

Article 38

Activities outside the EEA.

If a [credit institution][1)] intends to commence activities in a state outside of the EEA it must notify the Financial Supervisory Authority in advance thereof, providing a description of the proposed activities together with other information which the Financial Supervisory Authority regards as necessary in this connection.

The Financial Supervisory Authority may prohibit activities as referred to in the first paragraph if it has legitimate reason to expect that the [management or financial situation][1)] of the [credit institution][1)] concerned is not sufficiently sound. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible.

[1)]Act no.38/2022, Art.50. 2)Act no.75/2010, Art.24.

Article 39

Purchase of shares in a foreign financial undertaking.

[If a [credit institution][1)] intends to acquire or exercise a qualifying holding in a foreign financial undertaking, it must notify the Financial Supervisory Authority thereof in advance. The Financial Supervisory Authority may prohibit such actions [if the foreign financial undertaking is outside the European Economic Area][2)] and if it has legitimate grounds to presume that information disclosure for this activity or for the group will not be sufficiently [reliable or that supervision][3)] of it could be impeded. The undertaking shall be notified of the Financial Supervisory Authority's decision as promptly as possible. . . [1)]

[1)]Act no.38/2022, Art.51. [2)]Act no.115/2021, Art.148. [3)]Act no.75/2010, Art.25.

[Article 39(a)

Measures due to violations

If a competent authority in another member state where an Icelandic financial company or financial institution operates notifies the Financial Supervisory Authority that it has reasonable grounds to believe that the company is in breach of the provisions of laws or government directives implementing Directive 2013/36/EU of the European Parliament and of the Council or Regulation (EU) no. 575/2013, or that there is a significant risk of it doing so, the Financial Supervisory Authority shall immediately take measures to ensure that the company complies with the provisions. The Financial Supervisory Authority shall notify the competent authority of the measures.][1)]

[1)]Act no.38/2022, Art.52.

Chapter VI

Holdings and treatment of holdings

[*A. Qualifying holdings in credit institutions.*][1)]

[1)]Act no.38/2022 Art.66.

Article 40

[Notification to the Financial Supervisory Authority.

A party intending to acquire, alone or in concert with others, a qualifying holding in a credit institution must notify the Financial Supervisory Authority in advance of its plans. [The same applies if a party, alone or in concert with others, increases its qualifying holding so that its equity, guarantee capital or voting rights amount to or exceed 20%, 30% or 50%, or become so large that the credit institution can be considered its subsidiary.][1)]

A qualifying holding shall mean a direct or indirect holding in a credit institution which represents 10% or more of its equity, guarantee capital or voting rights or enables the exercise of a significant influence on the management of the credit institution concerned. When assessing whether a holding in a credit institution constitutes a qualifying holding, the voting rights shall be determined in accordance with Chapter III of Act no.20/2021 on the disclosure obligation of issuers of securities and flagging requirements, as applicable.

Share capital, guarantee capital or voting rights which a financial undertaking has due to underwriting in connection with the issuance of financial instruments and/or the tendering of financial instruments pursuant to item (f) of point 16 of the first paragraph of Art.4 of Act no.115/2021 on markets for financial instruments shall not be counted, provided these rights are not exercised or used in another way to intervene in the issuer's management and are disposed of within a year of acquisition.

Parties shall *inter alia* considered to be acting in concert if they have concluded an agreement for one or several of them to obtain a qualifying holding in a credit institution, whether this agreement is formal or informal, written or oral, or in any other form. Parties shall always be considered to be acting in concert when the following connections exist unless the opposite is demonstrated:

1. Spouses, partners in a registered partnership and children of couples or partners in a registered partnership. Parents and children are also regarded as parties acting in concert.
2. Connections between parties which directly or indirectly involve control by one party of the other, or if two or more undertakings are directly or indirectly under the control of the same party; Regard shall be had for connections between parties as referred to in points 1, 3 and 4.
3. Companies in which a party directly or indirectly owns a significant holding, i.e. a party directly or indirectly owns at least 20% of the voting rights in the company in question. A company, its parent company, subsidiaries and associates are considered to be acting in concert. Regard shall be had for connections between parties as referred to points 1, 2 and 4. Connections between a company and its board members and between a company and its managing director.][1)]

[1)]Act no.38/2022, Art.53.

[Article 40(a)[1)]][2)]

[1)]Act no.75/2010, Art.27. [2)]Act no.67/2006, Art.12.

Article 41

[Information in a notification.

Notifications to the Financial Supervisory Authority as provided for in Art.40 shall be in writing and must include the following information]:[1)]

1. the name and address of the party intending to acquire or increase a qualifying holding;
2. the name of the [credit institution][1)] which is the target of the investment;
3. the size of the holding or voting rights which is the target of the investment;
4. plans for changes in the pursuits or management of the [credit institution][1)]

5. financing of the investment;

6. the financial situation of the party intending to acquire or increase a qualifying holding;

7. the current and proposed business connections of the party intending to acquire or increase a qualifying holding in the relevant [credit institution][1].

8. the experience of the party intending to acquire or increase a qualifying holding;

9. the ownership, board membership or other participation by the party intending to acquire or increase a qualifying holding in the activities of other legal entities;

10. any punishment which the party intending to acquire or increase a qualifying holding has been sentenced to and whether the party concerned is the subject of an investigation;

11. close links of the party intending to acquire or increase a qualifying holding with other legal entities;

12. [Other elements which the Financial Supervisory Authority deems necessary and must accompany the notification according to the guidelines it has published.][1]

If the party intending to acquire or increase a qualifying holding is a legal entity the information in the first paragraph shall apply to the legal entity itself, its board members and managing director and individuals and legal entities owning qualifying holdings in the legal entity. Information shall furthermore be provided on the auditor of the legal entity.[1] The Financial Supervisory Authority may grant exemptions from submission of this information if the legal entity does not have the means of obtaining it or if the party intending to acquire or increase a qualifying holding is subject to official financial supervision in another state and similar information can be obtained from the regulatory authority of that state. The same applies if the party is subject to regulation by the Financial Supervisory Authority.

[The Financial Supervisory Authority may require that the information in accordance with this Article be supported by data.][1]][2]

[1]Act no.38/2022, Art.54. [2]Act no.75/2010, Art.28.

Article 42

[*Evaluation period.*

No later than two workings days after receiving a notification as provided for in Art.40, cf. Art.41, the Financial Supervisory Authority must confirm its receipt in writing. The confirmation must state the date by which the Financial Supervisory Authority's decision can be expected.

If the Financial Supervisory Authority is of the opinion that more detailed information needs to be obtained than that listed in the first paragraph of Art.41 from parties intending to acquire or increase a qualifying holding, it may request such information from the party in question in writing. Such a request must be made no later than 50 workings days after confirmation of the receipt of the notification.

The Financial Supervisory Authority has 60 workings days after it confirms receipt of the notification to assess whether it considers the party intending to acquire or increase a qualifying holding eligible to exercise the holding. If additional information is requested from the party concerned, cf. the second paragraph, the time awaiting information is added to the number of days provided for in the first sentence, but by no more than 30 business days, if the person who intends to acquire or increase a qualifying holding is located in a state outside the European Economic Area or is not subject to official financial supervision within the European Economic Area. The Financial Supervisory Authority may repeat its request for additional information. Such a request does not lengthen the above mentioned time limits.

Should the conclusion of the Financial Supervisory Authority not be available within the evaluation period as provided for in the third paragraph, it may be concluded that the Financial Supervisory Authority does not object to the plans of the party intending to acquire or increase a qualifying holding in the credit institution][1] in question.

[1)]*Act no.38/2022, Art.55.*

[Article 42(a)

Eligibility assessment.

The Financial Supervisory Authority shall assess whether a party intending to acquire or increase a qualifying holding is eligible to exercise the holding, having regard to the sound and prudent operation of the credit institution and its likely impact on the credit institution and whether the financing of the envisaged qualifying holding is sound. The assessment of the Financial Supervisory Authority shall be based on all of the following aspects:

1. the reputation of the party intending to acquire or increase a qualifying holding;

2. The reputation, knowledge, competence and experience of the credit institution's board members and managing directors are relevant to the proposed purchase or increase in qualifying holdings.

3. The financial soundness of the party intending to acquire or increase a qualifying holding in the financial undertaking, in particular in relation to the type of business pursued or envisaged by the credit institution;

4. whether ownership by the party intending to acquire or increase a qualifying holding could influence whether the credit institution will comply with the prudential requirements in accordance with the laws and rules applicable to its activities. The evaluation shall, *inter alia*, consider whether the position of the credit institution in the group of companies to which it will belong may, in the opinion of the Financial Supervisory Authority, hinder normal supervisory measures, the exchange of information with other competent authorities or division of responsibilities between competent authorities.

5. Whether there are grounds to suspect that the envisaged holding could be connected to money laundering or terrorist financing or increase the likelihood of conduct of this kind within the credit institution in question.

If the party intending to acquire or increase a qualifying holding is a financial undertaking or insurance company or UCITS management company licensed to operate in another Member State, or is the parent company of such a party or a natural person or legal entity controlling such a party, the Financial Supervisory Authority shall consult with the competent regulatory authorities in making its assessment. The Financial Supervisory Authority shall, on its own initiative, provide the relevant authorities with information that is necessary for their assessment and shall respond without undue delay to requests for additional information relevant to the assessment.][1)]

[1)]*Act no.38/2022, Art.56.*

[Article 42(b)

Assessment in conjunction with the holding company's application for approval.

Eligibility assessments as provided for in Art.42 are conducted in parallel with an assessment of the application of a financial holding company or mixed financial holding company for approval. As provided for in Part B of this chapter, the Financial Supervisory Authority shall consult with the supervisory body on a consolidated basis and the competent authority in the Member State where the financial holding company or the mixed financial holding company has confirmed the assessment.

The assessment period as provided for in the third paragraph of Art.42 is extended by the time it takes to process the application of a financial holding company or a mixed financial holding company for approval and by no less than 21 business days.][1)]

[1)]*Act no.38/2022, Art.56.*

Article 43.

[Notification to a party who is not considered eligible.

Should the Financial Supervisory Authority conclude that a party intending to acquire or increase a qualifying holding is ineligible to exercise the holding, the party shall be so notified. [If the Financial Supervisory Authority has requested information according to Art.42 and it is not received within the time limits specified in the provision or it is insufficient in the opinion of the Financial Supervisory Authority, the Financial Supervisory Authority can make a decision on the basis of the available information.][1)] The Financial Supervisory Authority shall provide reasoning for its conclusion to the party in question.

The Financial Supervisory Authority's conclusion as referred to in the first paragraph shall be in writing and notified to the party intending to acquire or increase a qualifying holding no later than two business days after the conclusion was reached [and within the evaluation period as provided for in the third paragraph of Art.42.][2)] [In the conclusion, the points of view and reservations expressed by the competent authority of the party who intends to acquire or increase qualifying holdings must be reported during consultations as provided for in the second paragraph of Art. 42(a)][2)]][3)]

[1)]Act no.*57/2015, Art.14.* [2)]Act no.*38/2022 Art.57.* [3)]Act no.*75/2010, Art.30.*

Article 44

[*Delay. Renewal of notification.*

[The Financial Supervisory Authority can set a deadline for the acquisition or increase of a qualifying holding, which it can extend.][1)] If a party intending to acquire or increase a qualifying holding has not undertaken the investments notified to the Financial Supervisory Authority within the [time limit][1)], such party shall notify the Authority once more of its proposed investment. The provisions of Art. 40-43 shall then apply to that notification and the response of the Financial Supervisory Authority.][2)]

[1)]Act no.38/2022, Art.58. [2)]Act no.*75/2010, Art.31.*

Article 45

[Notification not sent.

If a party intending to acquire or increase a qualifying holding fails to notify the Financial Supervisory Authority of its proposed acquisition or increase of a qualifying holding, despite the requirement to do so pursuant to Art.40, the voting rights attached to the shares exceeding the [permitted threshold][1)] shall be invalid. The Financial Supervisory Authority shall notify the [credit institution][1)] concerned of the cancellation of voting rights if [it][2)] receives knowledge of the acquisition or increase. The Financial Supervisory Authority shall require the party concerned to submit a notification in accordance with the provisions of Art.41.

In other respects, the procedure is governed by Art. 41-43. If the Financial Supervisory Authority does not object to the acquisition or increase in a qualifying holding by the party in question, the party shall acquire voting rights in proportion to its holding. If notification from the party in question [and information pursuant to Art.41][1)] is not received within four weeks from the time that the Financial Supervisory Authority requested notification, the Authority may require such party to sell that part of its holding which exceeds the [permitted threshold][1)]. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months.] [3)]

[1)]Act no.38/2022, Art.59. *[2)]Act no.91/2019, Art.35.* *[3)]Act no.75/2010, Art.32.*

Article 46

[Ineligible party acquires a holding.

[If a party acquires or increases a qualifying holding despite the conclusion of the Financial Supervisory Authority that it was not eligible to acquire or increase its holding, the voting

rights of the party in excess of the [permitted threshold][1] shall be cancelled. The Financial Supervisory Authority shall notify the credit institution concerned of the cancellation of voting rights if it receives knowledge of the acquisition or increase. The party in question is required to sell that part of its holding which exceeds the permitted threshold. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months.][1]][2]

[1]Act no.38/2022 Art.60. [2] Act no.75/2010 Art.33.

[Article 46(a)[1]]][2]

[1]Act no.57/2015, Art.15. [2] Act no.*75/2010, Art.34.*

Article 47

[Notification by an owner of change in ownership.

Should the owner of a qualifying holding intend to reduce its share capital or guarantee capital holding or voting rights so that the owner will no longer own a qualifying holding, the owner shall notify the Financial Supervisory Authority [in writing][1] in advance, indicating what its holding [or voting rights][1] will be. If the holding [or voting rights][1] fall below 20%,[2] 30%[1] or 50% or to such an extent that the [credit institution][1] ceases to be a [subsidiary][2] of the undertaking concerned this must also be notified.

The same shall apply if a proportional holding or voting rights decrease due to an increase in share capital or guarantee capital.][3]

[1]Act no.38/2022 Art.61. [2]Act no.57/2015, Art.16. [3]Act no.75/2010, Art.35.

Article 48

[[Notification by a credit institution of a change in ownership.][1]

When share capital or guarantee capital [or voting rights][1] in a [credit institution][1] exceed or fall below the threshold [stated in Art.40, [its][1] board of directors shall notify the Financial Supervisory Authority thereof without undue delay.

No less than once a year, [a credit institution that has been admitted to trading on a regulated market][1] shall notify the Financial Supervisory Authority of the shareholders who have a qualifying holding in [it][1] and of the share capital of each of them. The same applies to guarantee capital holders.][2]

[1]Act no.38/2022 Art.62. [2] Act no.75/2010, Art.36.

Article 49

[*Disclosure obligations and ongoing evaluation of the eligibility of owners of qualifying holdings.*][1]

The Financial Supervisory Authority may request documentation and information of any kind from natural or legal persons owning or exercising holdings in a [credit institution][2] in order to evaluate whether they are subject to disclosure obligations [as provided for in Art.40 or][1] whether they are eligible to exercise a qualifying holding as provided for in this Chapter.

The Financial Supervisory Authority may require the same information from natural or legal persons who have sold a holding or intermediated in transactions with holdings. Provisions of law concerning confidentiality do not restrict the obligation to provide information and access to data.

[If a natural person or legal entity is deemed no longer eligible to exercise a qualifying holding or they treat their holding in a manner that is likely to damage the sound and prudent operation of the credit institution, a suitable time limit may be granted to rectify the

situation, if this is possible in the estimation of the Financial Supervisory Authority. If improvements are not made or if the deadline granted by the Financial Supervisory Authority in accordance with the first sentence expires, the Financial Supervisory Authority shall notify the entity and the relevant credit institution of the termination of the entity's voting rights in excess of the minimum holding constituting a qualifying holding. The party in question is also required to sell that part of its holding which exceeds the threshold. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months.][2)]3)

1)Act no.57/2015 Art.17. 2)Act no.38/2022 Art.63. 3)Act no.75/2010, Art.37.

[Article 49(a)

Beneficial owner.

If there is any doubt, in the opinion of the Financial Supervisory Authority, as to who is or will be the beneficial owner of a qualifying holding, the Authority shall notify the party who sent notification as provided for in Art.40, or the financial undertaking itself if the former cannot be reached, that the Authority does not consider the party in question eligible to exercise the holding.][1)]

1)Act no.75/2010, Art.38.

[*B. Approval of holding company.*][1)]

1)Act no.38/2022 Art.64.

[Article 49(b)

Obligation to apply for approval.

Parent financial holding companies in a Member State, mixed parent financial holding companies in a Member State, parent financial holding companies in the European Economic Area and mixed parent financial holding companies in the European Economic Area shall apply for approval in accordance with Part VI of this chapter. Other financial holding companies and mixed financial holding companies must apply for approval if they are required to comply with this Act on a sub-consolidated basis.

However, a financial holding company or a mixed financial holding company does not need approval if:

1. Its main activity, or its main activity in relation to financial companies or financial institutions in the case of a mixed financial holding company, consists of acquiring holdings in subsidiaries.

2. It has not been designated as a resolution unit in any winding-up proceedings of a group in accordance with the resolution policy determined by the Resolution Authority in accordance with the Act on Resolution of Credit Institutions and Investment Firms.

3. A credit institution that is its subsidiary is designated as responsible for ensuring that the group complies with prudential requirements on a consolidated basis and receives all the necessary resources and authorisations by law to perform these duties efficiently.

4. It does not participate in management, operations or financial decisions that affect the group or its subsidiaries that are financial companies or financial institutions.

5. There are no obstacles to effective supervision of the group on a consolidated basis.][1)]

1)Act no.38/2022 Art.64.

[Article 49(c)

Application.

An application for approval must be addressed to the Financial Supervisory Authority if it is a supervisory body on a consolidated basis or if the applicant is established in Iceland. The application must also be addressed to a supervisory body on a consolidated basis or to a competent authority in the Member State where the applicant is established, if it is a different authority than the Financial Supervisory Authority.

The application must be accompanied by information on the following:

1. The structure of the group of which the financial holding company or the mixed financial holding company is a part, its subsidiaries and, as the case may be, parent companies, and the location and type of activity, which each unit within the group carries out.

2. Designation of at least two individuals who in practice manage the financial holding company or the mixed financial holding company and compliance with the eligibility requirements for board members and managing directors.

3. Compliance with eligibility requirements for the owners of qualifying holdings if the financial holding company or the mixed financial holding company has a subsidiary that is a credit institution.

4. Internal organisation and division of responsibilities within the group.

5. Other elements that may be required for the assessment as provided for in the second paragraph of Art.49(b) and Art.49(d).][1)]

[1)]*Act no.38/2022 Art.64.*

[Article 49(d)

Conditions for approval.

Approval may only be granted to a financial holding company or a mixed financial holding company if all of the following conditions are met:

1. The internal arrangement and division of tasks within the group is sufficient to meet the requirements of this Act on a consolidated or sub-consolidated basis and contributes in particular to:

   a. coordinate the activities of all subsidiaries of the financial holding company or mixed financial holding company, including, if necessary, an adequate division of tasks between the subsidiaries that are financial undertakings,

   b. prevent or manage conflicts within the group,

   c. implement throughout the group a group policy which the parent financial holding company or the mixed parent financial holding company has approved.

2. The structure of the group, which the financial holding company or the mixed financial holding company forms part of, does not hinder the effective supervision of financial undertakings that are subsidiaries or parent companies with regard to their obligations on a unit, group and, when applicable, sub-group basis. When evaluating it, the following must be taken into account:

   a. the position of the financial holding company or of the mixed financial holding company in a multi-layered group,

   b. structure of ownership,

   c. the function of the financial holding company or of the mixed financial holding company within the multi-layered group,

The eligibility requirements for the owners of qualifying holdings, as well as board members and managing directors are complied with.][1)]

[1)]*Act no.38/2022 Art.64.*

[Article 49(e)

Consultation with supervisory bodies.

The Financial Supervisory Authority shall operate in close consultation with the supervisory body on a consolidated basis or the competent authority in the Member State where a financial holding company or a mixed financial holding company has been established when assessing whether the company should apply for approval, whether the conditions for approval are met, and what measures need to be taken if they are not. The supervisory body on a consolidated basis shall send its assessment to the competent authority and the authorities shall make every effort to reach a joint conclusion within two months of its receipt. In the case of a mixed financial holding company, the decision must also be taken with the supervisory authority of the financial group, cf. Art.25 of Act no.61/2017 on Additional Supervision of Financial Conglomerates.

If a joint conclusion is not reached, the Financial Supervisory Authority shall wait to make a decision and refer the matter to the European Banking Supervisory Authority, the European Insurance and Occupational Pensions Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision. The Financial Supervisory Authority shall make a joint decision with the authority in accordance with the decision of the EFTA Surveillance Authority. The Financial Supervisory Authority shall not refer the case to the European Banking Authority, the European Insurance and Occupational Pensions Authority or the EFTA Surveillance Authority after the end of the two-month period or after a joint decision has been reached.][1)]

[1)]Act no.38/2022 Art.64.

[Article 49(f)

Processing of applications.

If it is a supervisory body on a consolidated basis, the Financial Supervisory Authority shall notify the applicant of whether the application for approval is accepted within four months from the receipt of a satisfactory application, but no later than six months from the receipt of the application. The decision shall be documented and justified.][1)]

[1)]Act no.38/2022 Art.64.

[Article 49(g)

Measures if approval is not obtained.

The Financial Supervisory Authority shall ensure that a financial holding company or a mixed financial holding company that falls under its supervision on a consolidated basis always fulfils the conditions for approval, as provided for in Art.49(d) or is exempted from the obligation to obtain approval pursuant to the second paragraph of Art.49(b).

The undertaking must provide the Financial Supervisory Authority with the necessary information to monitor the structure of the group and ensure that the conditions of Art.49(d) or, if applicable, the second paragraph of Art.49(b) are always fulfilled. The Financial Supervisory Authority shall share information with the competent authority in the Member State where the undertaking is established, if it is a different authority to the Financial Supervisory Authority.

If the conditions of Art.49(d) are not met, and the second paragraph of Art.49(b) does not apply, the Financial Supervisory Authority shall take appropriate measures towards the financial holding company or the mixed financial holding company to ensure or restore effective consolidated supervision and ensure compliance with the requirements of this Act

on a consolidated basis. In the case of a mixed financial holding company, the supervisory measures shall in particular take into account the impact on the financial group.

Supervisory measures as provided for in the second paragraph may include:

1. To temporarily revoke the voting rights attached to the financial holding company or mixed financial holding company in a financial undertaking that is its subsidiary.
2. Demand to take remedial action
3. A demand that the financial holding company or mixed financial holding company transfer its holding in a financial undertaking that is its subsidiary to its shareholders.
4. To temporarily entrust another financial holding company, mixed financial holding company or financial undertaking within the group to be responsible for compliance with the requirements of this Act on a consolidated basis.
5. Restrictions or bans on payouts or interest payments to shareholders.
6. A demand that the financial holding company or mixed financial holding company sell or reduce its holdings in financial undertakings or other entities on the financial market.
7. A demand that the financial holding company or mixed financial holding company submit a plan on how it will immediately comply with the new requirements of this Act.][1)]

[1)]Act no.38/2022 Art.64.

[*C. Intermediate parent undertaking within the EEA.*][1)]

[1)]Act no.*38/2022 Art.65. Part C (Art.49(h) - Art.49(k)) enters into force on 30 Dec. 2023 regarding financial undertakings that met the conditions of Art.65(a) on 27 June 2019, cf. Art.215 of the same Act.*

[Article 49(h)

Obligation to have an intermediate parent undertaking within the EEA.

Two or more financial undertakings in the European Economic Area, which belong to the same third-country group, must have a common intermediate parent undertaking established in the European Economic Area.

The obligation as provided for in the first paragraph does not apply if the total value of the assets of the third-country group in the European Economic Area is less than the equivalent of EUR 40 billion. The total value shall be calculated as the sum of:

1. The total value of the assets of each financial undertaking within the third-country group in the European Economic Area, according to the consolidated balance sheet, or the balance sheet of each undertaking if there is no consolidated balance sheet.
2. The total value of the assets of each branch of the third-country group authorised to operate in the European Economic Area on the basis of Directive 2013/36/EU of the European Parliament and of the Council or Regulation (EU) 2014/65 or Regulation (EU) no.600/ 2014.][1)]

[1)]Act no.38/2022 Art.65.

[Article 49(i)

Two intermediate parent undertakings within the EEA.

The Financial Supervisory Authority may authorise financial undertakings as provided for in the first paragraph of Art.49(h) to have two intermediate parent undertakings in the European Economic Area if the establishment of one intermediate parent undertaking:

a. does not comply with the rules or requirements of a regulator in a country outside the European Economic Area where the ultimate parent company of the third-country group has its head office for the separation of activities or

b. made its resolvability less effective than if there were two intermediate parent undertakings in the opinion of the competent resolution authority of the intermediate parent undertaking in the European Economic Area.][1)]

[1)]*Act no.38/2022 Art.65.*

[Article 49(j)

Form of an intermediate parent undertaking within the EEA.

An intermediate parent undertaking in the European Economic Area must have a licence to operate as a credit institution or approval as a financial holding company or mixed financial holding company.

If none of the financial undertakings as provided for in the first paragraph of Art.49(h) is a credit institution, or if another intermediate parent undertaking must be established in the European Economic Area in connection with investment activities in order to comply with the rules or requirements for the separation of activities pursuant to point (a) of Art.49(i), the intermediate parent undertaking or one of them may, however, be licensed as an investment firm.][1)]

[1)]*Act no.38/2022 Art.65.*

[Article 49(k)

Information disclosure to the European Banking Authority.

The Financial Supervisory Authority shall notify the European Banking Authority of:

1. Names of regulated financial undertakings that belong to a third-country group operating in Iceland and the total value of their assets.
2. Names of branches licensed to operate in Iceland on the basis of this Act or the Act on Markets for Financial Instruments that belong to a third-country group operating in Iceland and the total value of their assets.
3. The name and form of intermediate parent undertakings in the European Economic Area that are established in Iceland and the names of the third-country group to which they belong.][1)]

[1)]*Act no.38/2022 Art.65.*

Chapter VII

[*Board of directors, corporate governance and employees.*][1)]

[1)]*Act no.57/2015, Art.26.*

[*A. General provisions.*][1)]

[1)]*Act no.38/2022 Art.68.*

Article 50

General provisions.

[A financial undertaking must have sound corporate governance arrangements, which include a clear managerial structure with a well-defined, transparent and consistent division of responsibilities, effective processes for verifying, managing, monitoring and reporting the risk factors it faces or may face and an adequate internal control system, including sound management and accounting arrangements, and a remuneration policy that are implemented in a manner that is consistent with and contributes to reliable and efficient risk management.

The arrangements, processes and systems as provided for in the first paragraph must be comprehensive and proportionate to the nature, scope and complexity of the risks in the

undertaking's business model and operations.][1)]

Unless otherwise provided for in this Act, the provisions of the Act on Public Limited Companies shall apply to the board of directors of a financial undertaking. [However, the second paragraph of Art.101 of Act no.2/1995 on Public Limited Companies does not apply to financial undertakings.][1)]

[1)]Act no.38/2022 Art.67.

[*B. Composition, eligibility requirements and duties of the board of directors and managing director.*][1)]

[1)]Act no.38/2022 Art.80.

Article 51

Number of board members.

[The board of directors of a credit institution must consist of at least five members. The board of directors of an investment firm must consist of at least three members.][1)]

[Alternates shall be appointed to the board of directors of the financial undertaking. There must be at least two alternates for the board of directors of a financial undertaking.][2)]

[1)]Act no.38/2022 Art.69. [2)]Act no.47/2013, Art.7.

Article 52

Eligibility requirements of the board of directors and managing director.

[Board members shall be residents in a Member State or members of the Organisation for Economic Co-operation and Development (OECD).

The managing director shall be a resident in a Member State. The Financial Supervisory Authority may grant an exemption from the residence requirements.

[Financial undertakings, financial holding companies and mixed financial holding companies must always ensure that its board members and managing director:

1. Are statutable.
2. Are financially independent and have not been declared bankrupt in the last five years.
3. Have a good reputation and have not been sentenced in connection with business operations during the past ten years for any criminal action under the Penal Code, the Competition Act, Acts on Public Limited Companies and Private Limited Companies, the Accounting Act, the Act on Annual Financial Statements, the Act on Bankruptcy etc., Act on Withholding Public Levies at Source, and Act on Foreign Exchange as well as special legislation applicable to parties subject to official supervision of financial activities.
4. Possess sufficient knowledge, skills and experience to perform their duties.][1)]

. . . [Board members and managing directors shall have diverse experience and must devote sufficient time to their work in the interest of the financial undertaking.][2)]

The board and managing director of a financial undertaking must collectively possesses sufficient knowledge, skills and experience to understand the activities which the relevant financial undertaking carries out, including the main risk factors. A financial undertaking must establish a policy on how it intends to recruit individuals with diverse experience as board members and managing directors. The Financial Supervisory Authority shall collect information on such policies and their implementation and send them to the European Banking Authority.][1)]

[The Central Bank of Iceland sets detailed rules[3)] on the eligibility requirements for board members and managing directors, including what constitutes adequate knowledge, skills and experience, a good reputation and financial independence, and on how the eligibility

assessment should be carried out.][4)]... [1)]

A financial undertaking must devote adequate funds and human resources to introducing the financial undertaking's activities to board members [and managing directors][1)] and ensure that [they][1)] receive appropriate training for their [jobs].[1)]

A financial undertaking must notify the Financial Supervisory Authority of the composition of and subsequent changes in its board of directors and managing director; such notifications must be accompanied by adequate information to enable an assessment as to whether the requirements of this Article and Art.52(a) are satisfied.

Managing directors and board members must at all times meet the eligibility requirements of this Article and Art.52(a) and the rules established in accordance with the fifth paragraph. The Financial Supervisory Authority may at any time subject the eligibility of managing directors and board members to a special examination [and dismiss managing directors or board members if they do not fulfil the eligibility requirements. The Financial Supervisory Authority shall verify whether eligibility requirements are met when it has a well-founded suspicion of money laundering or terrorist financing or considers there is a risk of this occurring in connection with a financial undertaking].[1)][5)]

[1)]Act no.38/2022 Art.70. [2)]Act no.8/2019, Art.1. [3)] Reg. 150/2017. [4)]Act no.82/ 2021, Art.64 [5)]Act no.57/2015, Art.18.

[Article 52(a)

Other duties of board members.

. . . [1)] Board members of a financial undertaking may neither serve as board members of another regulated entity or entity closely related to the latter, nor may they be employees or auditors of another regulated entity or entity closely related to it. Board members of a financial undertaking may only undertake such legal work for another financial undertaking if it does not create a risk of conflicts of interest between the two companies or on the financial market. If a board member intends to undertake legal work for another financial undertaking, he/she must obtain the written consent of the board of directors of the financial undertaking where he/she is a board member to undertake the said work, notify the Financial Supervisory Authority of the work he/she intends to undertake and disclose to the Financial Supervisory Authority the nature and scope of the work. A board member bears the onus of proof to demonstrate that legal work which he/she undertakes for another financial undertaking does not violate these provisions. The Financial Supervisory Authority may demand any sort of documentation and information from a board member in order to assess whether there has been a violation of this provision.

Notwithstanding the provisions of the first paragraph, a director or employee of a financial undertaking may take a seat on the board of another financial undertaking, insurance company or financial conglomerate or with parties closely connected to the aforementioned parties, if the undertaking concerned is partly or fully owned by the financial undertaking or a company which is partly or fully owned by a company controlling the financial undertaking. The same shall apply to an attorney of the parent company.

Serving as board member as referred to in the second paragraph, shall be subject to the conditions that it does not, in the estimation of the Financial Supervisory Authority, create a risk of conflicts of interest on the financial market. In this context, consideration shall be given, among other things, to the holdings of the parties and the links of the company in question with other parties in the financial market, and whether the links could harm the sound and prudent operation of the financial undertaking.

[Board members of a financial undertaking may not be employees of the undertaking.][2)]][3)]

[1)]Act no.8/2019, Art.2. [2)]Act no.38/2022 Art.71. [3)]Act no.57/2015, Art.19.

[[Article 52(b)][1)]

The board of directors of a financial undertaking shall convene its Annual General Meeting.

The financial undertaking's board of directors shall convene the AGM as provided for by law, its Articles of Association or decision of its AGM. If the board of directors does not convene a meeting in accordance with the first sentence, the Financial Supervisory Authority shall convene the meeting at the request of a board member, managing director, auditor or party entitled to vote at the AGM. The Financial Supervisory Authority shall appoint a chairman for the meeting in such circumstances, and the board of directors shall provide the chairman with a list of parties with voting rights, the minutes of AGMs, and the auditors' records. The undertaking shall pay the cost of the AGM.]2)

1) *Act no.57/2015, Art.19.* 2) *Act no.75/2010, Art.40.*

[[Article 52(c)][1)]

[*Notice of consolidation.*]2)

The board of directors of a parent company shall notify the Financial Supervisory Authority when a group of companies is formed or a financial undertaking gains control of another company. Substantial changes in the organisation of a group of companies shall also be notified when they take effect.]3)

1) *Act no.57/2015, Art.19.* 2) *Act no.38/2022 Art.72.* 3) *Act no.75/2010, Art.40.*

[[Article 52(d)1)

[*Notice of continuation of operations.*]2)

The board of directors and the managing director must immediately notify the Financial Supervisory Authority if they become aware of issues that have a decisive impact on the continued operation of the undertaking.]3)

1) *Act no.57/2015, Art.19.* 2) *Act no.38/2022 Art.73.* 3) *Act no.75/2010, Art.40.*

[Article 52(e)

Notification of a breach of prudential requirements and that a company is failing.

The board of directors or managing director must notify the Financial Supervisory Authority without delay if a financial undertaking does not meet the prudential requirements stipulated in this Act and government directives based on it. The board or managing director must notify the Financial Supervisory Authority without delay if it is likely that a financial undertaking will not, in the next twelve months, fulfil the prudential requirements stipulated in this Act and government directives. The board of a financial undertaking must inform the Financial Supervisory Authority of the measures it intends to take to bring its operations within the lawful limits. The board of a credit institution, investment firm, financial institution or holding company that fall within the scope of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms shall immediately notify the Financial Supervisory Authority if there is a possibility that the company is considered to be failing within the meaning of that Act.

If a notification is received according to the first sentence of the first paragraph, the Financial Supervisory Authority may grant a financial undertaking a grace period of up to six months to bring its operations within the lawful limits. If there are cogent reasons for so doing, the Financial Supervisory Authority may extend this period by up to an additional six months.

If a notification is received in accordance with the first and second sentences of the first paragraph, the Financial Supervisory Authority may demand that the board of a financial undertaking submit a report and other data on remedies and measures on the basis of the first

paragraph. The report and data must be submitted to the Financial Supervisory Authority within a time limit determined by the Financial Supervisory Authority.

This provision in no way limits the Financial Supervisory Authority's other powers under this Act, including those laid down in Art.9, Art. 107(a) – 107(e) and Chapter XII.

If the Financial Supervisory Authority receives a notification pursuant to the fourth sentence of the first paragraph, it must inform the resolution authority of the notification and actions as provided for in Art.82(c) and Art. 107(a) – 107(e) if it has resorted to them or intends to resort to them.][1)]

[1)]Act no.38/2022 Art.74.

[[Article 52(f)][1)]

Restrictions on other functions of the managing director and board member.

Board members and managing directors of a systemically significant financial undertaking in Iceland or internationally are not permitted to take on duties in the management units of other undertakings if it undermines their ability to perform their duties for the financial undertaking in a satisfactory manner. The total number of undertakings, including the financial undertaking, shall be within the following limits:

a. four undertakings, if it is only board membership or

b. two undertakings where the person is a member of the board and one where the person is a managing director.

[Board and executive positions at two or more undertakings are only considered to be participation in one company, as provided for in the second sentence of the first paragraph if the undertakings belong to the same group or the same institutional protection scheme as provided for in the seventh paragraph of Art.113 of Regulation (EU) no. 575/2013 or if the financial undertaking has a qualifying holding in both or all undertakings.][1)]

Restrictions as provided for in the first paragraph neither apply to the management units of undertakings that are not in principle run for commercial purposes, nor to a person who is placed in the position of managing director or board member of the financial undertaking on behalf of the state. . . [1)]

The managing director of a systemically significant financial undertaking in Iceland or internationally is not permitted to take on duties in the management units of other undertakings without the approval of the board of directors. . . .

Taking into account the scope and nature of the duties performed by a managing director or board member or under special circumstances, the Financial Supervisory Authority may grant an exemption from the first paragraph and authorise membership of an additional board. The Financial Supervisory Authority shall regularly inform the European Banking Authority of such an exemption.][1)][2)]

[1)]Act no.38/2022 Art.75. [2)]Act no.8/2019, Art.3.

Article 53

[*Nomination Committee.*

A systemically significant financial undertaking must operate a nomination committee.

A shareholders' meeting shall appoint a nomination committee or decide on how it shall be appointed. At least every third member of the nomination committee must be a member of the board of directors of the relevant financial undertaking, and never less than one.

The nomination committee shall:

1. Nominate individuals for board seats before the shareholders' meeting.
2. Evaluate, at least annually, the structure, size, composition and performance of the

board and managing director and make recommendations for improvements to the board when appropriate.

3. Evaluate, at least annually, and provide the board with a report on the knowledge, skills and experience of individual board members and the board as a whole and the managing director.

4. Evaluate, at least annually, the undertaking's policy for appointing managing directors and board members and executives who report directly to the managing director and make recommendations for improvements to the board when appropriate.

When selecting nominees in accordance with point 1 of the third paragraph, the nomination committee shall examine:

1. Eligibility requirements for board members.

2. Whether the board members have diverse knowledge and experience.

3. Gender balance.

When making nominations in accordance with point 1 of the third paragraph and performing their other duties, the nomination committee shall strive to prevent one person or a small group of persons from dominating the board's decision-making at the expense of the undertaking as a whole.

The nomination committee shall have access to funds, external advice and other resources it needs to perform its duties.

This Article does not apply if the nominations of all board members fall under the provisions of Art.7 of Act no.88/2009 on Icelandic State Financial Investments.][1)]

[1)]*Act no.38/2022 Art.76. The Article enters into force on 1 July 2023 for financial undertakings, managing entities and management companies that had already held an annual general meeting for the current financial year on 1 July 2022, cf. Art.215 of the same Act.*

Article 54

[Execution of the board's tasks, its responsibilities and the division of responsibility between the board of directors and managing director.

The board of directors of a financial undertaking is responsible for the company's activities and strategic planning, as well as its risk policy and for ensuring that an active system of internal controls is in place, pursuant to this Act and rules set in pursuance thereof. The board of directors is responsible for ensuring that adequate control is exercised over accounting and that the management of the undertaking's funds is in accordance with the laws and regulations that apply to its activities. The board of directors is also responsible for ensuring that corporate governance and internal organisation promote the efficient and prudent management of the undertaking, and that the separation of duties prevents conflicts of interest. [The board shall at least annually reassess the undertaking's corporate governance and address any deficiencies that become apparent.][1)]

[Board members and managing directors must act with honesty, integrity and professionalism. Board members shall think independently in order to be able to effectively assess, criticise and supervise the decision-making of managing directors, and managing directors to assess the decision-making of executives who report directly to them.][1)]

The Article of Association of a financial undertaking must stipulate the division of responsibilities between the board of directors and the managing director. The board of directors must effectively ensure that the [company's managing director][1)] works *inter alia* in accordance with laws and regulations.

The board shall adopt its own rules of procedure, prescribing the implementation of its tasks in detail. These rules shall discuss in particular the authorisation of the board to take decisions on individual transactions, the implementation of rules on special eligibility of directors,

handling of information on individual clients by the board, membership of directors on the boards of subsidiaries and affiliated companies, and the implementation of rules on the handling of business dealings with board members. The board of a financial undertaking must send a copy of the rules to the Financial Supervisory Authority within 14 days of their adoption or amendment.

The chairperson of the board of directors of a financial undertaking may not undertake other duties for the company than those which constitute a normal part of his/her work as chairperson, with the exception of individual tasks assigned to him/her by the board.

[The board shall supervise the disclosure and communications of the undertaking.][1)]

Financial undertakings are required to observe recognised guidelines on corporate governance. [To that end, the financial undertaking shall, among other things, publish an annual corporate governance statement in a separate section of the annual accounts or annual report and describe its corporate governance and remuneration policy on the company's website and how *inter alia* it implements the provisions of this chapter and also publish its corporate governance statement there.][1)] It must be stated on the financial undertaking's website or in the annual accounts how the financial undertaking fulfils its corporate governance requirements according to this Act.

[The Central Bank of Iceland][2)] may adopt rules on the corporate governance of financial undertakings.][3)][4)]

[1)]Act no.38/2022, Art.77. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.26. [4)]Act no.57/2015, Art.20.

[Article 54(a)

The board's role in risk management.

The board of directors of a financial undertaking must approve the risk policy, risk appetite and implementation of risk management, cf. Art.77(a) and Art.77(b)[1)] and ensure that internal risk management procedures are reviewed at least once a year.

Such procedures include, among other things, procedures related to risk taking and limiting the risks that have, or may have, an effect on an undertaking's operations.

The board of a financial undertaking must spend a reasonable amount of time discussing the main risk factors in the undertaking's operations. The board must ensure that sufficient funds and time are spent on active risk management and risk assessment so that there is an overview of the main risk factors within the company. The board of directors shall also, as the case may be, supervise the evaluation of the company's assets, the use of internal models and the use of ratings from credit rating agencies.][2)]

[1)]Act no.38/2022 Art.78. [2)]Act no.57/2015, Art.21.

Article 55

Participation of board members in handling issues.

The board of directors of a financial undertaking may not involve itself in decisions on individual transactions, unless their scope is substantial in relation to the size of the undertaking. Individual board members of a financial undertaking may not be involved in decisions regarding specific transactions.

Board members of a financial undertaking may not be involved in the handling of an issue if it concerns:

1. dealings with themselves or undertakings where they are board members, hold leading positions or in other respects have substantial interests at stake, or
2. dealings with competitors of the parties referred to in point 1.

The same shall apply to dealings with parties personally or financially connected to board

members.

Commercial dealings of board members and of undertakings where they hold responsible positions must be placed before the board of the financial undertaking or the chairman of a company's Board, for approval or refusal.

The board of directors of a financial undertaking may, however, adopt general rules on the handling of such cases, prescribing in advance what business proposals require, or do not require, special discussion by the board before they can be dealt with, cf. Art.54.

Article 56

Involvement of employees in business operations.

The managing director of a financial undertaking may not sit on the board of directors of a commercial undertaking or participate in business operations in other respects. [The board of directors may grant authorisation for such on the basis of rules set by the Financial Supervisory Authority and send a copy to the FSA.][1)] A holding in an undertaking is deemed to be a participant in business operations, except in the case of an insubstantial holding, which confers no direct influence on the management of the undertaking. Rules adopted in accordance with the provisions of Art.54 shall apply to the board membership of managing directors in a financial undertaking's [subsidiaries][1)] or affiliated companies, and on the authorisation of other personnel to participate in business operations.

[1)]Act no.57/2015, Art.22.

Article 57

[Dealings of members and employees with financial undertakings.][1)]

[[A financial undertaking must set rules for its business with [board members][1)] managing directors and key employees and send a copy of the rules to the Financial Supervisory Authority within 14 days of them being confirmed by the board.][2)] An agreement by a financial undertaking concerning loans, guarantees, options or similar dealings with [board members or][1)] managing directors shall be subject to the approval of its board of directors. Any decision on such must be recorded in the minutes and notified to the Financial Supervisory Authority. [The provisions of this Article also apply to spouses, children and parents of a board member or managing director of a financial undertaking and a company in which a board member, managing director or spouse, child or parent has a qualifying holding, holds the position of board member, managing director or an executive who reports directly to the managing director or can for other reasons have a significant impact on.].[1)]

[Business dealings between a financial undertaking and its employees shall be subject to rules adopted by the board of directors of the financial undertaking, which shall be publicly disclosed.][2)] Such dealings should... [2)] be subject to the same rules as transactions with regular customers in similar dealings.][3)]

[1)]Act no.38/2022 Art.79. 2) Act no.57/2015, Art.23. 3) Act no.75/2010, Art.42.

[*C. Remuneration.*]

[1)]Act no.38/2022 Art.83.

[Article 57(a)

Remuneration policy.

A financial undertaking shall establish a remuneration policy.

A financial undertaking's remuneration policy and its implementation must ensure, to the extent that is appropriate, taking into account the size, structure, nature and complexity of the undertaking's operations, that:

1. The remuneration of board members and employees:

a. complies with and promotes sound and efficient risk management and does not encourage risk appetite beyond the undertaking's risk appetite,

b. aligns with the business plan, goals, values and long-term interests of the undertaking and includes measures to avoid conflicts of interest.

2. Board members and employees shall be paid the same salary for the same or equivalent tasks, regardless of gender.

3. The remuneration of board members and the employees who supervise them take into account their own field of work and not the results of the business units they supervise.

The remuneration policy shall distinguish between:

1. Fixed salary, which shall primarily reflect relevant work experience and responsibility according to the job description.

2. Bonuses, which must reflect sustainable and risk-weighted results and results exceeding the requirements for the employee according to the job description.

The board of a financial undertaking must regularly assess whether the remuneration policy complies with this Article and supervise its implementation. At least annually, an independent centralised internal assessment shall be carried out as to whether the remuneration complies with the remuneration policy and procedures and other criteria approved by the board regarding remuneration.][1)]

[1)] *Act no.38/2022 Art.81.*

[Article 57(b)

Bonuses.

A financial undertaking shall ensure, to the extent that is appropriate, taking into account the size, structure, nature and complexity of the undertaking's operations, that bonuses to employees:

1. Take into account the performance of the relevant employee, both financial and non-financial, and the unit to which he belongs and the undertaking as a whole.

2. Take into account a sufficient number of years to reflect long-term results and that their payment is spread over a period that takes into account fluctuations in the undertaking's performance and risk.

3. Do not limit the undertaking's ability to strengthen its own funds.

4. Are not guaranteed independently of performance, except in the first year of work, and then only if the undertaking has a solid capital base.

5. Are appropriately proportionate to the fixed remuneration so that it is possible to operate a flexible policy on the payment of bonuses and, depending on circumstances, not pay out any bonuses and never more than 25% of the fixed remuneration.

6. Are not paid in connection with the termination of an employment contract unless it reflects work performance and does not recompense misconduct.

7. Are not paid to new employees as compensation or severance pay which they forfeited under their previous employment contracts, unless it is in the long-term interests of the undertaking and the undertaking retains, defers, makes it performance-linked and demands repayment of the bonus when appropriate.

8. Take into account the undertaking's current and future risks, capital costs and the costs of maintaining liquidity to cover bonus payments.

9. Are allocated within the undertaking that takes into account current and future risk factors.

10. Consist of at least half of the shares, share-based instruments or equivalent instruments that are not equivalent to cash, instruments as provided for in Art.52 or Art.63 of Regulation (EU) no. 575/2013 or other instruments that can be fully converted into

Common Equity Tier 1 instruments or written down and that reflect the undertaking's creditworthiness in sustained operations and are appropriate for the payment of bonuses; an appropriate retention policy shall apply to instruments under this item to align employee incentives with the long-term interests of the undertaking.

11. Are retained to a significant extent by at least four-tenths or six-tenths if the bonus amounts to a very high sum, for a period that takes into account fluctuations in the undertaking's performance, the nature and risk of the undertaking and the field of work of the relevant employee and is not less than four years or five years in the case of a managing director or executive who reports directly to the managing director of a systemically significant financial undertaking; a bonus that is withheld shall not accrue faster than in proportion to the part of the period that has passed.

12. Are only paid out or earned if it is sustainable in light of the undertaking's financial situation and justified with regard to the success of the undertaking and the relevant business unit and employee.

13. Earned only to a limited extent or are to a significant extent revocable if they have been earned but not paid out if the undertaking's performance deteriorates significantly.

14. Are reclaimable, according to criteria which the undertaking shall set, if they have already been paid out and the relevant employee participated in or was responsible for conduct that caused significant damage to the undertaking or seriously failed in his/her duties.

15. They are not part of the undertaking's policy on the earning of pension entitlements, unless it is in accordance with the business plan, goals, values and long-term interests of the undertaking, and then only granted in the form of instruments as provided for in point 10, which the undertaking retains for at least five years.

16. Are not paid out through units or through methods that facilitate the circumvention of this Act.

Points 10 and 11 of the first paragraph and provisions of point 15 that bonuses be in the form of instruments as provided for in point 10, which the company retains for at least five years do not apply to:

1. Undertakings that are not considered large financial undertakings as provided for in point 146 of the first paragraph of Art.4 of Regulation (EU) no. 575/2013 and which, on an individual entity basis, had an average value of less than the equivalent of EUR 5 billion in the last four financial years.

2. Employees who do not receive an annual bonus exceeding the equivalent of EUR 50 thousand; point 11 of the first paragraph, however, applies if the bonus exceeds 10% of the fixed salary.

Up to a quarter of the bonus may bear interest, provided that it is paid with instruments that are retained for at least five years.

Employees are not allowed to acquire guarantees or other hedges that undermine the objective of a bonus scheme to align their interests with those of the undertaking.

It is forbidden to pay bonuses to board members and employees who work in risk management, internal audit or compliance.

The Central Bank of Iceland may adopt detailed rules on bonus schemes. The rules shall, among other things, stipulate the definition of fixed remuneration terms and bonuses, objectives of the bonus system, performance and risk assessment, internal control, recruitment bonuses, deferrals, reductions, withdrawal or reimbursement of bonuses, interest as provided for in the third paragraph and disclosure and transparency.][1)]

[1)] *Act no.38/2022 Art.81.*

[Article 57(c)

A financial undertaking that benefits from special government support.

A financial undertaking that benefits from special government support must review the remuneration of board members and employees in order to ensure *inter alia* sound risk management and the long-term growth of the undertaking, as the case may be, by limiting the remuneration of board members and managing directors. Bonuses should be limited to a moderate percentage of the undertaking's net income until the undertaking has a solid capital base and does not require further public support. During the same period, the managing director shall not be paid a bonus unless there are special reasons for doing so.][1)]

[1)]Act no.38/2022 Art.81.

[[Article 57(d)[1)]

Severance agreements.

A financial undertaking is not permitted to conclude a severance agreement with a managing director or key employee unless the undertaking has shown a profit over the last three years of his term of employment. A severance agreement in this Article refers to any type of agreement made between a managing director or key employee, on the one hand, and a financial undertaking, on the other hand, which might confer on the person ending his employment benefits or rights in excess of normal wage payments during a notice period.

If an undertaking has returned a profit over the last three consecutive years, severance agreements may be concluded with the persons specified in the first paragraph. Such agreements shall take the form of direct wage payments and shall not have a term of more than12 months following termination of employment. The provisions of this Article shall apply to severance agreements, which have been concluded prior to the entry into force of this Act, but which have not taken effect.

Further details of the conditions and implementation of severance agreements may be set in a Regulation. Such agreements shall be specifically accounted for in the notes to the annual financial statements.][2)]

[1)]Act no.38/2022 Art.81. 2)Act no.75/2010, Art.43.

[Article 57(e)

Remuneration committee.

A systemically important financial undertaking must operate a remuneration committee.

The remuneration committee shall be appointed so that it can make a professional and independent assessment of the remuneration policy and its implementation and incentives to manage risk and capital and liquidity. At least three board members shall sit on the committee and one of them shall act as chairperson.

The remuneration committee shall be responsible for:

1. The preparation of decisions on remuneration, including *inter alia* decisions that affect the risk and risk management of the undertaking and decisions taken by the board or managing director, in a manner that takes into account the long-term interests of shareholders, investors and other stakeholders of the undertaking and the public interest.
2. Overseeing the remuneration of risk management and compliance officers.

If a financial undertaking does not operate a remuneration committee, the board is responsible for overseeing the remuneration of risk management and compliance officers, cf. point 2 of the third paragraph.][1)]

[1)]Act no.38/2022, Art.82. The Article enters into force on 1 July 2023 for financial undertakings, managing entities and management companies that had already held an annual general meeting for the current financial year on 1 July 2022, cf. Art.215 of the

same Act

[Article 57(f)

Information on remuneration terms.

The Financial Supervisory Authority shall collect information:

1. Which is published in accordance with points (g)–(i) and (k) of the first paragraph of Art.450 of Regulation (EU) no. 575/2013 and the information which financial undertakings provide about gender pay gaps and use that information as a reference for the development and implementation of remuneration.

2. About the number of individuals in each financial undertaking who receive the equivalent of EUR 1 million or more in salaries per fiscal year and about their duties, the operation divisions in which they work and the main aspects of their remuneration, including fixed remuneration, bonuses and pension contributions.

The Financial Supervisory Authority shall send information as provided for in the first paragraph to the European Banking Authority.][1)]

[1)]Act no.38/2022 Art.82.

[*D. Obligation of confidentiality.*][1)]

[1)]Act no.38/2022 Art.86.

Article 58

Confidentiality.

The board of directors of a financial undertaking, managing directors, auditors, employees and any persons undertaking tasks on behalf of the undertaking shall be bound by an obligation of confidentiality concerning any information of which they may become aware in the course of their duties concerning clients or the private concerns of its clients, unless obliged by law to provide information. The obligation of confidentiality remains even after employment ceases.

Anyone receiving information of the sort referred to in the first paragraph shall be bound by an obligation of confidentiality in the same manner as described therein. The party providing information shall remind the recipient of the obligation of confidentiality.

Article 59. gr[1)]

[1)]Act no.38/2022 Art.84.

Article 60

Client consent for communication of confidential information.

The information on clients referred to in Art.58, may be communicated to outside parties after receiving the written consent of the client involved. The consent must state what information it applies to, to what parties information on this basis may be communicated and for what purpose the information is to be communicated.

[Article 60(a)

Notifications of employees regarding violations in the activities of a financial undertaking.

Financial undertakings shall have procedures in place for receiving and following up on employees' reported violations, possible violations and attempts to violate laws and government directives that apply to the activities of the financial undertaking. The procedures shall be separated from other procedures within the company.

Individuals who receive notifications as provided for in the first paragraph and are in charge of their processing must be independent in their work and care shall be taken to ensure they have sufficient power, funding and authorisations to obtain the data and information necessary to be able to perform their duties.

The processing and handling of personal data shall be in accordance with the Act on Data Protection and [handling][1)] of Personal Information[1)]

[The Central Bank of Iceland][2)] may set more detailed rules on the implementation of the first and second paragraphs, including the reception and processing of notifications.][3)]

[1)]Act no.90/2018, Art.54. [2)]Act no.91/2019, Art.34. [3)]Act no.23/2017, Art.1.

[Article 60(b)

Protection of employees due to notifications regarding violations in the activities of a financial undertaking.

Those who have been chosen to receive notifications as provided for in Art.60(a) and oversee their processing are bound by an obligation of confidentiality regarding any personal identification that appears in the notifications.

The obligation of confidentiality applies to other employees of the undertaking and also to external parties. However, information that is subject to confidentiality may be shared with the Financial Supervisory Authority and the police.

A financial undertaking must protect an employee who has reported a violation in good faith, pursuant to Art.60(a), from being subject to any discrimination that can be attributed to his/her notification. The same applies to notifications to the Financial Supervisory Authority pursuant to Art.13(a) of Act no.87/1998 on the Official Supervision of Financial Activities.

If a financial undertaking violates its obligation according to the second paragraph, it shall pay compensation to the employee in accordance with general rules. This includes both[1)] financial loss and damages.

Obligations and rights according to this Article are inviolable and may not be limited in an employment contract between an employee and an undertaking.][2)]

[1)] Act no.38/2022 Art.85. 2) Act no.23/2017, Art.1.

Chapter VIII

Savings Banks

[*A. Savings banks – common provisions*][1)]

[1)]Act no.77/2012, Art.5.

[Article 61

Savings Bank.

In order to obtain a licence to operate as a savings bank and co-operate on common marketing activities, a financial undertaking must in its Articles of Association define its social role and comply with the provisions of Art.63 on the disposition of profit and dividends. A savings bank shall limit its social role to a specific geographical area, referred to in this Act as its operating district... [1)]] [2)]

[1)]Act no.38/2022 Art.87. [2)]Act no.77/2012, Art.5.

[Article 62

Legal form.

A savings bank may be a self-governing foundation, as provided for in this Chapter, or a public limited company. A savings bank must specify its legal form in its name. It is sufficient to specify the legal form with an abbreviation; the Icelandic abbreviation "ses." shall be used for a self-governing foundation and the provisions of the [Public Limited Companies Act][1)] shall apply concerning specification of the legal form of a public limited company.][2)]

[1)]Act no.96/2016, Art.28. 2) Act no.77/2012, Art.5.

[Article 63
Disposition of profit.

A savings bank must dispose of a minimum of 5% of its pre-tax profit of the preceding year, [excluding profit created by the writing-down of debt in financial restructuring],[1)] to social projects in its operating district. A breakdown shall be given of the projects supported by the savings bank in the annual financial statements of the year the distribution is made and the recipients of contributions specified.

The Minister responsible for financial market affairs may issue a Regulation explaining in detail what are considered social projects as referred to in this Article.][2)]

[1)]Act no.47/2013, Art.9. [2)]Act no.77/2012, Art.5.

[Article 64

Transactions with holdings in a savings bank.

A savings bank must adopt rules on transactions with holdings in savings bank, guarantee capital certificates or shares, which must be approved by the Financial Supervisory Authority. The Authority may issue guidelines on such transactions.][1)]

[1)]Act no.77/2012, Art.5.

[Article 65

Co-operation of savings banks.

Savings banks may co-operate, for instance, on the following tasks, provided this is done on general commercial premises:

1. advice on risk management,
2. operation of IT systems,
3. security,
4. internal audit activities,
5. back-office processing, accounting, research and reporting to regulators,
6. legal advisory, contracts and relations with suppliers,
7. product development and marketing co-operation on common trademarks,
8. instruction and information disclosure,
9. domestic and foreign payment mediation and services for foreign transactions.

In those cases where more than one savings bank has entrusted a single party with tasks as referred to in the first paragraph, contracts shall be concluded between each individual savings bank and the party providing the services. Such contracts do not set aside those obligations which each individual savings bank has regarding laws and rules, regulators, guarantee capital owners, shareholders or others.

Should a disagreement arise as to whether activities are covered by the first paragraph, the Icelandic Competition Authority shall decide on the issue.][1)]

[1)]Act no.77/2012, Art.5.

[*B. A self-governing foundation as a savings bank*][1)]

1)Act no.77/2012, Art.6.

[Article 66

Self-governing foundation.

A self-governing foundation which is a savings bank shall be subject to provisions of Act no.2/1995 on Public Limited Companies, to the extent specific rules are not laid down in this Act. Statutory provisions on self-governing foundations engaging in commercial operations do not apply to a foundation which is a savings bank.][1)]

[1)]Act no.77/2012, Art.6.

[Article 67

Articles of Association

The Article of Association of a self-governing foundation which is a savings bank shall include provisions specifically concerning the savings bank in question, such as:

1. the name of the savings bank,
2. domicile of the savings bank and legal venue,
3. its purpose,
4. its social role and operating district,
5. the total amount of guarantee capital and division into guarantee capital shares,
6. election of the savings bank's board of directors, its work and term of office,
7. how a meeting of guarantee capital owners is to be convened,
8. what matters are to be dealt with at the Annual General Meeting,
9. the savings bank's financial year,
10. how amendments are to be made to the Article of Association,
11. whether guarantee capital owners shall be subject to redemption of their shares, in part or in full, and according to what rules,
12. whether guarantee capital owners enjoy pre-emptive rights to subscribe for a guarantee capital increase,
13. winding-up of the savings bank and disposition of own funds in connection with it.

Certain guarantee capital owners may not be granted preferential rights.][1)]

[1)]Act no.77/2012, Art.6.

[Article 68

Management and financial rights connected to guarantee capital.

The meeting of guarantee capital owners has supreme authority in a savings bank's affairs and elects its board of directors. Guarantee capital owners exercise votes reflecting their share of issued guarantee capital net of any guarantee capital which the self-governing foundation may itself own.

The board of directors shall appoint the manager of the savings bank who shall be its managing director and responsible for its day-to-day operations.

Guarantee capital owners are not liable for obligations of the savings bank in excess of their guarantee capital and are not entitled to a share of other own funds of the savings bank than the book value of its guarantee capital at any given time. Guarantee capital owners may not deplete retained earnings when determining dividends, cf. Art.63, or access the non-distributed funds of the non-profit organisation in other ways, such as by redeeming or purchasing the non-profit organisation's own share capital at a price higher than the nominal value.][1)]

[1)]*Act no.77/2012, Art.6.*

[Article 69

Guarantee capital and guarantee capital certificates

The board of directors of a savings bank which is a self-governing foundation shall issue guarantee capital certificates to persons subscribing for guarantee capital shares. Guarantee capital certificates may not be delivered until shares are fully paid up.

Guarantee capital certificates shall be issued in the name of the owner, specifying:

1. name and domicile of the savings bank,
2. number and amount of the holding,
3. the name, address and ID no. of the guarantee capital owner,
4. date of issue of the guarantee capital certificate,
5. specific details regarding the guarantee capital owner's rights and obligations.

The board of directors shall keep a register of guarantee capital owners which shall be available to all. The savings bank's board of directors shall update the register when changes occur to the ownership of guarantee capital certificates. A guarantee capital owner acquires rights conveyed by a guarantee capital certificate upon registration in the register of guarantee capital owners

Guarantee capital certificates may, by a decision of the board of directors, be issued as de-materialised shares registered in a central securities depository as provided for in the Act on Electronic Registration of Title to Securities.

No restrictions apply to transfer or other disposition of a savings bank's guarantee capital certificates, cf. however, the provisions of Chapter VI.][1)]

[1)]*Act no.77/2012, Art.6.*

[Article 70

Increase in guarantee capital and revaluation.

A meeting of guarantee capital owners can approve an increase in the guarantee capital of the savings bank concerned through the issue of new guarantee capital shares. To be authorised to discuss an increase in guarantee capital, an Annual General Meeting or extraordinary meeting of guarantee capital owners must have been announced with at least two weeks' notice. The meeting announcement must give an account of the board's motion to issue new guarantee capital shares, including the total number of shares, the nominal value of shares and offer price, terms of payment, if any, subscription period and subscription rights. The minimum price for new guarantee capital shares shall be equivalent to the nominal value of guarantee capital shares in the savings bank in question.

An Annual General Meeting of guarantee capital owners may approve, acting on a motion of the savings bank's board of directors, that a dividend to guarantee capital owners shall be used in part or in full to increase the nominal value of guarantee capital shares in the savings bank. The nominal value of guarantee capital shares, however, may not be increased in excess of price level changes as reflected in the CPI since the issue of the guarantee capital shares.

If the savings bank has issued new guarantee capital for which a price higher than the nominal value was paid, the funds paid in excess of the nominal value, net of the savings bank's cost of the issue, shall be recognised in a guarantee capital premium account. This shall be included with the savings bank's retained earnings.][1)]

Act no.77/2012, Art.6.

[Article 71

Write-down of guarantee capital.

A meeting of guarantee capital owners, acting on a motion from the savings bank's board of

directors, may decide to write down its guarantee capital to meet a loss which cannot be offset by other means. To be authorised to discuss a write-down of guarantee capital, a meeting of guarantee capital owners must have been announced with at least two weeks' notice. The announcement of the meeting must give an account of the motion to write down guarantee capital. Adoption of such a motion requires the consent of 2/3 of the votes represented at a meeting of guarantee capital owners. The meeting announcement must explain the reasons for the write-down and how it is to be carried out. The Financial Supervisory Authority must be notified in advance of a proposed write-down of guarantee capital.

A decision of a meeting of guarantee capital owners on a write-down, as referred to in the first paragraph, shall take effect once approved by the Financial Supervisory Authority.

No invitation need be issued to creditors to lodge claims when a write-down of guarantee capital is made as provided for in this Article .][1)]

[1)]Act no.77/2012, Art.6.

[Article 72

Merger

A savings bank which is a self-governing foundation may be merged with another savings bank or financial undertaking with the winding-up of the self-governing foundation.

If a savings bank which is a self-governing foundation is merged with another self-governing foundation, reimbursement to its guarantee capital owners shall be in accordance with the share of guarantee capital in the savings bank's own funds according to the balance sheet upon the merger. If the savings bank has own funds exceeding its guarantee capital, here referred to as retained earnings, this shall be used in full to augment the retained earnings of the merged savings bank. In a case where a savings bank which merges with another self-governing foundation has negative own funds, its guarantee capital shall be written down to offset this before the merger is effected. Upon the merger, the retained earnings of the merged savings bank may not be less than the combined positive retained earnings of these savings banks prior to the merger.

If a savings bank which is a self-governing foundation is merged with a public limited company through a takeover, where the public limited company is the takeover company, the self-governing foundation shall be wound up. Reimbursement to the guarantee capital owners of the acquired savings bank shall be in accordance with the share of guarantee capital in the savings bank's own funds. If the savings bank taken over has positive retained earnings, reimbursement for this shall be placed in a special self-governing foundation. Reimbursement for the savings bank taken over shall then be divided between guarantee capital owners and the self-governing foundation based on the proportion of their holdings in the savings bank's total own funds. Reimbursement to the self-governing foundation shall be in the form of a monetary payment or a bond with a maturity of no more than 10 years. An independent party shall evaluate the reimbursement to be made to the self-governing foundation, having regard to whether this is fair, normal and proportional to the value of the reimbursement to be made to guarantee capital owners. The Financial Supervisory Authority shall confirm the valuation. The board of directors of a savings bank shall look after the establishment of the self-governing foundation provided for in this Article and draft a charter for it, which shall be confirmed jointly by the minister responsible for municipal affairs and the minister responsible for education. The purpose of this self-governing foundation shall be to encourage and support those social projects referred to in the Article of Association of the savings bank taken over. The board members of the self-governing foundation provided for in this paragraph shall include one representative of local authorities in the savings bank's operating district, one representative appointed by the minister responsible for municipal affairs and one representative appointed by the minister responsible for education. The minister responsible for municipal affairs may appoint the local authorities' representative if no joint nomination is received from them within the time

limit set for nominating a joint director.

The board of directors of a savings bank which has been taken over may, instead of establishing a self-governing foundation, propose a disposition of the reimbursement of the savings bank's retained earnings directly to the savings bank's social projects. A proposal by the board for such disposition must be confirmed jointly by the minister responsible for municipal affairs and the minister responsible for education.

The merger and winding-up of the savings bank taken over cannot be approved until the board of the self-governing foundation has been appointed or a proposal for the disposition of retained earnings has been confirmed.

In other respects the merger of savings banks shall be governed by the provisions of Art.106, including cases where a savings bank which is a self-governing foundation takes over a financial undertaking which is a public limited company.][1)]

[1)]*Act no.77/2012, Art.6.*

[Article 73

Conversion of a self-governing foundation to a public limited company.

Acting on a motion from the board of directors, a meeting of guarantee capital owners may decide, with a 2/3 majority of votes cast, and the consent of guarantee capital owners controlling at least 2/3 of the guarantee capital represented at the meeting, to change the legal form of a savings bank from a self-governing foundation to a public limited company.

The conversion of the self-governing foundation to a public limited company shall be effected by the former merging with a public limited company which it has previously established for the purpose. Upon the merger the public limited company shall take over the savings bank's operations, all its assets and liabilities, rights and obligations and the self-governing foundation shall be wound up.

The public limited company established by the savings bank as referred to in the second paragraph must fulfil the provisions of Art.61. The provision in the first sentence of the second paragraph of Art.3 of Act no.2/1995 on Public Limited Companies shall not apply regarding the number of founders of a public limited company as referred to in the second paragraph. The provisions of the first paragraph of Art.20 of the same Act, on the minimum number of shareholders, shall not apply to a limited liability company as provided for in the second paragraph until the conversion of the savings bank into a limited liability company, as provided for in the second paragraph, takes place.

When a self-governing foundation is converted to a public limited company as provided for in this Article , the savings bank's operating licence shall remain valid.

A merger in connection with the conversion of a self-governing foundation to a limited liability company shall in other respects be subject to the provisions of the third paragraph of Art.72 and Art.106.][1)]

[1)]Act no.*77/2012, Art.6.*

Articles 74–76[1)]

[1)]*Act no.76/2009, Art.12.*

Article 77[1)]

[1)]*Act no.75/2010, Art.44.*

Chapter IX

[Management of risk factors in the operations of a financial undertaking.][1)]

[1)]*Act no.57/2015, Art.27.*

[Article 77(a)

Risk management system.

A financial undertaking must at all times have in place a secure risk management system for all its activities. Financial undertakings shall have in place adequate internal processes to assess the necessary size, composition and internal distribution of their own funds in light of the risks entailed by the business activity at any time, with *inter alia* stress scenarios, including stress tests as provided for in the second paragraph. The internal processes shall be reviewed regularly for the purpose of ensuring that they are adequate in the light of the nature, scope and diversity of the business activity.

A financial undertaking is required to conduct regular stress tests and document their underlying assumptions and outcomes. The outcomes of stress tests shall be included on the agenda of the next meeting of the board of directors after the outcomes are available.

Internal processes of a financial undertaking as provided for in the first paragraph shall, as applicable, include risk factors as provided for in Art.78(a)–Art.78(i). A financial undertaking must have procedures that ensure the exchange of information between risk management and the board of directors regarding all major risk factors in the undertaking's operations and changes to them.

A risk control system shall also cover and contain internal processes regarding any kind of trading with a mixed holding company and its subsidiaries, if it is a mixed holding company of the parent company of a financial undertaking.

This Article applies to parent institutions in Member States to the extent that follows from items 2 and 3 of Chapter 2 of Title II of Part 1 of Regulation (EU) no. 575/2013. A subsidiary that is a financial undertaking must comply with this Article on a sub-group basis if it or its parent company is a financial holding company or a mixed financial holding company, has a subsidiary in a country outside the European Economic Area that is a financial undertaking, financial institution or UCITS management company or has a holding in such a company.

The Financial Supervisory Authority can grant a financial undertaking an exemption from the requirements of this Article if the conditions of Art.10 of Regulation (EU) no. 575/2013.][1)] are met.

[1)]*Act no.38/2022 Art.88.*

[Article 77(b)

Risk management.

A financial undertaking shall operate risk management in a unit that is independent of its other operational units, if applicable, taking into account the size, nature and scope of the undertaking's operations, and the multifaceted nature of its operations. The Financial undertaking fund shall ensure that risk management has sufficient power, funding and authorisations to, among other things, obtain the data and information necessary for risk management activities.

Risk management shall ensure that the analysis, measurement and reporting of risks in the operations of a financial undertaking are carried out and are satisfactory, including reports to management and supervisors. Risk management shall take an active part in formulating the financial undertaking's risk policy and be involved in more extensive decisions on risk management. Risk management must have a comprehensive overview of the main risk factors in the operations of a financial undertaking.

The Managing Director appoints the director of risk management. The head of risk management must be independent as a director and supervise and be responsible for the unit

where the financial undertaking's risk management takes place. Care shall be taken to ensure that the head of risk management has direct access to the board of directors. The head of risk management shall submit to the Risk Committee of the board of directors, or the undertaking's board of directors, if there is no risk committee, a report on the implementation of risk management as often as deemed necessary, although at least once a year. If the head of risk management terminates employment, it shall be notified to the Financial Supervisory Authority. The head of risk management will not be dismissed or transferred without the approval of the board.

If the activities of a financial undertaking do not justify the special permanent position of a head of risk management, the Financial Supervisory Authority may authorise another high-ranking employee to supervise the risk management of the financial undertaking, provided that there are no conflicts of interest. In making such an assessment, the Financial Supervisory Authority shall take into account the nature and scope of the undertaking's activities and how multifaceted it is. The Central Bank of Iceland may in the rules, set according to the fifth paragraph, stipulate when the activities of a financial undertaking justify there being no separate full-time position for a head of risk management.

The Central Bank of Iceland may adopt rules on the conduct of risk management, the positions of persons responsible for risk management in the financial undertaking's organisational chart and systems for monitoring risk factors in the activities of financial undertakings.][1)]

[1)] *Act no.38/2022 Art.88.*

[Article 78

Risk Committee.

[A financial undertaking must operate a risk committee. The committee shall consist of a minimum of three members. Committee members must be board members of the relevant company and possess sufficient knowledge and skills to fully understand and monitor the undertaking's risk policy and risk appetite. The risk committee shall have an advisory and supervisory role for the undertaking's board, including *inter alia* for the formulation of the undertaking's risk policy and risk appetite, and assist the board in monitoring the performance of the managing director and executives who answer directly to the managing director of the undertaking's risk policy.][1)]

The Risk Committee shall have access to the information and data which the committee deems necessary for its work [and can seek help from the relevant undertaking's risk management and seek external expert advice].[1)]

The Risk Committee shall, among other things, examine whether incentives included in the remuneration policy of a financial undertaking, including [bonuses],[2)] comply with the company's risk policy [and otherwise ensure that sufficient consideration is given to risk, equity, liquidity, likely revenue and timeframes][1)]and review whether the terms of assets and liabilities, including deposits and loans, offered to the financial undertaking's customers fully take into account the company's business model and risk policy. If the terms do not reflect the risk according to the company's business model and risk policy, the Risk Committee must submit a corrective action plan to the board of directors.

[Taking into account the size, nature and scope of a financial undertaking's operations, and the multifaceted nature of the undertaking's activities, the Financial Supervisory Authority may demand that financial undertakings combine the functions of the risk committee and the audit committee as provided for in Section A of Chapter IX of Act no.3/2006 on Annual Accounts. The members of the combined committee must have sufficient knowledge and ability to carry out tasks that would otherwise have been assigned to each committee individually.][1)]

The Financial Supervisory Authority may, taking into account the size, nature and scope of a financial undertaking's operations, and the multifaceted nature of the company's operations,

grant an exemption from the operations of the risk committee or from individual aspects of the Risk Committee's operations. The Financial Supervisory Authority may set conditions to exemptions for financial undertakings. The duties of the Risk Committee, as provided for in the second and third paragraphs, shall then mutatis mutandis rest on the board of the financial undertaking.][3)]

[1)]Act no.38/2022 Art.89. [2)]Act no.96/2016 Art.29. [3)]Act no.57/2015, Art.27.

[Article 78(a)

Credit and counterparty risk.

A financial undertaking must base its lending on solid and well-defined criteria and ensure that procedures for the approval, modification, renewal and refinancing of loans, or any changes to their terms, are in place.

A financial undertaking must apply its own methodology to evaluate the credit risk of exposures of individual [clients],[1)] securities, securitised positions and the loan portfolio as a whole. Its own methodology shall not be based solely or without comment on the evaluations of credit rating agencies. When a financial undertaking bases its capital requirements calculations on the rating of a rating agency or, as the case may be, the exposure has not received a rating, other relevant information shall not be excluded from the assessment of the[internal disposition of own funds].[1)]

A financial undertaking must use efficient systems and methods for managing the loan portfolio and supervise the financial undertaking's exposures, including analysis of defaults, value changes and precautionary write-downs.

The distribution of a financial undertaking's loan portfolio must be satisfactory with regard to the markets in which the company operates and its lending policy.

[[The Central Bank of Iceland][2)] may set rules for the handling of credit and counterparty risk and elaborate on the obligations of a financial undertaking according to this Article .][3)]][4)]

[1)]Act no.38/2022 Art.90. 2) Act no.91/2019, Art.34. 3) Act no.96/2016, Art.30. 4) Act no.57/2015, Art.27.

[Article 78(b)

Residual risk.

A financial undertaking shall through *inter alia*...[1)] policies and processes, handle and manage the risk that remains when its approved methods for mitigating credit risk are not as effective as expected.

[[The Central Bank of Iceland][2)] may set rules for the handling of residual risk and provide more details on the obligations of a financial undertaking.][3)]][4)]

[1)]Act no.38/2022 Art.91. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.31. [4)]Act no.57/2015, Art.2.

[Article 78(c)

Concentration risk.

A financial undertaking shall through *inter alia*...[1)] policies and processes, handle and manage concentration risk arising from each of the undertaking's counterparties. Counterparties include i.a. groups of related customers, central counterparties, counterparties in the same industry within the same sector of the economy, in the same

geographical area or in the same industry or entities that produce the same commodity. When assessing and analysing concentration risk, credit risk mitigation methods must be taken into account, as well as risks related to large indirect exposures, i.a. for underwriting exposures from a single issuer.

[[The Central Bank of Iceland][2)] may set rules for the handling of concentration risk and to elaborate on the obligations of a financial undertaking.][3)]][4)]

[1)]Act no.38/2022 Art.91. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.32. [4)]Act no.57/2015, Art.27.

[Article 78(d)

Risk due to securitisation.

A financial undertaking shall through *inter alia*...[1)] policies and processes, assess and manage risks, including reputational risk, due to securitisation, where the undertaking is an investor, issuer or administrator of such instruments. A financial undertaking must also ensure that the economic substance of the transactions is fully reflected in the risk assessment and management decisions.

A financial undertaking that is the issuer of securitisations for exposures due to account receivables financing with provisions on authorisations for payment before maturity must have a liquidity plan in place that takes into account estimated payments and payments before maturity.

[[The Central Bank of Iceland][2)] may set rules for the handling risk due to securitisation and to elaborate on the obligations of a financial undertaking.][3)]][4)]

1)Act no.38/2022 Art.91. 2)Act no.91/2019, Art.34. 3)Act no.96/2016 Art.33. 4)Act no.57/2015, Art.27.

[Article 78(e)

Market risk.

A financial undertaking must have...[1)] a policy and processes to identify, measure and manage all significant factors that cause market risk and its effects.

In cases where a short position is called due before a long position, a financial undertaking must take measures to ensure that a shortage of liquidity does not arise.

A financial undertaking must have sufficient capital at its disposal to cover all significant market risk factors that are not treated separately when calculating statutory capital requirements.

[A financial undertaking that, when calculating capital requirements due to position risk as provided for in Chapter 2 of Title IV of Part 3 of Regulation (EU) no. 575/2013, offsets its position in shares that make up a share index against positions in futures or other products linked to the index, must have sufficient equity capital to cover the risk of loss because the value of the products does not change fully in line with the shares which form the index. A financial undertaking must also have sufficient equity capital to cover risks due to opposite positions in futures contracts that are linked to the same share index but do not have the same life span or composition.

A financial undertaking that exercises its right as provided for in Art.345 of Regulation (EU) no. 575/2013 must have sufficient equity to cover the risk of loss in the period between the initial commitment and the next trading day.][1)]

[[The Central Bank of Iceland][2)] may set rules for the handling of market risk and to elaborate on the obligations of a financial undertaking according to this Article .][3)]][4)]

[1)]Act no.38/2022 Art.92. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.34. [4)]Act no.57/2015,

Art.27.

[Article 78(f)

Interest rate risk arising from non-trading book transactions.

[A financial undertaking shall, with internal processes or a standard method or a simplified standard, in accordance with the rules as provided for in point 10 of the first paragraph of Art.117(b), identify, assess, manage and mitigate risks due to possible interest rate changes that affect both the economic value of own funds and net interest income from non-trading book transactions. The Financial Supervisory Authority may require the undertaking to use the standard method if the undertaking's internal processes are not adequate. The Financial Supervisory Authority may require that a small and non-complex financial undertaking, cf. point 145 of the first paragraph of Art.4 of Regulation (EU) no. 575/2013, use the standard method if the simplified standard method does not sufficiently meet the interest rate risk due to the undertaking's non-trading book transactions.

A financial undertaking must have a policy and processes to identify and monitor risks due to possible changes in interest rates that affect both the economic value of own funds and net interest income from its non-trading book transactions.][1)]

[[The Central Bank of Iceland][2)] may set rules for the handling of interest rate risk due to non-trading book transactions and to elaborate on the obligations of a financial undertaking.][3)]][4)]

[1)]Act no.38/2022 Art.93. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.35. [4)]Act no.57/2015, Art.27.

[Article 78(g)

Operational Risk.

A financial undertaking must have a...[1)] a policy and procedures for assessing and managing operational risk, including due to risk models and rare events that can have serious consequences. For this purpose, a financial undertaking must specify what is considered operational risk.

A financial undertaking must have a contingency plan and a plan for continuous operations to ensure its continued operations and to limit losses in the event of a serious disruption to the undertaking's operations.

[[The Central Bank of Iceland][2)] may set rules for the handling of operational risk and to elaborate on the obligations of a financial undertaking according to this Article .][3)]][4)]

[1)]Act no.38/2022, Art.94. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.36. [4)]Act no.57/2015, Art.27.

[Article 78(h)

Liquidity risk.

A financial undertaking must have plans, policies...[1)], procedures, methods and systems to identify, assess, manage and monitor liquidity risk that covers the relevant period, including within a day, to ensure that the company has sufficient liquidity. Such plans, policies, processes and systems must be tailored to the activities of the divisions, branches and legal entities within a consolidated financial undertaking and the currencies they trade in. Plans, policies, processes and systems shall also include adequate distribution of funds for costs, benefits and risks, and shall take into account risk profiles, scope and risk tolerance. Plans, policies, processes and systems must also take into account the multifaceted nature of the financial undertaking's operations and reflect the importance of the financial undertaking in each Member State in which it operates. A financial undertaking must inform all relevant business units of the undertaking about its risk tolerance.

A financial undertaking shall formulate a risk profile for liquidity risk that must take into account the nature, scope and multifaceted nature of the financial undertaking's activities.

A financial undertaking shall develop a methodology to identify, measure, manage and monitor funding positions. The methodology shall take into account significant capital flows, current and projected, arising from assets, liabilities and off-balance sheet items, including contingent liabilities and the potential impact of reputational risk.

A financial undertaking must distinguish between pledged and unencumbered assets that are available at any given time, especially in the event of an emergency. At the same time, the location of the assets must be taken into account, both in terms of the state where ownership rights are registered and the legal entity that holds ownership of the assets. A financial undertaking must monitor whether and how assets are available.

A financial undertaking must take into account statutory and operational restrictions on possible transfers of cash and unencumbered assets between [parties][1)] in Iceland and abroad.

A financial undertaking shall strive to use more than one method to mitigate risk in liquidity management, including various limits and reserves of free funds so that the company can withstand a variety of stress events.][1)] At the same time, financial undertakings must strive to ensure that funding, and access to it, is sufficiently distributed. Liquidity management arrangements must be reviewed regularly.

A financial undertaking must examine the impact of different scenarios on its liquidity position and risk mitigation, and the assumptions underlying the company's financing decisions must be revised at least annually. [To that end, the scenarios must take into account off-balance sheet items and other liabilities, including units for special projects in the field of securitisation or other units for special projects which according to regulation (EU) no. 575/2013 the financial undertaking engages in as an administrator or provides significant liquidity support.][1)]

In the scenarios, a financial undertaking must examine the impact of individual companies as well as the market as a whole, in addition to examining mixed scenarios. The examinations shall take into account different periods and stress situations.

A financial undertaking must adjust its plans, policies and limits for liquidity risk and develop an effective response plan with regard to the results of the scenarios specified in the seventh paragraph to respond to liquidity problems. The plan must state how the financial undertaking intends to meet the lack of liquidity, including in branches in other Member States in which it operates. A financial undertaking must test the plan at least annually and update it, taking into account the results from the scenarios specified in the seventh paragraph. The managing director of a financial undertaking must approve the plan and ensure that internal processes are in accordance with the requirements of the provision. A financial undertaking must take measures to ensure that a contingency plan can be implemented immediately. For that purpose, commercial banks, savings banks and other credit institutions must have sufficient collateral for financing from the Central Bank. This includes, among other things, collateral in the same foreign currencies as the financial undertaking's own exposures, particularly where this may be necessary due to the company's operations both in Iceland and abroad.

[[The Central Bank of Iceland][2)] may set rules...[3)] for the handling of liquidity risk and to elaborate on the obligations of a financial undertaking according to this Article .][4)]][5)]

[1)]Act no.38/2022 Art.95. [2)]Act no.91/2019, Art.34. [3)]Act no.91/2019 Art.39. [4)]Act no.96/2016, Art.36 [5)]Act no.57/2015, Art.27.

[Article 78(i)

Risk of excessive leverage.

A financial undertaking must have...[1)] a policy and procedures to identify, manage and monitor risks resulting from excessive leverage. Risk indicators of excessive leverage include

the calculation of the leverage ratio and mismatches between the assets and liabilities of a financial undertaking.

A financial undertaking must handle risks due to excessive leverage in a prudent manner and take into account potential increased risks caused by a reduction in equity due to expected or realised losses in accordance with applicable accounting rules. With that in mind, financial undertakings must be able to withstand different stress events that are associated with the risk of excessive leverage.

[[The Central Bank of Iceland][2)] may set rules for the handling of risk due to excessive leverage and to elaborate on the obligations of a financial undertaking according to this Article .][3)]][4)]

[1)]Act no.38/2022 Art.96. [2)]Act no.91/2019, Art.34. [3)]Act no.96/2016, Art.38. [4)]Act no.57/2015, Art.27.

[Article 79

Monitoring of management of risk factors.

The Financial Supervisory Authority ensures that financial undertakings comply with the requirements and obligations stipulated in [Art. 78(a) to 78(i)][1)] and shall monitor that the undertakings handle every risk factor identified therein in accordance with the provisions and implement...[2)] the financial undertaking's internal processes.[3)1)]][4)]

[1)]Act no.91/2019, Art.40. [2)]Act no.38/2022 Art.96. [3)]Act no.96/2016 Art.39. [4)]Act no.57/2015, Art.27.

[Article 80

The Financial Supervisory Authority's review and evaluation processes and stress tests.

The board of directors and managing director of a financial undertaking must regularly assess the type, distribution and amount of the undertaking's capital requirements, taking into account its risk level, including risk which is inherent to or could result from its operations.

The Financial Supervisory Authority shall examine and evaluate the arrangements and methods of a financial undertaking for assessing risk in order to meet the requirements of the law and government directives established on their basis. During the examination, the Financial Supervisory Authority shall, among other things, examine policies and internal processes, as provided for in the third paragraph of Art.[77(a)][1)] and their implementation by the financial undertaking. In its review and evaluation, the Financial Supervisory Authority must apply the criteria stipulated in Art.81, as applicable.

The review and evaluation as provided for in the second paragraph shall cover all obligations and requirements placed on a financial undertaking in accordance with this Act and government directives based on it. The Financial Supervisory Authority shall emphasise the following aspects in the evaluation:

a. risks which a financial undertaking faces or could face,

b. [1)]

c. risks revealed by stress tests, taking into account the nature, scope and multifaceted nature of the financial undertaking's activities.

On the basis of the review and evaluation as provided for in the second and third paragraphs, the Financial Supervisory Authority determines whether a financial undertaking's arrangements, measures and methods, together with internal processes and their implementation, are adequate, and whether their corporate governance is sound, and their own funds and [liquidity position][1)] are adequate, taking into account the risks inherent in the activity [2)]

The Financial Supervisory Authority determines the frequency and scope of reviews and evaluations with regard to the size of the financial undertaking, its systemic importance,

nature, scope and the multifaceted nature of the activity. The evaluation must be updated at least annually for the financial undertakings referred to under the second paragraph of Art.82.

[The Financial Supervisory Authority can tailor the review and evaluation to financial undertakings with a similar risk profile, although due consideration is given to the risks faced by each undertaking. [The Financial Supervisory Authority shall notify the EFTA Surveillance Authority and the European Banking Authority of these tasks.][1)]

The Financial Supervisory Authority shall carry out stress tests on financial undertakings in connection with the review and evaluation process. Such stress tests must be carried out annually and more often if the Financial Supervisory Authority deems it necessary, but taking into account the frequency and scope of the review and evaluation as provided for in the fifth paragraph.][2)] [The Financial Supervisory Authority may publish the results of stress tests or send them to the European Banking Authority for the purpose of publishing their results.][1)]

[The Financial Supervisory Authority shall inform the European Banking Authority of how its review and evaluation process is progressing and how this is reflected in its decisions based on the process.

The Financial Supervisory Authority shall immediately notify the European Banking Authority of the results of any review and evaluation or stress test that reveal that a financial undertaking may pose a systemic risk, as provided for in Art.23 of Regulation (EU) no. 1093/ 2010, cf. Act on the European System of Financial Supervision.

The Financial Supervisory Authority shall immediately inform the European Banking Authority if a review and evaluation, in particular of the corporate governance, business model and other activities of the undertaking, give reason to believe that money laundering or terrorist financing has taken place in connection with a financial undertaking, or has been attempted or there is a risk of it, and take appropriate measures.][1)]][3)]

[1)]Act no.38/2022 Art.97. [2)]Act no.91/2019, Art.41. [3)]Act no.96/2016, Art.40.

[Article 81

Technical criteria of the review and evaluation process of the Financial Supervisory Authority.

The review and evaluation by the Financial Supervisory Authority according to Art.80 shall, in addition to credit, market and operational risk [at least][1)] cover the following aspects of a financial undertaking's operations:

a.[stress tests as provided for in Art.177 of Regulation (EU) no.575/ 2013 for financial undertakings that use the internal ratings-based approach (IRB) to evaluate credit risk],[1)]

b. [consolidation risk according to Art.78 (c) of this Act and Part 4 of Regulation (EU) no. 575/2013],[1)]

c. whether the methods and internal processes used to manage the remaining risk not covered by the financial undertaking's credit risk mitigation are reliable and appropriate,

d. examination of whether the capital contribution for assets that have been securitised is sufficient with regard to their economic substance and the level of risk that has been achieved with the transfer of risk,

e. risk management and risk measurement of liquidity risk, including:

1. different scenario analyses,

2. management of factors to mitigate liquidity risk, in particular taking into account the amount, composition and quality of [liquidity reserves][1)] and

3. that an active contingency plan][1)] is in place,

f. the impact of risk distribution and how risk distribution is assessed in risk management systems,

g. results of the stress tests of a financial undertaking that uses internal models to

calculate own funds requirements due to market risk [set out in Title IV Chapter 5, Section 3 of Regulation (EU) no. 575/2013],[1)]

h. geographical locations of exposures,

i. [business models].[1)]

The Financial Supervisory Authority shall regularly assess the performance of a financial undertaking's liquidity management and the risks associated with it and support the undertaking in developing a solid methodology for liquidity management in accordance with point (e) of the first paragraph. In carrying out the assessment, the Financial Supervisory Authority shall look at the importance of the financial undertaking in the financial market... [2)]

The Financial Supervisory Authority shall monitor whether a financial undertaking indirectly supports securitisation. If a financial undertaking has provided indirect support for securitisation more than once, the Financial Supervisory Authority shall take appropriate measures in accordance with [Art.107(a)].[1)]

In relation to the fourth paragraph of Art.80, the Financial Supervisory Authority shall assess whether changes in the valuation of positions or asset portfolios in the trading book [cf. Art.105 of Regulation (EU) no. 575/2013][1)] enable a financial undertaking to sell or protect assets over a short period of time without incurring significant losses considering normal market conditions.

In the review and evaluation, the Financial Supervisory Authority shall check the effect of [interest rate risk][1)] relating to non-trading book items. [The Financial Supervisory Authority shall exercise the powers as provided for in Art.100(a) or demand changes in the assumptions for assessing the effect of interest rate changes on the economic value of a financial undertaking's own funds, as calculated according to Art.78(f), other than the assumptions identified in the rules according to point 12 of the first paragraph of Art.117(b), if a sudden and unexpected change in interest rates results in the economic value of the undertaking's own funds decreasing by more than 15% of Tier 1 capital, according to one of the six shock scenarios of the regulator or in the net interest income of the undertaking decreasing significantly according to one of the two shock scenarios of the regulator. However, the Financial Supervisory Authority is not obliged to do so if, on the basis of the review and evaluation, it considers that the undertaking's management of interest rate risk in non-trading book transactions is adequate and that the risk is not excessive.][1)]

In the review and evaluation, the Financial Supervisory Authority shall assess risks due to the excessive leverage of a financial undertaking in relation to i.a. its leverage ratio. [As provided for in Regulation (EU) No 575/2013].[1)] The Financial Supervisory Authority's assessment of a financial undertaking's risk management systems and processes for leveraging must also take into account the financial undertaking's business model.

The Financial Supervisory Authority shall examine and evaluate the governance of a financial undertaking and its corporate culture and values, as well as the ability and competence of board members and the managing director][1)] to perform their duties. The Financial Supervisory Authority shall take into account the necessary data in order to carry out a review and evaluation in accordance with this provision, including minutes, agendas and other meeting documents of the board of directors and sub-committees and the results of the performance evaluations of the board and managing director.][1)][3)]

[1)]Act no.38/2022 Art.98. [2)]Act no.91/2019, Art.42. [3)]Act no.96/2016, Art.40.

[Article 82

Supervisory plan.

The Financial Supervisory Authority shall make a supervisory plan for financial undertakings at least once a year. When drawing up a supervisory plan, consideration should be given to what the review and evaluation process as provided for in Art.80 and Art.81 entails. Among other things, the supervisory plan shall provide for the following:

a. in which way the Financial Supervisory Authority intends to implement statutory tasks and to use resources, including manpower and funds,

b. which financial undertakings are subject to increased supervision as provided for in the third paragraph and what measures [will be taken][1] to carry out that supervision and

c. time and work plan for the on-site inspections of the headquarters of financial undertakings, including branches and subsidiaries within and outside the European Economic Area.

The supervisory plan must cover the following financial undertakings:

a. financial undertakings where the review and evaluation as provided for in Art.80 or stress test according to the [seventh paragraph][1] of Art.80 and points (a) and (g) of the first paragraph of Art.81 indicate that there is a significant inherent risk in their operations that could threaten their financial position or that a financial undertaking may violate or fail to meet the conditions of this Act or government directives based on it.

b.. . . [1]

c. financial undertakings which the Financial Supervisory Authority considers should undergo an annual inspection.

The Financial Supervisory Authority may take the following measures to follow up on the results of the review and evaluation process as provided for in Art.80:

a. increase the number of on-site inspections of the financial undertaking's offices,

b. establish a fixed presence of the authority at the headquarters of the financial undertaking,

c. require increased and/or more frequent disclosure,

d. place the financial undertaking's business and/or operating plan under closer or more frequent scrutiny and

e. undergo a detailed examination of significant risk factors in the operations of the financial undertaking.

[When drawing up a supervisory plan, the Financial Supervisory Authority shall take into account information provided to it by the competent authorities in Member States where an Icelandic financial undertaking has a branch, and concerning the assessment of the undertaking's risk or financial stability in the respective country.][1)]][2)]

[1)]Act no.38/2022 Art.99. [2)]Act no.96/2016, Art.40.

[Chapter IX A. Recovery plan.][1)]

[1)]Act no.54/2018, Art.5.

[Article 82(a)

The recovery plan of a credit institution and investment firm.

Credit institutions and investment firms with guarantee capital as provided for in the second paragraph of Art.14(a) shall make a recovery plan which shall include at least the following items:

1. Actions which a credit institution or investment firm intends to take in a timely manner, and the procedure to be followed, should operational difficulties arise in an undertaking that may have a significant impact on its financial position or operations, including if the circumstances are such that early interventions have to be applied as provided for in Art.[107(c)].[1]

2. Scenarios that assume operational difficulties at a credit institution or investment firm, together with shocks in the financial system and the economy that may affect the operations or activities of the undertaking in question.

3. When applicable, an analysis of when and under what circumstances credit institutions can request liquidity facilities from the [Central Bank].[2] No other form of government financial support shall be assumed in the recovery plan.

The board of directors of a credit institution or investment firm must approve the recovery plan and submit it to the Financial Supervisory Authority. Credit institutions and investment firms must update the recovery plan at least annually, but more often if there are changes in the undertaking's operations or if something else in their operations causes significant changes to the plan. The Financial Supervisory Authority may require that the recovery plan be updated more often than annually.

[The resolution authority within the meaning of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms shall have access to the recovery plan of credit institutions and investment firms and analyse whether actions in it may have a detrimental effect on the solvency of the relevant undertaking when the plan is available. The resolution authority can propose to discuss its impact with the Financial Supervisory Authority.

The Central Bank of Iceland shall issue a Regulation[3)] which, among other things, stipulates more detailed requirements regarding the content of recovery plans as provided for in the first paragraph and the recovery plans of groups as provided for in Art.82(d)][2)]

The Minister shall issue a Regulation[4)] which, among other things, stipulates more detailed requirements regarding the content of recovery plans as provided for in the first paragraph and the recovery plans of groups as provided for in Art.82(d).[5)]

[1)]Act no.38/2022 Art.100. [2)]Act no.70/2020, Art.103. [3)] Reg. 666/2021. [4)]Reg. 780/ 2021. [5)]Act no.54/2018, Art.5.

[Article 82(b)

Evaluation of recovery plan.

The Financial Supervisory Authority assesses whether the recovery plan is in accordance with the provisions of Art.82(a). In addition, the Financial Supervisory Authority shall assess whether the following have been demonstrated:

1. that the procedures in the recovery plan and actions are likely to maintain or rectify the financial position of the undertaking or its group and ensure healthy operations, and
2. that it is likely that the plan can be implemented quickly when there is turbulence in the financial markets and that the implementation of the plan can reduce the negative effects on the financial system, including when several credit institutions or investment firms need to activate their recovery plans at the same time.

When evaluating a recovery plan, the composition of the equity of the credit institution or investment firm shall be examined as well as how it is financed, taking into account its operations, organisation and risk profile.

[The Central Bank of Iceland shall set rules[1)] which state the minimum criteria that must be considered when evaluating the elements stipulated in the first paragraph.][2)]

The Minister shall set a Regulation stating the minimum criteria, which the Financial Supervisory Authority must consider when evaluating the elements specified in the first paragraph.][3)]

[1)]Reg. 666/2021. [2)]Act no.70/2020, Art.103. [3)]Act no.54/2018, Art.5.

[Article 82(c)

Procedure and actions regarding flaws in the recovery plan.

The Financial Supervisory Authority shall, within six months of receipt of the recovery plan, complete its assessment of the plan and notify the credit institution or investment firm if it considers the plan to be seriously flawed.

Credit institutions and investment firms shall, within two months of receiving the Financial Supervisory Authority's notification, pursuant to the first paragraph, correct the flaws in the

recovery plan. The Financial Supervisory Authority is authorised to extend that deadline by one month upon request. If, in the opinion of the Financial Supervisory Authority, the improvements are insufficient, it may demand that specified changes be made to the plan within a reasonable period determined by the Financial Supervisory Authority.

If a credit institution or investment firm does not deliver a revised recovery plan within the deadline provided for in the second paragraph or if the Financial Supervisory Authority considers the revised plan to be unsatisfactory, the Financial Supervisory Authority shall demand within a reasonable period of time, that the credit institution or investment firm make proposals for changes to its operations in order to remedy the deficiencies which in the opinion of the Financial Supervisory Authority exist in the recovery plan.

If a credit institution or investment firm does not make proposals to change its operations within the time limit according to the third paragraph, or if the proposals made are considered insufficient, the Financial Supervisory Authority may, taking into account the severity of the deficiencies, demand that the credit institution or investment firm take any of the following actions:

1. To reduce its risk profile, including liquidity risk.
2. To ensures reliable and timely refinancing.
3. To review the strategy and organisation of the company or its group.
4. To change their funding plans to bolster the resilience of core operations and [critical functions].[1)]
5. Change the administration and business plans of the undertaking.

If applicable, the Financial Supervisory Authority shall consult with the competent authorities of Member States where the undertaking's significant branches are located.][2)]

[1)]Act no.70/2020, Art.103. [2)]Act no.54/2018, Art.5.

[Article 82(d)

Group recovery plans.

A parent company in the top tier of a group in the European Economic Area must maintain and update a group recovery plan. [If the Financial Supervisory Authority is a supervisory body on a consolidated basis, it shall receive a recovery plan and forward it to the competent authorities of subsidiaries and significant branches, the consolidated resolution authority and the resolution authorities of subsidiaries.][1)]

The recovery plan must cover the group as a whole and specify actions that may need to be taken by the parent company and its individual subsidiaries. The group's recovery plan must be approved by the board of directors of the parent company.

The group recovery plan shall take into account the elements set out in Art.82(a). The group recovery plan shall also include information regarding financial support agreements within the group as provided for in [Art.109(o)],[2] if such agreements have been made. The Financial Supervisory Authority can demand that credit institutions and investment firms which are subsidiaries as provided for in the first paragraph, make an independent recovery plan in accordance with Art.82(a).

If the parent company is located in another Member State, the Financial Supervisory Authority shall endeavour to make a joint decision with the competent authorities on the subsidiary's recovery plan. If the competent authority has referred the decision of the supervisory body on a consolidated basis to the EFTA Surveillance Authority or the European Banking Authority, the Financial Supervisory Authority shall defer its decision to instruct a subsidiary to make an independent recovery plan and make a decision on it in accordance with the decision of the EFTA Surveillance Authority, cf. Paragraph 7.

The assessment of a group's recovery plan shall be based on Art.82(b). Procedures and actions regarding deficiencies in the group's recovery plans shall be based on Art.82(c). If the Financial Supervisory Authority is considered a supervisory body on a consolidated

basis, notifications pursuant to Art.82(c) shall be directly addressed to the group's parent company.

When assessing a group's recovery plan, the Financial Supervisory Authority shall endeavour to make a joint decision with the competent authorities. If a joint decision is not reached within four months from the time that the Financial Supervisory Authority, as a supervisory body on a consolidated basis, sends the recovery plan to the appropriate competent authorities, as provided for in the first paragraph, it shall take an independent decision on the plan. The Financial Supervisory Authority shall notify the parent company and competent authorities of its decision.

The Financial Supervisory Authority shall defer its decision if any of the competent authorities involved in the case refer the decision of the supervisory body on a consolidated basis, including the Financial Supervisory Authority, if applicable, to the EFTA Surveillance Authority or to the European Banking Authority in accordance with Act no.24/2017, before the end of the deadline, as provided for in the sixth paragraph and the Financial Supervisory Authority shall in those cases wait for a decision which the EFTA Surveillance Authority may take on the basis of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision].[2)] The decision of the Financial Supervisory Authority shall be in accordance with the decision of the EFTA Surveillance Authority.[3)]

[1)]Act no.70/2020, Art.103. [2)]Act no.38/2022 Art.101. [3)]Act no.54/2018, Art.5.

[Article 82(e)

Simplified recovery plan

The Financial Supervisory Authority decides whether a credit institution or investment firm, pursuant to the first sentence of the first paragraph of Art.82(a) is allowed to make a simplified recovery plan. The conditions for such a decision are that the operational difficulties of an undertaking or investment firm and, as the case may be, winding-up proceedings of undertakings, do not have a significant negative effect on the financial system, other credit institutions or investment firms or the distribution of capital in the financial system or the economy.

The Financial Supervisory Authority can at any time waive the decision regarding a simplified recovery plan as provided for in the first paragraph. [The Central Bank of Iceland issues a Regulation[1)] on the criteria for decisions regarding simplified recovery plans as provided for in the first paragraph.][2)]][3)]

[1)]Reg. 666/2021. [2)]Act no.70/2020, Art.103. [3)]Act no.54/2018, Art.5.

[Article 82(f)

Recovery plan indicators

Credit institutions and investment firms shall, in accordance with the first sentence of the first paragraph of Art.82(a), provide indicators in the recovery plan suggesting when and what actions need to be taken on the basis of the recovery plan.

The indicators must be determined in accordance with the undertaking's activities and take into account the internal and external conditions and financial situation of the undertaking. The indicators must be presented in a manner that makes it easy to have an overview of when they indicate that a response is needed. The indicators must be subject to regular monitoring by the undertaking, and the recovery plan must specify how their monitoring is carried out.

Even if the indicators do not indicate the need to take action, the board of a credit institution or investment firm can nevertheless take the actions that are specified in the recovery plan and which the board deems appropriate in view of the circumstances. The board can also

decide, if it deems it appropriate in the circumstances, not to take action even if the indicators indicate otherwise.

A decision of the board as provided for in the second paragraph shall be immediately notified to the Financial Supervisory Authority along with a justification....[1)]

[The Central Bank of Iceland is authorised][1)] to lay down rules on the indicators that must be addressed as a minimum in a recovery plan.][2)]

[1)]Act no.91/2019, Art.44. [2)]Act no.54/2018, Art.5.

Article 82(g)[1)]

[1)]Act no.70/2020, Art.103.

Chapter X.

[Capital buffers.][1)]

Act no.38/2022 Art.102.

[*A. Common provisions*][1)]

[1)]Act no.38/2022 Art.102.

[Article 83

Combined buffer requirements.

If a financial undertaking is obliged to maintain one or more of the capital buffers stipulated in this chapter, that obligation constitutes a combined buffer requirement. First there is an obligation to maintain capital in order to fulfil systemic risk buffer requirements, then capital buffer for systemically important financial undertakings, countercyclical capital buffer and finally capital conservation buffer.][1)]

[1)]Act no.38/2022 Art.102.

[Article 83(a)

Composition of capital buffers.

Only equity items that are considered to be Common equity Tier 1 capital as provided for in Chapter 2, Title I of Regulation (EU) no. 575/2013.][1)]

[1)]Act no.*38/2022 Art.102.*

[Article 83(b)

Prohibition of double counting.

It is not permitted to double count equity items by using capital that is maintained to meet combined buffer requirements to meet:

1. Minimum Requirement for Own Funds as provided for in the first paragraph of Art.92 of Regulation (EU) no. 575/2013.
2. Higher own funds requirements as provided for in the third paragraph of Art.107(a) which are made to meet risks other than excessive leverage risk.
3. Guidance on additional own funds as provided for in Art.107(b) which are intended to meet other risks than excessive leverage risk.

It is forbidden to double count equity items by using capital that is maintained to cover specific parts of the combined buffer requirements to cover other parts of the combined buffer requirements,][1)]

[1)]Act no.38/2022 Art.102.

[Article 83(c)

Interaction between capital buffers.

If there are capital buffers both for systemically important financial undertakings globally and capital buffers for systemically important financial undertakings nationally, they shall not be combined, but only the highest capital buffer shall apply.

The combined percentage of systemic risk buffers and capital buffers for systemically important financial undertakings may not be higher than 5% of capital as provided for in Parts D–F of this chapter, except with the approval of the Standing Committee of the EFTA States.][1)]

[1)]Act no.38/2022 Art.102.

[Article 83(d)

Consolidated basis.

Capital buffers for systemically important financial undertakings globally shall be maintained on a consolidated basis. The Central Bank of Iceland may stipulate by regulations that other capital buffers be maintained on a consolidated, sub-consolidated or entity basis, as appropriate.][1)]

[1)]Act no.38/2022 Art.102.

[Article 83(e)

Exemptions for investment firms.

This chapter does not apply to investment firms that do not have a licence to trade in financial instruments for their own account and underwriting in connection with the issuance of financial instruments and/or placing of financial instruments, cf. items (c) to (f) of point 16 of the first paragraph of Art.4 of Act no.115/2021 on markets for financial instruments.

A securities firm is exempt from the obligation to maintain conservation buffers and countercyclical capital buffers if the following conditions are met:

1. The firm's total worked man-years amount to less than 250.
2. The firm's annual turnover, according to the annual accounts, does not exceed the equivalent of EUR 50 million in Icelandic króna or assets according to the annual accounts do not exceed the equivalent of EUR 43 million in Icelandic krónur.][1)]

1)Act no.38/2022 Art.102.

[*B. Capital conservation buffer*][1)]

[1)]Act no.38/2022 Art.102.

[Article 84

Obligation to maintain a capital conservation buffer.

A financial undertaking must maintain a capital buffer known as a capital conservation buffer.][1)]

[1)]Act no.38/2022 Art.102.

[Article 84(a)

Buffer rates.

The capital conservation buffer shall amount to 2.5% of the risk base, as provided for in the

third paragraph of Art.92 of Regulation (EU) no. 575/2013.][1)]

[1)]*Act no.38/2022 Art.102.*

[*C. Countercyclical capital buffer*][1)]

[1)]*Act no.38/2022 Art.102.*

[Article 85

Obligation to maintain a countercyclical capital buffer.

The Central Bank of Iceland may set rules, after prior approval from the Financial Stability Committee, requiring financial undertaking to maintain a capital buffer, which is called a countercyclical capital buffer][1)]

[1)]*Act no.38/2022 Art.102.*

[Article 85(a)

Buffer rates

The countercyclical capital buffer must be equal to the financial undertaking's risk base, as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013 multiplied by the weighted average of the countercyclical capital buffers in the countries where the undertaking's credit exposures are located. However, it is not necessary to multiply by a higher rate than 2.5% due to exposures in another state where the rate is higher than 2.5%, cf. however, Art.85(b).

The weight of each state in the weighted average countercyclical capital buffer rate shall be equal to the percentage of capital requirements on a financial undertaking as provided for in Titles II and IV of section 3 of Regulation (EU) no. 575/2013 for credit exposures in the respective state of capital requirements on the undertaking in relation to its total credit exposures. Exposures as provided for in this Article shall include all classes of exposures other than those referred to in Art.112(a)-(f) of Regulation (EU) no. 575/2013, which are subject to:

1. Capital requirements due to credit risk, according to Title II of section 3 of Regulation (EU) no. 575/2013.
2. Capital requirements due to specific risks as provided for in Chapter 2, Title IV, section 3 of Regulation (EU) no. 575/2013 or increased non-performance and transfer risk as provided for in Chapter 5, Title 3 of section 3 of the same regulation, provided there is an exposure in the trading book.
3. Capital requirements as provided for in Chapter 5, Title II, section 3 of Regulation (EU) no. 575/2013, provided the exposure is in the form of securitisation.

A countercyclical capital buffer due to exposures in Iceland shall generally amount to 0-2.5% of the risk base as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013, but may be higher if the risk factors that form the basis of the assessment of the value of the countercyclical capital buffer warrant it. The percentage shall be a multiple of 0.25 percentage points.

The countercyclical capital buffer rate shall take into account cyclical systemic risk. When assessing it, the debt cycle, in particular the deviation of the debt-to-GDP ratio from the long-term trend, risks arising from excessive debt growth in Iceland and other relevant factors shall be taken into account. The peculiarities of the Icelandic economy shall also be taken into account.

The Central Bank shall review the countercyclical capital buffer rate][1)] at least quarterly.

[1)]*Act no.38/2022 Art.102.*

[Article 85(b)

Recognition of a countercyclical capital buffer in another state that is higher than 2.5%.

According to the rules of the Central Bank of Iceland, as provided for in Art.85, it may stipulate that a financial undertaking must, when calculating the countercyclical capital buffer, multiply by a higher rate than 2.5% due to exposures in a state where the rate is higher than 2.5%.

The Central Bank shall post information on its website on the recognition of a rate above 2.5%. Information must be published on at least what the rate is and the state where it applies.

If the recognition includes an increase in the countercyclical capital buffer rate, it must be stated when the increase will take effect. If an increase is to take effect within twelve months, the unusual circumstances that justify it must be explained, cf. the first paragraph of Art.85(d).][1)]

[1)] *Act no.38/2022 Art.102.*

Article 85(c)

Countercyclical capital buffer rate for countries outside the European Economic Area.

[The rules of the Central Bank of Iceland as provided for in Art.85 may stipulate the countercyclical capital buffer rate due to exposures of financial undertakings in countries outside the European Economic Area. If the country in question has already determined and published the countercyclical capital buffer rate for exposures in that country, the Central Bank cannot, however, stipulate a different rate unless it considers the rate in the country in question to be insufficient to protect financial undertakings against risks arising from excessive debt growth in the country. The Central Bank shall not prescribe a lower rate than the one in force in the respective state, unless the rate in the state is higher than 2.5%.

The Central Bank shall publish information on its website on the determination of the rate in accordance with the first paragraph. Information must be published on at least the rate and the state to which it applies as well as the justification for the rate.

If the countercyclical capital buffer rate is increased, it must be stated when the increase will take effect. If an increase is to take effect within twelve months, the unusual circumstances that justify it must be explained, cf. the first paragraph of Art.85(d).][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 85(d)

Entry into force of rate changes.

An increase in the countercyclical capital buffer rate shall take effect no later than 12 months after the information has been published][3)] The increase shall not take effect within twelve months unless exceptional circumstances justify it.

An increase in the countercyclical capital buffer rate in a country outside the European Economic Area takes effect for domestic financial undertakings twelve months after its publication in the respective country. This applies even if the increase takes effect earlier in the respective state.

A reduction in the countercyclical capital buffer rate shall take effect immediately.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 85(e)

Publication of information on countercyclical capital buffers.

The Central Bank of Iceland shall publish the following information on its website in conjunction with a decision on or review of countercyclical capital buffers:

1. The current countercyclical capital buffer rate.
2. The relevant debt-to-GDP ratio and its deviation from long-term trends.
3. Evaluation of factors according to Paragraph 4 of Art.85(a) on which the countercyclical capital buffer rate decision is based.
4. Justification for the countercyclical capital buffer rate.

If the countercyclical capital buffer rate is increased, it must be stated when the increase will take effect. If an increase is to take effect within twelve months, the unusual circumstances that justify it must be explained, cf. the first paragraph of Art.85(d).

If the countercyclical capital buffer rate is reduced, an estimate shall be given of the period during which the rate is not expected to increase and a justification for that estimate must be given. However, the estimate is not binding.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 85(f)

Notice to the European Systemic Risk Board.

The Central Bank of Iceland shall notify the European Systemic Risk Board of changes in countercyclical capital buffer rates. The notification must be accompanied by the information laid down in Art.85(e).][1)]

[1)] *Act no.38/2022 Art.102.*

[*D. Capital buffers for systemically important financial undertakings internationally.*][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86

Obligation to maintain capital buffers for systemically important financial undertakings internationally.

The Central Bank of Iceland can, by means of rules it establishes with the prior approval of the Financial Stability Board, stipulate that a financial undertaking that is considered to be systemically important internationally, pursuant to Art.86(b) shall maintain capital buffers for systemically important financial undertakings internationally.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(a)

Buffer rates

Capital buffers for systemically important financial undertakings internationally shall amount to 1-3.5% of the risk base, as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013.

It shall be 1% if an undertaking is in the lowest category, according to the third paragraph of Art.86(b) and increase linearly by at least half a percentage point for each category above that to 3.5%. However, an increase from the fifth category does not have to be linear.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(b)

Delineation of a systemically important financial undertaking internationally.

The Financial Stability Committee of the Central Bank of Iceland decides whether a financial undertaking, which is not a subsidiary of a parent institution in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area, shall be considered, on a consolidated basis, systemically important internationally. The same applies to a group under the control of a parent company in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area.

The assessment as provided for in the first paragraph shall take into account the following criteria, each of which shall have equal weight and consist of measurable indicators:

1. The size of the group.
2. Interconnection of the group with the financial system.
3. Whether the services or financial infrastructure provided by the group are available elsewhere.
4. Complexity of the group.
5. The group's cross-border activities, including between Member States and between a Member State and a non-member state.

The Financial Stability Committee shall assign a total number of points to each entity, which it decides is systemically important internationally, based on the criteria provided for in the second paragraph. The committee shall rank the entity in one of at least five categories based on the scoring. However, the committee can decide to move an entity to a higher or lower category than the one indicated by the scoring, if it considers that this better reflects its systemic importance internationally.

The Central Bank shall publish and notify the relevant entities, the European Systemic Risk Board and the European Banking Authority of the names of systemically important entities internationally and the category in which they are classified, pursuant to the third paragraph. The notification to the European Systemic Risk Board must be accompanied by a detailed justification for the decision to move category, as provided for in point 3 of the third paragraph.

The Financial Stability Board shall review at least annually the definition of systemically important financial companies internationally and their classification according to the third paragraph.][1)]

[1)] *Act no.38/2022 Art.102.*

[*E. Capital buffers for systemically important financial undertakings domestically.*][1)]

1)Act no.38/2022 Art.102.

[Article 86(c)

Obligation to maintain capital buffers for systemically important financial undertakings domestically.

The Central Bank of Iceland can, by means of rules it establishes with the prior approval of the Financial Stability Board, stipulate that a financial undertaking that is considered to be systemically important domestically, pursuant to Art.86(e), shall maintain capital buffers for systemically important financial undertakings domestically.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(d)

Buffer rates

Capital buffers for systemically important financial undertakings domestically shall amount to 0-3% of the risk base, as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013. However, the rate may be higher than 3% with the approval of the Standing Committee of the EFTA States.

Buffer rates for capital buffers for systemically important financial undertakings domestically must take into account how systemically important a financial undertaking is at national level, cf. Art.86(e). It must be ensured that the capital buffer does not result in disproportionately damaging effects on all or part of the financial system of other Member States or on the European Economic Area as a whole, hindering the operation of the internal market of the European Economic Area.

Capital buffers that apply on an entity or sub-group basis for a systemically important financial undertaking domestically, which is a subsidiary of an internationally systemically important entity or a national systemically important entity that is a financial undertaking or a group controlled by a parent institution in the European Economic Area and must maintain a capital buffer for systemically important financial undertakings nationally on a consolidated basis shall not exceed the total of:

1. The capital buffer rate for systemically important financial undertakings internationally or for a systemically important financial undertaking nationally which applies to the group, whichever is highest.
2. 1% of the risk base, as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013.

The Central Bank of Iceland shall review at least annually the capital buffer rate for systemically important financial undertakings nationally.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(e)

Delineation of a systemically important financial undertaking nationally.

The Financial Stability Committee of the Central Bank of Iceland decides whether a financial undertaking shall be considered, on a unit, sub-group or consolidated basis, as appropriate, systemically important at national level with regard to whether by its nature its activities could affect financial stability. The same applies to a group controlled by a parent institution in the European Economic Area, a parent financial holding company in the European Economic Area, a mixed parent financial holding company in the European Economic Area, a parent institution in a Member State, a parent financial holding company in a Member State or a mixed parent financial holding company in a Member State.

The assessment prescribed in the first paragraph must take into account at least the following criteria:

1. Size.
2. Importance for the economy of the European Economic Area or Iceland.
3. Scope of cross-border activities.
4. Interconnection between the financial undertaking or group and the financial system.

The Central Bank shall publish and notify the relevant entities, the European Systemic Risk Board and the European Banking Authority of the names of systemically important entities nationally.

The Financial Stability Committee shall at least annually review the delineation of systemically important financial undertakings nationally.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(f)

Notice to the European Systemic Risk Board.

The Central Bank of Iceland shall notify the European Systemic Risk Board of the proposed introduction or review of a capital buffer for systemically important financial companies at national level. The notification must be sent one month before its introduction or review, but three months before if the rate is higher than 3%. The notification shall describe in detail:

1. Why the capital buffer is considered likely to mitigate the risk it is designed to cover in an efficient and moderate way.
2. Assessment of the likely positive and negative effects of the capital buffer on the internal market of the European Economic Area.
3. The proposed capital buffer rate.][1)]

[1)] *Act no.38/2022 Art.102.*

[*F. Systemic risk buffer*][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(g)

Obligation to maintain a systemic risk buffer.

The Central Bank of Iceland may, by means of rules it establishes with the prior approval of the Financial Stability Board, stipulate that a financial undertaking must maintain a capital buffer, which is called a systemic risk buffer.

The rules may limit the obligation to maintain a systemic risk buffer to one or more categories of financial undertaking.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(h)

Buffer rates.

A systemic risk buffer shall amount to 0– 3% of the risk base, as provided for in the third paragraph of Art.92 of Regulation (EU) no. 575/2013 or specific classes of exposures as provided for in Art.86(i). However, when there are good reasons, the rate may be higher than 3% with the approval of the minister. However, the rate may not be higher than 5% without also obtaining the approval of the Standing Committee of the EFTA States. The percentage shall be a multiple of 0.5 percentage points.

The systemic risk buffer rate shall take into account system risk that is not covered by Regulation (EU) no. 575/2013 or capital buffers as provided for in sections C, D or E of this chapter. It must be ensured that the capital buffer does not result in disproportionately damaging effects on all or part of the financial system of other Member States or on the European Economic Area as a whole, hindering the operation of the internal market of the European Economic Area.

The rules of the Central Bank of Iceland, pursuant to Art.86(g), may provide for different systemic risk buffer rates for different classes of financial undertakings and exposures. However, systemic risk buffers for exposures in other Member States shall be the same for all Member States, except in the case of recognition of systemic risk buffers in another Member State as provided for in Art.86(j).

The Central Bank shall review systemic risk buffers at least biannually.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(i)

Classes of exposures.

The rules of the Central Bank of Iceland, pursuant to Art.86(g), may stipulate that systemic risk buffer rates be calculated for one or more of the following classes of exposures:

1. All exposures in Iceland.
2. The following types of exposures in Iceland:
   a. all retail exposures due to individuals secured against collateral in residential property,
   b. all exposures due to legal entities that are secured against collateral in commercial property,
   c. all exposures due to legal entities, with the exception of those specified in point (b),
   d. all exposures due to individuals with the exception of those specified in point (a),
3. All exposures in other Member States.
4. Types of exposures as provided for in point 2 in other Member States only to make it possible to recognise the capital buffer rates determined by another Member State in accordance with Art.86(j).
5. Exposures in states outside the European Economic Area
6. Sub-categories of exposures, as provided for in point 2.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(j)

Recognition of systemic risk buffers in another Member State.

In accordance with Art.86(g), the rules of the Central Bank of Iceland may stipulate that a financial company must maintain a systemic risk buffer due to exposures in another Member State, which corresponds to the systemic risk buffer rate determined by the relevant country, if the Central Bank considers it appropriate, taking into account information about the systemic risk buffer from the relevant Member State.

A systemic risk buffer as provided for in the first paragraph is added to the systemic risk buffer as provided for in Art.86(h) if they are intended to cover each other's risk. If they are intended to cover the same risk, only the higher systemic risk buffer applies.

The Central Bank shall notify the European Systemic Risk Board of the recognition of a systemic risk buffer in another Member State.

The Central Bank may request that the European Systemic Risk Board make a recommendation pursuant to Art.16 of Regulation (EU) no. 1092/2010 to one or more Member States to recognise a systemic risk buffer in Iceland.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(k)

Notification of systemic risk buffers to the European Systemic Risk Board and other authorities.

The Central Bank of Iceland shall notify the European Systemic Risk Board of the proposed introduction or review of systemic risk buffers. Notification must be sent one month before the Central Bank publishes information pursuant to Art.86(l), if the systemic risk buffer rate, excluding systemic risk buffers in another Member State that has been recognised, pursuant to Art.86(j), is no higher than 3%. The notification shall describe in detail:

1. The systemic risk in Iceland
2. The reasons why systemic risk threatens the stability of the financial system in Iceland and justifies the increase in the systemic risk buffer rate.
3. Why the systemic risk buffer is considered likely to mitigate the risk in an efficient

and moderate way.

4. Assessment of the likely positive and negative effects of the systemic risk buffer on the internal market of the European Economic Area.

5. The proposed systemic risk buffer rate/rates, which exposures they should cover, and which financial undertakings should maintain them.

6. Why a systemic risk buffer that applies to all exposures does not duplicate the effectiveness of the risk buffer of a systemically important financial undertaking in Iceland.

The notification must state if the systemic risk buffer is to cover exposures in countries outside the European Economic Area.

If the increase in the systemic risk buffer rate makes it higher than 3% and up to 5%, the opinion of the Standing Committee of the EFTA States must be requested in the notification. If the Standing Committee's opinion is negative, the Central Bank must comply with the opinion or give reasons for not doing so.

If a financial undertaking which is the target of a proposed obligation to maintain a systemic risk buffer is a subsidiary of an undertaking established in another Member State, the notification must request the opinion of the European Systemic Risk Board and the European Commission or the Standing Committee of the EFTA States, if the undertaking is established in a Member State of the European Free Trade Association. The Central Bank shall also send a notification pursuant to the first paragraph to the competent authorities of that Member State. If the Systemic Risk Board, the Executive Committee or the Standing Committee and the authorities of the parent undertaking are against the planned increase in the systemic risk buffer, the Central Bank may refer the matter to the European Banking Authority or the EFTA Surveillance Authority, as appropriate, and request its assistance in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision. The introduction of the rules on the relevant exposures shall be deferred pending the decision of the EFTA Surveillance Authority.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(I)

Publication of information on systemic risk buffers.

The Central Bank of Iceland shall publish the following information on its website regarding a decision on or review of systemic risk buffers:

1. Systemic risk buffer rate.
2. Financial undertakings that need to maintain the systemic risk buffer.
3. The exposures which the systemic risk buffer covers.
4. Justification for the systemic risk buffer rate.
5. When financial undertakings need to maintain systemic risk buffers.
6. In which countries the exposures which the systemic risk buffers cover are located.

Justification for the systemic risk buffer rate, cf. point 4 of the first paragraph, shall not be published if it could be a potential threat to financial stability.][1)]

[1)] *Act no.38/2022 Art.102.*

[*G. Measures to preserve equity.*][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(m)

Restrictions on distributions due to capital buffer requirements.

A financial undertaking that meets combined buffer requirements is not permitted to make the following distributions if they would have the effect of it no longer meeting the

requirements:

1. Dividend payments in cash.

2. distribution of bonus shares that have been paid in full or in part or other financial instruments, as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.

3. Redemption or purchase of own shares or guarantee capital certificates or other financial instruments as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.

4. Redemption or purchase of own shares or guarantee capital certificates or other financial instruments as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.

5. distribution of items (a)-(e) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.

A financial undertaking that does not meet the combined buffer requirements is not permitted to take the following measures before the maximum distributable amount as provided for in Art.86(n) has been calculated:

1. A distribution as provided for in the first paragraph creates an obligation to pay a bonus or to pay a bonus if an obligation to pay was created at a time when the financial undertaking did not meet the combined buffer requirements.

2. Payment of an additional Tier 1 capital instrument.

A financial undertaking that does not meet combined buffer requirements is not permitted to make distributions pursuant to the second paragraph beyond the maximum distributable amount laid down in Art.86(n).

Restrictions under this Article apply only to distributions that reduce Common Equity Tier 1 capital or the profits of a financial undertaking. They do not apply if the deferral of distribution involves non-compliance or could lead to insolvency proceedings for the financial undertaking.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(n)

Maximum distributable amount if an undertaking does not meet capital buffer requirements.

A financial undertaking that does not meet combined buffer requirements must calculate the maximum distributable amount and notify the Financial Supervisory Authority of the amount.

The maximum distributable amount shall be found by multiplying the sum calculated in accordance with the third paragraph by the factor determined in accordance with the fourth paragraph. The amount resulting from the measures provided for in the second paragraph of Art.86(m) shall be deducted from the maximum distributable amount.

The total for the maximum distributable amount shall consist of:

a. profit according to the interim financial statements that is not included in Common Equity Tier 1 capital, as provided for in the second paragraph of Art.26 of Regulation (EU) no. 575/2013, less distributions due to measures provided for in the second paragraph of Art.86(m),

b. in addition to the year's profit that is not included in Common Equity Tier 1 capital as provided for in the second paragraph of Art.26 of Regulation (EU) no. 575/2013 less distributions due to measures pursuant to the second paragraph of Art.86(m)

c. and deducting the amount that would be paid in tax if the profit according to points (a) and (b) would be retained.

The factor for the maximum distributable amount is determined by the percentage of common equity Tier 1 capital that a financial undertaking maintains and is not used to meet

the capital requirements provided for points (a),(b) or (c) of the first paragraph of Art.92 of Regulation (EU) no. 575/2013 or additional capital requirements according to sub-paragraph 1 of the third paragraph of Art.107(a) due to risks other than the risk of excessive leverage of the combined buffer requirements as follows:

1. If the percentage is lower than 25%, the factor is 0.
2. If the percentage is at least 25% but lower than 50%, the factor is 0.2.
3. If the percentage is at least 50% but lower than 75%, the factor is 0.4.
4. If the percentage is at least 75%, the factor is 0.6.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(o)

Notification and data submission obligations if an undertaking does not meet capital buffer requirements.

A financial undertaking that does not meet combined buffer requirements and intends to pay out of profits or dispositions as provided for in the second paragraph of Art.86(m) shall notify the Financial Supervisory Authority thereof.

The notification shall include the following information:

1. The amount of the financial undertaking's own funds broken down as follows:
   a. Common Equity Tier 1,
   b. Additional Tier 1,
   c. Tier 2 capital.
2. Profits according to interim and annual statements.
3. The maximum distributable amount as provided for in Art.86(n). The amount which the financial undertaking intends to pay out, broken down as follows:
   a. dividend payments,
   b. purchase of own shares,
   c. payments from an additional Tier 1 capital instrument,
   d. payment of bonuses, whether on the basis of a new obligation or an obligation created at a time when the financial undertaking did not meet combined buffer requirements.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(p)

Restrictions on distributions due to leverage ratio buffer requirements.

A financial undertaking that fulfils leverage ratio buffer requirements in accordance with the first paragraph of Art.92 of Regulation (EU) no. 575/2013, is not permitted to make the following distributions if they would have the effect of the undertaking no longer meeting the requirement:

1. Dividend payments in cash.
2. Distribution of bonus shares that have been paid in full or in part or other capital instruments as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.
3. Redemption or purchase of own shares or guarantee capital certificates or other capital instruments as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.
4. Redemption or purchase of own shares or guarantee capital certificates or other capital instruments as provided for in point (a) of the first paragraph of Art.26 of Regulation (EU) no. 575/2013.
5. Distribution of items (a)-(e) of the first paragraph of Art.26 of Regulation (EU) no.

575/2013.

A financial undertaking that does not meet leverage ratio buffer requirements is not permitted to take the following measures before the maximum distributable amount due to a leverage ratio buffer as provided for in Art.86(q) has been calculated:

1. Make distributions in connections with Common Equity Tier 1 capital.
2. Create an obligation to pay a bonus or to pay a bonus if an obligation to pay was created at a time when the financial undertaking did not meet the buffer requirements.
3. Payment of an additional Tier 1 capital instrument.

A financial undertaking that does not meet leverage ratio buffer requirements is not permitted to make distributions pursuant to the second paragraph beyond the maximum distributable amount laid down in Art.86(q).

Restrictions under this Article apply only to distributions that reduce Tier 1 capital or the profits of a financial undertaking. They do not apply if the deferral of distribution involves non-compliance or could lead to insolvency proceedings for the financial undertaking.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(q)

Maximum distributable amount if an undertaking does not meet leverage ratio buffer requirements.

A financial undertaking that does not meet leverage ratio buffer requirements as laid down in paragraph 1(a) of Art.92 of Regulation (EU) no. 575/2013 shall calculate the maximum distributable amount due to the leverage ratio buffer and notify the Financial Supervisory Authority of the amount.

The maximum distributable amount shall be found by multiplying the sum calculated in accordance with the third paragraph by the factor determined in accordance with the fourth paragraph. The amount resulting from the measures provided for in the second paragraph of Art.86(p) shall be deducted from the maximum distributable amount.

The total for the maximum distributable amount shall consist of:

a. profit according to the interim financial statements that is not included in Common Equity Tier 1 capital, as provided for in the second paragraph of Art.26 of Regulation (EU) no. 575/2013, less allocations due to measures provided for in the second paragraph of Art.86(p),

b. in addition to the year's profit that is not included in Common Equity Tier 1 capital as provided for in the second paragraph of Art.26 of Regulation (EU) no. 575/2013 less allocations due to measures pursuant to the second paragraph of Art.86(p)

c. and deducting the amount that would be paid in tax if the profit according to points (a) and (b) would be retained.

The factor for the maximum distributable amount is determined by the percentage of Tier 1 capital, which the financial undertaking maintains and is not used to meet claims laid down in point (d) of the first paragraph of Art.92 of Regulation (EU) no. 575/2013 or additional capital requirements according to sub-paragraph 1 of the third paragraph of Art.107(a) due to the risk of excessive leverage from the leverage ratio buffer laid down in the first paragraph of Art.92 as follows:

1. If the percentage is lower than 25%, the factor is 0.
2. If the percentage is at least 25% but lower than 50%, the factor is 0.2.
3. If the percentage is at least 50% but lower than 75%, the factor is 0.4.
4. If the percentage is at least 75%, the factor is 0.6.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(r)

Notification and data submission obligations if an undertaking does not meet leverage ratio buffer requirements.

A financial undertaking that does not meet leverage ratio buffer requirements as laid down in Art.92(1)(a) of Regulation (EU) no. 575/2013 and intends to pay out of profits or dispositions as provided for in the second paragraph of Art.86(p) shall notify the Financial Supervisory Authority thereof.

The notification shall include the following information:

1. The amount of the financial undertaking's own funds broken down as follows:

a. Common Equity Tier 1,

b. Additional Equity Tier 1.

2. Profits according to interim and annual statements.

3. The maximum distributable amount due to the leverage ratio buffer as provided for in Art.86(q).

4. The amount which the financial undertaking intends to pay out, broken down as follows:

a. dividend payments,

b. purchase of own shares,

c. payments from an additional Tier 1 capital instrument,

d. payment of bonuses, whether on the basis of a new obligation or an obligation created at a time when the financial undertaking did not meet leverage ratio buffer requirements.][1)]

[1)] *Act no.38/2022 Art.102.*

[Article 86(s)

Capital Conservation Plan

If a financial undertaking does not meet combined buffer requirements or leverage ratio buffer requirements as provided for in point (a) of the first paragraph of Art.92 of Regulation (EU) no. 575/2013, its board shall prepare and deliver to the Financial Supervisory Authority a plan for the protection of its own funds in accordance with the instructions of this Article .

A Capital Conservation Plan shall at least include:

1. An estimate of the undertaking's income and expenses and a forecast of the development of its balance sheet.

2. Information on what measures the undertaking will take to increase its equity ratio.

3. A timeframe for how the undertaking plans to increase its equity ratio so that it can once more meet its combined buffer requirements or leverage ratio buffer requirements**.**

4. Other information which the Financial Supervisory Authority deems necessary in order to evaluate the plan.

A Capital Conservation Plan must be submitted to the Financial Supervisory Authority within five business days of it becoming clear that the financial undertaking does not fulfil the combined buffer requirements or leverage ratio buffer requirements. The Financial Supervisory Authority may grant an additional period of five business days to deliver the plan.

The Financial Supervisory Authority evaluates the plan in accordance with the provisions of this Article . A Capital Conservation Plan shall be approved if it is considered likely that it will enable the financial undertaking to meet the combined buffer requirements or leverage ratio buffer requirements within the appropriate time limit.

If the Financial Supervisory Authority does not approve the plan on the basis of the fourth paragraph, it shall:

a. Recommend that the financial undertaking increase its own funds to the prescribed threshold within a time limit determined by the Financial Supervisory Authority and/or

b. Further restrict disbursements beyond what is stipulated in Art.86(m) or Art.86(p)][1)]

[1)]Act no.38/2022 Art.102.

Chapter XI
Annual financial statements, auditing and consolidated financial statements.

Article 87
Preparation and endorsement of annual financial statements.

The board of directors and managing director of a financial undertaking shall prepare its annual financial statements for each financial year. The annual financial statements must include a profit and loss account, balance sheet, statement of cash flow and explanatory notes. Furthermore, the board must prepare a report which shall accompany the annual financial statements. The financial year of financial undertakings shall be the calendar year.

Annual financial statements must be signed by the board of directors and managing directors of financial undertakings. If a board member or managing director of a financial undertaking has objections concerning the annual financial statements he/she must provide an account of this in his/her endorsement.

[The annual financial statements must include the following information:

a. salary payments and any type of payments or benefits provided by the company to each individual board member and the managing director;

b. total payments and benefits of key employees, as well as information on their number;

c. names and nationalities of all parties who own more than 1% of share capital or guarantee capital at the end of the financial year. If the party concerned is a legal entity, it must also be stated who is the beneficial owner of the legal entity in question...[1)],

[d. names of subsidiaries, their operations and where operations take place; an overview of the location of branches and where the undertaking provides service activities without establishing a branch in other states,

e. an overview of the types of grants or subsidies, and their amount, which the company has received from the public sector during the financial year,

f. return on assets in the key figures of the financial statements; return on assets refers to the undertaking's net profits as a percentage of the average position of the assets during the period according to the balance sheet.][2)]][3)]

1)Act no.38/2022, Art.103. 2)Act no.57/2015 Art.29. 3)Act no.47/2013, Art.10.

[Article 87(a)
Publication of information on activities in individual countries.

In the notes to the annual or consolidated financial statements, there must be information on a consolidated basis about the following factors in the following financial year in each state where a financial undertaking has a place of business:

1. Name, nature of activity and geographical location.
2. Turnover.
3. Number of man-years.
4. Profit or loss before tax.
5. Tax on profit or loss.
6. State support or incentives.][1)]

[1)]Act no.38/2022 Art.104.

Article 88

Good accounting practices.

The annual financial statements must give a clear picture of the financial undertaking's financial position and operating performance. They must be compiled in accordance with laws, rules and good accounting practices and include, among other things, a profit and loss account, a balance sheet, explanatory notes and information on off-balance-sheet items.

[The Central Bank of Iceland][1)] sets rules[2)], after consultation with the Icelandic Accountancy Council, on the form of annual accounts, the contents of individual items of the profit and loss account and the balance-sheet items and on the notes and assessment of individual items.

In consultation with the Icelandic Accountancy Council, the Financial Supervisory Authority shall ensure that a definition of current good accounting practice in compiling annual financial statements and interim financial statements of a financial undertaking is always available.

[1)]Act no.91/2019, Art.36. [2)] Reg.834/2003. Reg.102/2004. Reg.1240/2020.

Article 89

Report of the board of directors.

The report of the board of directors must include an overview of the financial undertaking's activities during the year, as well as information on aspects of importance in assessing the financial position of the undertaking concerned and its performance during the financial year which do not appear in the annual accounts.

The board's report shall, in addition, disclose the following:

1. information on events of significance following the end of the reporting period,
2. expected future development of the undertaking and
3. actions which are of significance for its future development.

The board's report must also provide information on the average number of employees during the financial year, total wages, commissions or other remuneration to employees, the managing director, board of directors and others in the service of the financial undertaking in question. If a share of the profits is paid to the board of directors or managing director this shall be specifically indicated. The report of the board of directors must disclose the number of shareholders or guarantee capital owners at the end of the financial year. In other respects the provisions of the [Public Limited Companies Act][1)] shall apply as appropriate.

In their report, Boards shall make proposals on the disposition of profits of the undertaking concerned or measures to meet losses.

[1)]Act no.96/2016, Art.52.

Article 90

Auditing

The annual financial statements of a financial undertaking shall be audited by an auditor or audit firm[1)]

. . . [2)]

If at all possible, the same party shall be elected as auditor of a parent company, affiliate and subsidiary. The auditor of a parent company shall, in addition, audit the consolidated financial statements.

[The company's auditors shall be entitled to attend board and shareholders' meetings of a financial undertaking and are obliged to attend its AGM.][3)]

[1)]Act no.38/2022 Art.105. [2)]Act no.94/2019, Art.56. [3)]Act no.75/ 2010, Art.48 cf. also temporary provisions I of the same Act.

Article 91[1)]

[1)]Act no.38/2022 Art.106.

Article 92

[*Disclosure and notification obligations of auditors*.

The auditor is obliged to provide the Financial Supervisory Authority with information on the implementation and results of the audit upon request.

Auditors are obliged to immediately notify the Financial Supervisory Authority if they become aware, in their work for the financial undertaking or an entity closely related to it, of issues or decisions that:

a. [are likely to entail][1)] significant breaches of the legislation that applies to the activities of financial undertakings or any kind of breach which calls for examination on the basis of Art.9.

b. may affect the financial undertaking's continued operations, including matters of substantial importance for the financial position of the financial undertaking concerned,

c. may result in the auditor refusing to endorse the undertaking's annual accounts, or endorsing them with reservations.

The auditor shall alert the board of a financial undertaking of a notification as provided for in the second paragraph unless there is a good reason not to do so.

Information provided by the auditor to the Financial Supervisory Authority in accordance with the provisions of this Article is not considered a breach of the auditor's statutory or contractual obligation of confidentiality.

[If the auditor does not comply with the second paragraph, the Financial Supervisory Authority may demand that a financial undertaking choose another auditor.][1)]][2)]

[1)]Act no.38/2022 Art.107. [2)]Act no.8/2019, Art.5.

Article 93

Good auditing practice.

In consultation with the Association of Certified Public Accountants and other parties concerned, the Financial Supervisory Authority shall ensure that a definition of current good auditing practice in auditing financial undertakings is always available. The [Central Bank of Iceland] [1)] sets rules [2)] on the auditing of financial undertakings.

Apart from what is stated in this Act, the provisions of Chapter VII of Act no.144/1994 on Annual Financial Statements, as subsequently amended, shall apply to the auditing of financial undertakings.

The provisions of the first paragraph shall also apply to [subsidiaries][3)] of a financial undertaking, as well as holding companies in the financial sector or mixed holding companies [3)] and [subsidiaries][3)] of such companies.

[1)]Act no.91/2019, Art.36. 2) Reg. 532/2003. 3)Act no.57/2015, Art.30.

Article 94

Special auditing.

The Financial Supervisory Authority may have a special audit of a financial undertaking carried out if the Authority sees reason to expect that the audited accounts do not provide a clear picture of the undertaking's financial position and operating results. The Financial

Supervisory Authority may require the undertaking concerned to bear the cost of such an audit.

The provisions of the first paragraph shall also apply to [subsidiaries][1)] of a financial undertaking, as well as holding companies in the financial sector or mixed holding companies... [1)] and [subsidiaries][1)] of such companies.

[1)]Act no.57/2015, Art.31.

Article 95

Submission and publication of annual accounts.

The audited and endorsed annual financial statements of a financial undertaking, together with the report of the board of directors, shall be sent to the Financial Supervisory Authority within ten days of their signing and no later than three months after the end of the financial year.

If the AGM has adopted amendments to the endorsed annual financial statements, the amended statements must be submitted to the Financial Supervisory Authority within ten days of the AGM with an explanation of the amendments made.

A financial undertaking's annual financial statements, together with the report of the board of directors, shall be available at the place of business of the undertaking concerned and provided to any customer who so requests within two weeks of their approval by the AGM.

Article 96

Interim financial statements.

A financial undertaking shall prepare and publish interim financial statements as provided for in rules[1)] set by [the Central Bank of Iceland][2)].

The Financial Supervisory Authority may grant exemptions from provisions on preparing interim financial statements.

[1)] Reg. 834/2003. [2)]Act no.91/2019, Art.36.

Article 97

Consolidated accounting

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The provisions of Art. 87-92 and 95-96 shall apply as appropriate to both a group, where the [parent company][1)] is a financial undertaking or holding company in the financial sector, and to individual undertakings of the group.

[The Central Bank of Iceland][2] shall, after consultation with the Icelandic Accountancy Council, set detailed rules[3)] on the preparation of consolidated accounts for consolidations where the [parent company][1)] is a financial undertaking or holding company in the financial sector.

[The Central Bank of Iceland][2)] may adopt rules on consolidated accounts for a group of undertakings where the [parent company][1)] is a mixed holding company.

[1)]Act no.57/2015, Art.32. [2)]Act no.91/2019, Art.36. [3)]Reg. 834/2003.

Chapter XII
[Financial restructuring, winding-up and merger of financial undertakings][1)]

[1)]Act no.130/2004, Art.12.

[*A.* [*Financial restructuring of credit institutions and investment firms*][1)]][2)]

[1)]Act no.70/2020, Art.103. [2)]Act no.130/2004, Art.9.

[Article 98
Financial restructuring.

The financial restructuring of [credit institutions and investment firms][1)] is to be understood as measures intended to maintain the financial position of a credit institution [and investment firm][1)] or to restore it to normal and which could affect prior rights of third parties, including measures which could conceivably involve a moratorium, postponement of enforcement measures or reduction of claims. If a credit institution [and investment firm][1)] has its head office in Iceland, financial restructuring shall mean granting a moratorium and authorisation to seek composition as provided for in the Act on Bankruptcy etc., No. 21/1991. [Financial restructuring also includes liquidation actions taken on the basis of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms.][1)]

Act no. 21/1991 on Bankruptcy etc. shall apply with regard to a credit institution [and investment firm][1)]'s moratorium and authorisation to seek composition and to the implementation of such measures, unless otherwise provided for by this Act.

[If a financial undertaking has been granted a moratorium, it is sufficient to publish the announcement of a meeting, as provided for in the second paragraph of Art.13 and the fifth paragraph of Art.17 of the Act on Bankruptcy etc., with an advertisement published in at least two daily newspapers in Iceland and in each of those states where branches were operated.][2)]

[. . . [3)]

When a credit institution or investment firm undergoes financial restructuring or liquidation proceedings as part of resolution proceedings based on the Act on Recovery and Resolution of Credit Undertakings and Investment Firms, the provisions of that law shall apply to confidentiality regarding consultation with competent authorities in other Member States.][1)]][4)]

[1)]Act no. 70/2020, Art.103. [2)]Act no. 44/2009, Art.3. Notwithstanding the provisions of point (a) of that Article, the third paragraph of Art.98 of Act no. 161/2002, cf. Art.2 of Act no. 129/2008, shall continue to apply in their original form towards financial undertakings which benefit from a moratorium upon the entry into force of Act no.44/2009, including an extension of the moratorium, cf. Act no. 44/2009, Art.10. [3)]Act no. 38/2022 Art.108. [4)]Act no. 130/2004, Art.9.

[Article 99
Financial restructuring of a credit institution [or investment firm][1)] with head offices in Iceland and branches in another EEA state.

[If a court in Iceland grants a credit institution [or investment firm][1)] a moratorium or the right to seek composition, such authorisation shall automatically apply to all branches which

the credit institution [or investment firm][1] operates in another Member State.][2]

The legal effect, procedure and implementation of the decision shall be governed by Icelandic law, with the following exceptions:

a. An employment contract shall be governed by the law of the state which applies to the employment contract and employment relationship.

b. A contract for the use or purchase of real estate shall be governed by the law of the state where the property is located.

c. The rights of a credit institution [or investment firm][1] in respect of real estate, a vessel or [aircraft][3] shall be governed by the law of the state where official registration has been effected.

d. [Authorisation of the financial reorganisation of a financial undertaking shall not affect the property rights, including lien rights, of creditors or others to assets located in another Member State. The same shall apply to the right to dispose of a mortgaged property, either by assignment or other means, and the right to receive dividends on the property. All rights which are recorded in an official registry and enjoy legal protection against a third party shall be regarded as property rights in the understanding of this provision.][4]

e. If a credit institution [or investment firm][1] has acquired an asset with a reservation concerning title to ownership, the credit institution's [or investment firm's][1] authorisation for financial restructuring shall not affect the seller's right based on the reservation of title, provided the asset is situated in another Member State.

f. If a credit institution [or investment firm][1] has sold an asset, the authorisation for financial restructuring shall not affect the buyer's rights, provided the asset is in another Member State and delivery has already taken place when the authorisation is granted.

g. The legitimacy of a credit institution's [or investment firm's][1] disposal of real estate, a vessel or an [aircraft][3] which is subject to official registration, as well as of transferable securities or other securities registered in a central securities depository, shall be governed by the law of the state where the asset is located or where official registration has been effected.

h. The legal effect of a ruling regarding financial restructuring on lawsuits concerning an asset or other right which a credit institution [or investment firm][1] has disposed of, [initiated before the ruling on financial restructuring was pronounced],[5] shall be governed by the law of the state where the lawsuit was initiated.

i. The enforcement of right to title, including rights to mortgaged financial instruments which are electronically registered, shall be governed by the law of the state where the registration is effected.

j. [A set-off agreement made on the basis of a netting agreement that has been entered into before the financial restructuring of a financial undertaking begins depends on the laws of the Member State that applies to the agreement, [cf. however, Art. 69 and 72 and 73 of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms].[1] Moreover, creditors have the right to demand the set-off of their claims against the financial undertaking, provided that set-off is permitted according to the laws of the Member State that applies to the claim of the financial undertaking. The set-off rights as provided for in the second sentence are limited, however, by the financial undertaking's right to demand a cancellation or voiding in accordance with the rules of Act no. 7/1936 on contracts, authorisation and invalid legal instruments, or Chapter XX of Act no. 21/1991on Bankruptcy etc.][6]

k. A repurchase agreement shall be governed by the law of the state which applies to such agreements, cf. however, provisions of point (i) [of Art. 69, 72 and 73 of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms].[1]

1. Transactions on a regulated [market][7] shall be governed by the law of the state which applies to such transactions, cf. however, the provisions of point (i).

m. Payment and settlement instructions in payment and settlement systems shall be governed by the law of the state which applies to the system concerned.

n. [Notwithstanding the provisions of points (d) and (e), the provisions of Chapter III of Act no. 7/1936 on Contracts, Agency and Void Legal Instruments shall apply concerning void legal instruments, unless unauthorised under the law of the host state. The same applies to rules in Chapter XX of Act no. 21/1991 on Bankruptcy etc. A legal instrument may not, however, be invalidated if the party benefiting from the continuing validity of such a legal instrument provides satisfactory evidence that the law of another state should apply to the legal instrument and that this does not include an invalidating rule which applies to the instance in question.][6)]

The court shall ensure that the Financial Supervisory Authority is notified immediately of any request received from a credit institution [or investment firm][1)] for a moratorium or to seek composition with creditors. The Financial Supervisory Authority shall forward information on the request and the response to it to the competent authorities and creditors of the credit institution [or investment firm][1)] in the states concerned, as provided for in rules[8)] set by the Minister.

Mandatory notifications to known foreign creditors of a credit institution [or investment firm][1)] in connection with suspension of payments or composition with creditors shall be as provided for in rules[8)] set by the Minister.

[The provisions of the fifth paragraph of Art.35 of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms applies to notifications as provided for in the second sentence of the third paragraph and paragraph 4 of this Article , if a credit institution or investment firm has entered into winding-up proceedings on the basis of that Act.][1)]] [9)]

[1)]Act no.70/2020, Art.103. [2)]Act no.108/2006 Art.80. [3)]Act no.80/2022 Art.268. [4)]Act no.78/2011 Art.1. [5)]Act no.32/2011, Art.1. [6)]Act no.34/2018, Art.2. [7)]Act no.115/2021, Art.148. [8)]Reg.872/2006, cf. no. 747/2013. [9)]Act no.130/2004, Art.9.

[Article 100

[*Financial restructuring of a credit institution [or investment firm][1)] with its head office abroad and a branch in Iceland.*

[A branch which is operated in Iceland by a credit institution [or investment firm][1)] with a head office in another Member State will not be automatically granted authorisation for financial restructuring in Iceland. If the competent authority in another Member State decides on the financial restructuring of a credit institution [or investment firm][1)] licensed to operate and established in that state, the decision will automatically apply to branches operated by the credit institution [or investment firm][1)] in Iceland.][2)]

[If financial restructuring of the Icelandic branch of a credit institution [or investment firm][1)] established in another Member State is considered necessary, notice of such restructuring shall be sent to the Financial Supervisory Authority.][2)] The Financial Supervisory Authority shall forward the notification to the supervisory authorities of the home state.

The legal effect, procedure and implementation of the decision shall be governed by the law of the home state, with those restrictions listed in the second paragraph of Art.99.

A case may arise where application is made for authorisation to suspend payment, or for authorisation to seek composition with creditors, on the basis of the second paragraph of Art.6 of the Act on Bankruptcy etc., for a branch which a credit institution [or investment firm][1)], established in a state outside of the European Economic Area operates in Iceland. In such a case the District Court judge shall alert the Financial Supervisory Authority of the request. If the credit institution [or investment firm][1)] concerned operates branches in other states of the European Economic Area, the Financial Supervisory Authority shall notify the supervisory authorities in those states of the request. The courts shall endeavour to co-ordinate actions

with the authorities of other host states.][3)]

[1)]Act no.70/2020, Art.103. [2)]Act no.108/2006 Art.81. [3)]Act no.130/2004, Art.9.

[Article 100(a)[1)]][2)]

[1)]Act no.70/2020, Art.103. [2)]Act no.125/2008, Art.5.

[*B.*][1)] *Winding up.*

[1)]Act no.130/2004, Art.9.

[Article 101] [1)]

[Conditions for and commencement of winding-up proceedings.

The estate of a financial undertaking cannot be liquidated according to general rules.

A financial undertaking must be wound up:

1. at the demand of the Financial Supervisory Authority if it has revoked the undertaking's operating licence or refused to grant it a time limit, as provided for in [the second paragraph of Art.86(e)][2)]][3)] or the time limit provided for there has expired without the undertaking having increased its capital above the minimum required in [Regulation (EU) no. 575/ 2013],[2)]

2. at the demand of the Financial Supervisory Authority, the undertaking's board of directors or [temporary board of directors][4)], if it must be wound-up according to its Articles of Association;

3. at the demand of the undertaking's board of directors or [temporary board of directors][4)] if the undertaking can no longer meet all obligations to creditors when their claims fall due and it is considered unlikely that the undertaking's payment difficulties will be alleviated in the short term;

4. at the demand of the undertaking's board of directors and with the approval of the Financial Supervisory Authority, if a decision has been taken by a shareholders' meeting or meeting of guarantee capital owners to wind up the undertaking, provided a motion on winding-up has been adopted by at least 2/3 of votes cast and by shareholders or guarantee capital owners who control at least 2/3 of the share capital or guarantee capital represented by votes at the meeting.

A petition for the winding-up of a financial undertaking shall be directed to the District Court where civil proceedings could be brought against the undertaking in its legal venue. The request shall be prepared and handled by the Court like a petition for winding-up in insolvency.

Once a court has ordered that a financial undertaking shall be wound up, a District Court judge will appoint a Winding-up Board, consisting of up to five people. Upon its appointment, the board shall assume the rights and obligations held by the undertaking's board of directors and shareholders' meeting or meeting of guarantee capital owners, cf. however, the third paragraph of Art.103. [Unless otherwise provided for in this Act, the rules concerning administrators in liquidation proceedings shall apply to the Resolution Committee, its tasks and the members of the Committee. [Persons appointed to a Winding up Board...[4)] must also fulfil the eligibility requirements of [the second paragraph and first sentence of the fifth paragraph of Art.52 and Art.52(a).][5)]6)]

The reference date in the winding-up of a financial undertaking shall be determined according to the same rules as apply to liquidation, however, it may furthermore be determined by the date the Financial Supervisory Authority granted the undertaking a time limit, as provided for in [the second paragraph of [Art.52(e)],[2)]],[3)] [has entered into winding-up proceedings on the basis of Art.35 of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms][4)] or otherwise by the receipt by a District Court of a petition for winding-up, as referred to in the second paragraph, if nothing has

previously occurred to set a reference date.

[The provisions of the second paragraph do not apply if a financial undertaking has entered into winding-up proceedings pursuant to the Act on Resolution of Credit Institutions and Investment Firms.][4)]][7)]

[1)]Act no. 130/2004, Art.9. [2)]Act no. 38/2022 Art.109. [3)]Act no. 54/2018, Art.9. [4)]Act no. 70/2020, Art.103 [5)]Act no. 57/2015 Art.33. [6)]Act no. 78/2011, Art.2. [7)]Act no. 44/2009, Art.5. Notwithstanding the fifth paragraph of the provision, the deadline for liquidation of a financial undertaking shall be determined by the second paragraph of the Temporary Provisions in Act no. 129/2008 when it may apply, cf. Act no. 44/2009, Temporary Provisions III.

[Article 101(a)

Special supervision by the Financial Supervisory Authority.

The Financial Supervisory Authority shall supervise the operations of a financial undertaking managed by a Winding-up Board, regardless of whether the undertaking concerned has an operating licence or limited licence to operate, or its operating licence has been revoked. A subsidiary of a financial undertaking in winding-up proceedings, which is administering its assets, shall furthermore be subject to supervision by the Financial Supervisory Authority. The supervision shall include, for instance, its business practices, which implies that its actions towards customers shall accord with the normal practices of financial undertakings with a valid operating licence.

Transactions and disposition of assets of a financial undertaking managed by a Winding-up Board or transactions by the Winding-up Board with individual members of the Winding-up Board, or with parties closely connected with such parties, shall comply with rules on normal and sound business practices and customs. The Financial Supervisory Authority shall, on its own initiative or acting on a creditor's suggestion, monitor such transactions.

Refusal to comply with a request from the Financial Supervisory Authority for delivery of documentation may be liable to dismissal from a Winding-up Board. The same shall apply if a person appointed to a Winding-up Board does not satisfy the general eligibility requirements which apply to him/her. The Financial Supervisory Authority shall refer such a request to a District Court which shall admit the case for a ruling immediately.

The Financial Supervisory Authority may direct a request to a District Court to dismiss all or part of a Winding-up Board in cases where the Winding-up Board concerned is considered not to have carried out its tasks in accordance with the first and second paragraph of this Article or, as the case may be, in accordance with other legal provisions. The case shall be admitted by a District Court for a ruling immediately.

. . . [... 1)]][2)]

[1)]Act no.70/2020, Art.103. [2)]Act no.78/2011, Art.3.

[Article 102] [1)]

[Treatment of claims etc.

The same rules shall apply to the winding-up of a financial undertaking as apply generally to insolvency liquidation concerning reciprocal contractual rights and claims against it, with the exception that a court order for its winding-up shall not automatically result in claims against it falling due. [Upon the winding-up of a financial undertaking the rules of Art.74 of the Act on Bankruptcy etc. shall apply, for instance, providing that any person who neither knew nor should have known of the winding-up can acquire rights against the financial undertaking in connection with dispositions made prior to the publication of an announcement of winding- up. The party concerned shall be deemed to have been unknowing

of the commencement of winding-up, if such an announcement has not been made, unless otherwise demonstrated. The party concerned shall furthermore be deemed to have known of the commencement of winding-up, if such an announcement has been made, unless otherwise demonstrated.][2)]

Once a Winding-up Board has been appointed for a financial undertaking, the board shall without delay publish an invitation to lodge claims in the winding-up in the Legal Gazette (Icel. Lögbirtingarblaðið). The same rules shall apply concerning the contents of the invitation to lodge claims, the time limit for submitting claims and notices or advertisements for foreign creditors as apply to insolvency liquidation.

[[Upon the winding-up of a financial undertaking, the rules of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms or the Act on Bankruptcy, etc. shall apply, as applicable, on the priority and validity of claims.][3)]

To the extent that the priority of claims can be determined under the Act on Bankruptcy etc. the time a court ruling on liquidation is issued, the date of the court ruling on the winding-up of a financial undertaking shall apply.] [4)]

Provisions of Chapter XVIII and of Part 5 of the Act on Bankruptcy etc. shall apply to handling of claims against a financial undertaking in its winding-up, including regarding the effect of not lodging a claim; meetings of the Winding-up Board to discuss recognition of claims lodged shall be called creditors' meetings. If the Winding-up Board is of the opinion, upon the expiration of the time limit for lodging claims, that it is likely that the undertaking's assets will suffice to cover its debts in full, then it is not obliged at that time to take decisions on the ranking of individual claims in priority.

Once the time limit for lodging claims has expired, the Winding-up Board shall assess whether it appears that a financial undertaking's assets will suffice to cover its obligations. A report on this assessment must be submitted and presented to the first creditors' meeting held after the expiry of the time limit for lodging claims.

The Winding-up Board may, after the expiration of the time limit for lodging claims, pay in one or more payments recognised claims [with reference to Art. 109-112 of the Act no. 21/1991 on Bankruptcy etc.][2)] in part or in full, to such extent as the assets of the financial undertaking will assuredly cover payments of at least as much towards all other claims of equal ranking in priority which have not been finally rejected. It shall be ensured that all creditors holding recognised claims ranked with the same priority receive payment at the same time; however, derogations may be made from this with the approval of those who do not receive payment or pursuant to a decision by the Winding-up Board if a creditor offers to waive its claim in return for partial payment thereof, the amount of which is regarded as definitely lower than other equally ranked creditors will receive at a later stage, taking into consideration for instance whether their claims will bear interest until paid. [If the Winding-up Board exercises its authority pursuant to the above to pay claims in part or in full, but a dispute on recognition has not been resolved regarding a claim which could rank equally in priority, the Winding-up Board shall deposit in a special escrow account an amount corresponding to the payment of that claim or toward the maximum amount possible according to the claim lodged by the creditor in question. [Once a final conclusion has been reached on the dispute, the proportion of this claim paid into the escrow account, together with accrued interest, shall be paid to the creditor to the extent the claim has been recognised, but any funds remaining shall revert to the financial undertaking. If interim distributions are made in more than one currency, a special escrow account can be established for each currency. Upon each interim distribution which is made with a deposit into special escrow accounts, creditors receiving payment shall be sent notification; by deposit to such an account an interim distribution shall be deemed to have been made to the creditor concerned. A special escrow account in the understanding of the provision shall refer to a custody deposit account in the name of the financial undertaking, opened for the purpose of depositing interim distributions.][2)][5)][6)]

[1)]Act no.130/2004, Art.9. [2)]Act no.78/2011, Art.4. [3)]Act no.38/2021 Art.17. [4)]Act no.70/2020, Art.103 [5)]Act no.75/2010, Art.50. [6)]Act no.44/2009, Art.6.

[Article 103][1)]

[Disposition of the interests of a financial undertaking etc.

In winding-up a financial undertaking, the Winding-up Board shall dispose of its interests following the same rules as apply to the administration of an estate under liquidation, with the exceptions resulting from provisions of this Article . Any dispute on such disposal shall be resolved in accordance with the provisions of the Act on Bankruptcy etc. [Notwithstanding the provisions of the fourth paragraph of Art.77 of the Act on Bankruptcy etc., a meeting of creditors may make a decision on the non-liability of persons who are members of the Winding-up Board of a financial undertaking in liquidation, cf. fourth paragraph of Art.101, regarding dispositions provided for in the fourth sentence of the second paragraph of this Article . A creditor who votes against a measure pursuant to the fourth sentence of the second paragraph or conveys his/her position in another verifiable manner to the Winding-up Board before a decision is made at the creditors' meeting is not bound by such a decision on non-liability.][2)]

The Winding-up Board shall aim to obtain as much as possible for the assets of a financial undertaking, by, if necessary, waiting the full term of the outstanding claim rather than selling it earlier, unless the interests of the creditor, and as applicable, shareholder or guarantee capital owner, are better served by disposing of such rights at an earlier stage in order to be able to conclude the winding-up process. [For the same purpose, the Winding-up Board is authorised to invest the assets in debt instruments issued by commercial banks or savings banks, securities and money market instruments by one or more states within the European Economic Area or their municipalities, international organisations, to which one or more of these states are members, or which states outside the European Economic Area issue or guarantee.][2)] To this end the Winding-up Board may, for instance, disregard a resolution by a creditors' meeting which it considers contrary to this objective. [Notwithstanding the provisions of Chapter XIX of the Act on Bankruptcy etc., the Winding-up Board is authorised to dispose of the assets and other rights of a financial undertaking through transactions with the Central Bank of Iceland or in another way, cf. Temporary Provisions III in the Central Bank of Iceland Act, as the case may be, free of charge, in order to complete winding-up proceedings if it can be considered that it serves the interests of creditors and, as the case may be, shareholders or guarantee capital owners. The Winding-up Board shall notify in advance of such a measure at a meeting with creditors, in accordance with the third sentence of the third paragraph. The Winding-up Board is also authorised to subject financial undertakings to further financial obligations insofar as it is possible to complete the winding-up process with a composition agreement and if it can be shown that it serves the interests of creditors and, as the case may be, shareholders or guarantee capital owners.][2)]

The Winding-up Board shall call a creditors' meeting for the same purpose as an administrator holds a meeting with creditors of an estate in insolvency proceedings. If the Winding-up Board has reached the conclusion in its report, as referred to in the [sixth paragraph of Art.102.][3)], that it appears that the financial undertaking's assets will suffice for its obligations, the Winding-up Board shall, in tandem with creditors' meetings, hold meetings with shareholders or guarantee capital owners to seek their opinions on the disposition of the undertaking's assets. [The Winding-up Board . . [3)] is furthermore obliged to inform creditors of all major actions involving the sale or disposition of assets or other rights of a financial undertaking at meetings convened by the Winding-up Board in the normal manner.][4)]

[If it is not evident that the assets of a financial undertaking will be sufficient to fully satisfy its obligations, voiding may be demanded according to the same rules that apply to the voiding of measures in a liquidation. All the provisions of Chapter XX of the Act on

Bankruptcy etc., No. 21/1991, shall then apply to the winding-up proceedings in the same manner as in a liquidation, with the exception that the time limit to bring suit for voiding as provided for in the first paragraph of Art.148 of the same Act shall be [30 months][5] instead of six months. [Cases brought by a Winding-up Board on the basis of this provision shall be filed with the District Court where the financial undertaking was placed in winding-up, as referred to in the third and fourth paragraphs of Art.101][5]][6]][7]

[1] Act no.130/2004, Art.9. [2] Act no.59/2015, Art.1. [3] Act no.70/2020, Art.103. [4] Act no.78/2011, Art.5 [5] Act no.146/2011, Art.1. [6] Act no.132/2010, Art.1. [7] Act no.44/2009, Art.7.

[Article 103(a)

Conclusion of winding-up proceedings.

If a Winding-up Board has concluded payment of all recognised claims against a financial undertaking and, as the case may be, put aside funds for payment of disputed claims and realised its assets as necessary, it shall conclude the winding-up proceedings either by:

1. returning the undertaking to its shareholders or guarantee capital owners, if a meeting of these parties called by the Winding-up Board has, with the votes of parties controlling at least $^2/3$ of its share capital or guarantee capital, approved the recommencement of the undertaking's activities and a new board of directors has been elected to take over from the Winding-up Board, provided that the Financial Supervisory Authority has given its approval thereto and that the undertaking satisfies other statutory requirements to recommence its activities; or

2. paying to shareholders or guarantee capital owners their portion of the remaining value of assets, in accordance with a scheme for distribution which shall comply with the provisions of Chapter XXII and Part 5 of the Act on Bankruptcy etc.; in the case of a savings bank, however, assets remaining following payment of guarantee capital shall be disposed of in accordance with its Articles of Association and these assets may not be distributed to guarantee capital owners . . . [1]

Winding-up proceedings may be concluded as provided for in point 1 of the first paragraph even if payment of all recognised claims has not been made, if those creditors who have not yet received satisfaction agree to such.

If the financial undertaking's assets do not suffice for full payment of claims which have not been finally rejected in the winding-up proceedings, the Winding-up Board may, when it considers the time ripe to do so, seek composition with creditors to conclude the proceedings. The Winding-up Board shall then draft a scheme of arrangement following the rules of Art.36 of the Act on Bankruptcy etc., and call a creditors' meeting to put it to a vote. [A scheme of arrangement shall take into account all assets of a financial undertaking and contain a timeframe for the total settlement of its assets. The Winding-up Board is authorised to deviate from the instructions in the first and second sentences of the first paragraph of Art.36 of the Bankruptcy Act so that it is permitted to offer payments which will be subject to caveats regarding the collection and redemption of the financial undertaking's assets, provided that such caveats are clearly mentioned in the scheme of arrangement. The Winding-up Board is also authorised according to the second paragraph of Art.36 of the Bankruptcy Act, cf. the third paragraph of Art. 29 of the same Act, to propose in a scheme of arrangement that the amount of contractual claims that can be paid in full can amount to up to a quarter of the total payments proposed in a scheme of arrangement. A scheme of arrangement can also stipulate that new shares [or share capital][2] be issued in the financial undertaking and that they can be paid for with set-off arrangements for a certain part of the claim when it has been approved in the winding-up proceedings and as part of the composition agreement. If it is evident that the assets of a financial undertaking are not sufficient to meet its obligations in the opinion of the Winding-up Board as provided for in [the sixth paragraph of Art.102],3) cf. the fourth paragraph of Art.103, regarding such a proposal to increase the share capital, it is permitted to fully reduce the previously

registered share capital without compensation to the shareholders and without a call or notification to shareholders in accordance with the provisions of Chapter VII of the Public Limited Companies Act.][4] [The same applies, mutatis mutandis, to a financial undertaking in winding-up proceedings which previously operated as a savings bank in the legal form of a self-governing foundation. If the authorisations in the sixth to eighth sentence are exercised to issue new shares or guarantee capital in the financial undertaking in winding-up proceedings, which must be paid through set-off arrangements for a certain part of the claim, when it has been approved in the winding-up proceedings and as part of the composition agreement, the fourth paragraph of Art.101 shall apply to the work of the Winding-up Board until a shareholders' meeting or a meeting of the guarantee capital owners of the undertaking has taken place and elected a new board of directors for the undertaking.][2] [Efforts to seek composition shall be governed in other respects by the provisions of the second paragraph of Art.149 and Art. 151-153 of the same Act on Bankruptcy etc. with the difference, however, that the time limit provided for in the first paragraph of Art.51 of the same Act shall be eight weeks; the Winding-up Board shall perform the tasks otherwise incumbent upon an administrator and hold meetings with creditors concerning these endeavours.][5] [In the scheme of arrangement of a financial undertaking, the Winding-up Board is also authorised to deviate from the fourth paragraph of Art.30 of the Act on Bankruptcy etc. so that the position of claims is considered at the expiration of the time limit for lodging claims, irrespective of their transfers up until that time.][4] [The Winding-up Board may propose at the creditors' meeting that only those creditors who are registered in the claim register on the day on which the scheme of arrangement is proposed, or at a later date and until a vote is taken on a proposed scheme, be allowed to vote on the draft composition. If there is a change in ownership after the referenced timeframe, the new creditor is still allowed to vote on a draft scheme of arrangement if he/she notifies the Winding-up Board of the change of creditors and submits documents that prove the transfer of the claim. The same applies, mutatis mutandis, to the right to receive payment according to the provisions of the scheme of arrangement after the scheme has been endorsed.][2] If a scheme of arrangement is approved, the Winding-up Board must seek its endorsement according to the rules in Chapter IX of the same Act. [The winding-up proceedings are considered completed in accordance with the provisions of this paragraph when a composition agreement has been confirmed, unless the first paragraph applies. The fulfilment of obligations to creditors is governed by the composition agreement.][2] [[A scheme of arrangements for a financial undertaking shall be deemed approved if supported by the same proportion of votes, weighted according to the claim amounts of voters, as the proportional reduction of contractual claims proposed under the scheme, but no less than a minimum of 60% of those votes and no more than a maximum of 85%.][2] Furthermore, it must be approved [by 60%][4] of the votes of those voters exercising their voting rights in the composition.][2] [A contractual creditor acting as a representative for a collection of claims against a debtor may authorise one or more parties to vote on their claims. It is permitted for this purpose to divide the votes of contractual creditors according to his/her statement thereon][4]][6] [When voting on the proposed scheme of arrangement of a financial undertaking, a waiver may be granted to the condition of the first paragraph of Art.50 of the Bankruptcy Act, which states that a vote must be sent in writing, unlike the statement of claim, and that it is therefore sufficient for the vote to be cast electronically and for the Winding-up Board to have verifiably received it before the voting session begins. The Winding-up Board shall record such votes that have been received in the minutes, as provided for in the fourth paragraph of Art.50 of the Act on Bankruptcy etc.][4]

[The request for the confirmation of the composition agreement of a financial undertaking shall, in addition to the data mentioned in the second paragraph of Art.54 of the Act on Bankruptcy etc., be accompanied by the Central Bank of Iceland's assessment of the economic impact of the scheme of arrangement as well as its impact on exchange rate and monetary and financial stability. The District Court judge shall reject a financial undertaking's request for confirmation of a composition agreement as provided for in the first paragraph of Art.57 of the Act on Bankruptcy etc. if the Central Bank of Iceland's certificate states that the scheme is

considered to disrupt exchange rate and monetary stability and/or financial stability.

The scheme of arrangement of a financial undertaking may stipulate that claims according to Art. 109-112 of the Act on Bankruptcy etc. will first be paid from the financial undertaking's assets, notwithstanding the provisions of the second paragraph of Art. 153 of that Act, before contractual claims are paid, without adequate collateral being provided for their payment or before the parties in question agree in writing that the composition agreement should be confirmed without such conditions.

If there is a dispute over a claim, which has been lodged according to Art. 112-113 of the Act on Bankruptcy etc., and which has not been resolved with the confirmation of a composition agreement, the Winding-up Board is authorised to deposit a composition payment for the maximum amount possible according to the claim lodged by the creditor in question in a custody deposit account and/or escrow account in the name of the financial undertaking, opened for the purpose of depositing composition payments. If the Winding-up Board exercises this authority, the creditor who receives the payment must be notified, and the Winding-up Board is then deemed to have made a composition payment to the relevant creditor. Once a final conclusion has been reached on the dispute, the proportion of this claim paid into the custody deposit account and/or escrow account, together with accrued interest, shall be paid to the creditor to the extent the claim has been recognised, but any funds/or securities remaining shall revert to the financial undertaking. If interim distributions are made in more than one currency, special accounts can be established for each currency. If, in other respects, a composition payment cannot be made to the creditor in accordance with the provisions of the composition agreement, due to events concerning the creditor, the Winding-up Board can fulfil the agreement by making a payment into a custody deposit account and/or escrow account and otherwise in accordance with the authorisations of this paragraph. [If, due to the nature of the composition payment, it is not possible to deposit it into a custody deposit account and/or escrow account, the Winding-up Board is authorised to take other measures to ensure that the composition payment reaches the creditors when the dispute has been resolved or when the creditor can accept the composition agreement. An account of such measures must be included in the composition proposal and when the measures have been implemented, a composition payment is deemed to have been made to the relevant creditor.][2)]4)

If it is established that a financial undertaking's assets are insufficient to fully fulfil its obligations, and the Winding-up Board considers it evident that there will be no basis for seeking composition with creditors, as referred to in the third paragraph, or if a scheme of arrangement has not been approved or a request for its confirmation has been refused, the Winding-up Board shall request of the District Court, which appointed it, that the undertaking's estate be placed in liquidation. A creditor may do the same if its claim has been recognised in winding-up proceedings and either attempts by the Winding-up Board to seek composition with creditors have been unsuccessful or the creditor demonstrates that the legal conditions for seeking composition with creditors do not exist, or such a large number of creditors are opposed to composition that there is no possibility of achieving composition based on available information on the undertaking's financial situation. To advance such a claim, however, a creditor must demonstrate that it has legally sanctioned interests in achieving liquidation rather than allowing the undertaking to continue in winding-up proceedings.

If the estate of a financial undertaking is placed in liquidation, all actions taken during the winding-up proceedings concerning claims against the undertaking, including the invitation to lodge claims and the processing of claims lodged, shall remain unaltered but the administrator shall have an advertisement published in the Legal Gazette stating that the estate has been placed in liquidation. In other respects the general rules on insolvency proceedings shall apply, with the exceptions that provisions of the second paragraph of Art.103 shall apply mutatis mutandis, and that the date the court ruling on the winding-up of the financial

undertaking was issued shall replace, with regard to legal effect, the date the ruling on insolvency was issued.][7)]

[1)]Act no.76/2009, Art.14. [2)]Act no.107/2015, Art.4. [3)]Act no.70/2020, Art.103. [4)]Act no.59/2015, Art.2 [5)]Act no.116/2015, Art.1. [6)]Act no.78/2011, Art.6. [7)]Act no.44/2009, Art.8.

[Article 104

[*Winding-up of a credit institution or investment firm with head offices in Iceland and branches in another EEA state*.] [1)]

[Should an Icelandic court decide on the winding up of a credit institution [or investment firm... [2)]][1)] which is established and licensed to operate in Iceland, this authorisation shall automatically apply to any branches operated by the [undertaking][1)] in other Member States.][3)] The legal effect, procedure and implementation of the decision shall be governed by Icelandic law, with those exceptions listed in the second paragraph of Art.99.

The court shall ensure that the Financial Supervisory Authority is notified immediately of the decision on winding-up.

[If an [undertaking as provided for in the first paragraph][1)] operates branches in other Member States, the Financial Supervisory Authority shall forward information on the request to the competent authorities in the states concerned, as provided for in rules[4)] set by the Minister.][3)]

[If a known creditor of an [undertaking as provided for in the first paragraph][1)] is resident in another Member State, the administrator shall, without delay, inform the administrator of the commencement of winding-up.][3)] The notification shall state the time limits for lodging claims, where claims are to be lodged and the consequences of failure to lodge claims, as provided for in rules[4)] set by the Minister.][5)]

[1)]Act no.115/2021, Art.148. [2)]Act no.38/2022 Art.110. [3)]Act no.108/2006 Art.82. [4)]Reg. 872/2006. [5)]Act no.130/2004, Art.11.

[Article 105

[*Winding-up of a credit institution or investment firm with its head office abroad and a branch in Iceland*.][1)]

[A branch which is operated in Iceland by a credit institution [or investment firm...[2)]][1)] with a head office in another Member State will not be granted an independent authorisation to wind up in Iceland. If the competent authority in another Member State decides on the winding-up of an [undertaking][1)] located and established in that state, the decision will automatically apply to branches operated by the [undertaking][1)] in Iceland. The winding-up of an [undertaking][1)] as provided for in this Article shall mean collective proceedings opened and supervised by an administrative or judicial authority in another Member State, intended to realise assets under the supervision of those authorities.][3)]

The legal effect, procedure and implementation of the decision shall be governed by the law of the home state, with those exceptions listed in the second paragraph of Art.99.

Should a petition for bankruptcy proceedings be advanced based on the second paragraph of Art.6 of the Act on Bankruptcy etc. for a branch which a credit institution [or investment firm... [2)]][1)] established in a state outside the European Economic Area operates in Iceland, the District Court judge shall alert the Financial Supervisory Authority of such petition. If the [undertaking][1)] concerned operates branches in other states of the European Economic Area, the Financial Supervisory Authority shall notify the supervisory authorities in those states of the petition.][4)]

[1)]Act no.115/2021, Art.148. [2)]Act no.38/2022 Art.110. [3)]Act no.108/2006 Art.83. [4)]Act no.130/2004 ,Art.11.

[C.][1] Mergers.

[1]Act no.130/2004, Art.9.

[Article 106] [1]

[A merger of a financial undertaking with another undertaking is permitted only with the consent of the Financial Supervisory Authority. The transfer of individual operating units of financial undertakings to other undertakings by other means, such as sale, is also subject to the consent of the Financial Supervisory Authority. For the purposes of this provision, operating units shall mean viable units of a financial undertaking, e.g. branches.

A merger of a financial undertaking with another undertaking is only authorised if a decision thereto has been approved by a shareholders' meeting or meeting of guarantee capital owners in the undertaking taken with at least 2/3 of the votes cast, and furthermore the approval of shareholders or guarantee capital owners in the undertaking taken over controlling at least 2/3 of the share capital or guarantee capital represented at the meeting of shareholders or guarantee capital owners. If the undertaking taken over is completely owned by the company taking it over, voting as provided for in the first sentence of this paragraph in the taken-over company is not required.][2)...3)]

In other respects mergers of financial undertakings are subject to provisions of the Act on Public Limited Companies, as appropriate, and agreements between the parties concerned.

A financial undertaking which is wound up as the result of a merger is not obliged to issue an invitation to creditors to lodge claims or to keep its assets separate. Changes in ownership in mortgage registers resulting from mergers of financial undertakings shall be exempt from stamp duties.

[The Financial Supervisory Authority shall announce mergers or transfer of operating units of financial undertakings in the Legal Gazette. The announcement must specify when the merger or transfer takes effect, the names of the undertakings concerned, the time limit for submitting objections to the transfer of deposits, conceivable changes to the payment locations for debt instruments and other aspects which need to be made known to customers in particular.][2)]

When two or more financial undertakings merge, the own funds formed by the merger shall not be less than the combined own funds of the undertakings concerned at the time the merger took place, if the minimum provided for in Art.14 [and Art.14(a)][4)] has not been reached.[3)]

[1)]Act no.130/2004, Art.11. [2)]Act no.96/2008, Art.11. [3)]Act no.77/2012, Art.7. [4)]Act no.38/2022, Art.111.

Chapter XIII

Supervision

A. General authorisations for supervision

[Article 107] [1]

[*Regulated activities and authorisations for obtaining information.*][2)]

[The Financial Supervisory Authority shall supervise [*inter alia* the implementation of this Act][2)] , the activities of financial undertakings and [financial institutions][3)] to which the provisions of this Act apply, as well as activities of Icelandic financial undertakings [and financial institutions][2)] abroad, unless otherwise provided for by law or international agreements to which Iceland is a party. Furthermore, the Financial Supervisory Authority shall supervise [subsidiaries],[4] [affiliated undertakings][2)] and funds pursuing the activities listed in Chapter IV, to the extent required for regulated activities, in addition to supervising

the owners of qualifying holdings as provided for in Chapter VI. Supervision shall be as provided for in this Act and the Act on Official Supervision of Financial Activities.

[The Financial Supervisory Authority supervises the activities of financial holding companies, mixed holding companies and mixed financial holding companies that are established or operate in Iceland. The supervision of the Financial Supervisory Authority as a supervisory body on a consolidated basis covers the activities of financial holding companies, mixed holding companies and mixed financial holding companies, the parent company of such companies and their subsidiaries, when they are located in another country, and the supervision can therefore be conducted in cooperation and consultation [with the competent authorities][2] in the relevant Member State in accordance with [Section C of this chapter][2]].[5]][6]

The Financial Supervisory Authority may demand any sort of data or information from [subsidiaries][4] or [affiliates][2] or from other parties regarded as having close connections with a financial undertaking, which the Financial Supervisory Authority regards as necessary in the course of its supervision of the financial undertaking concerned.

The Financial Supervisory Authority may demand any sort of data or information from [the financial holding companies, mixed holding companies and subsidiaries of such companies],[5] provided the Financial Supervisory Authority deems such information to be necessary for its supervision of financial undertakings which are subsidiaries of these holding companies.

[The Financial Supervisory Authority shall oversee dealings by a financial undertaking with its subsidiaries and affiliated companies, companies which control or have holdings in the financial undertaking, and other subsidiaries and affiliated companies of such companies. Furthermore, the Financial Supervisory Authority shall oversee transactions between a financial institution and individuals with holdings of 20% or more in the above-mentioned companies. [The transaction shall be subject to the same rules as transactions with regular customers in similar transactions.][3] Financial undertakings must submit a report to the Financial Supervisory Authority on [all their significant transactions with mixed holding companies that are parent companies and other subsidiaries of the mixed holding companies, other than those referred to in Art.394 of Regulation (EU) no. 575/2013, and on other transactions according to this paragraph][2] in accordance with its specific decision. Where the transactions are with enterprises or individuals in other states, co-operation between supervisory authorities shall be as provided for in international agreements to which Iceland is a party and co-operation agreements concluded by the [Central Bank of Iceland][7] on their basis.

The Financial Supervisory Authority may, at the request of supervisory authorities in another state, verify information from parties in Iceland subject to supplementary supervision of financial conglomerates. The supervisory authorities concerned may participate in efforts to verify such information.][8]

If the Financial Supervisory Authority is of the opinion that activities covered by this Act are being carried out without the required authorisation, it may demand documentation and information from the parties concerned or from regulated entities, as necessary to determine whether this is the case. It may demand that such activities cease immediately. Furthermore, the Authority may make public the names of parties considered to be offering services without the required authorisations.

Provisions of the Act on the Official Supervision of Financial Activities on daily fines ,[on-site inspections][5] and on searches and seizure of documents may be applied for obtaining information and carrying out supervision as provided for in this Article.

. . . [2]

[1]Act no.130/2004, Art.11. [2]Act no.38/2022 Art.112. [3]Act no.96/2016, Art.53. [4]Act no.57/2015, Art.34 [5]Act no.54/2018, Art.10. [6]Act no.67/2006, Art.14. [7]Act no.91/2019, Art.36. [8]Act

no.130/2004 Art.13.

[Article 107(a)

Supervisory powers.

The Financial Supervisory Authority shall demand that a financial undertaking take the necessary corrective measures in a timely manner if the undertaking does not comply with the provisions of this Act, as well as the regulations and rules adopted by virtue of it.

If, on the basis of data or information in its possession, the Financial Supervisory Authority considers it likely that a financial undertaking will not be able to comply with the provisions of this Act within the next 12 months, as well as the regulations and rules deriving from it, the Financial Supervisory Authority shall require the financial undertaking to take the necessary corrective measures in a timely manner. Corrective measures may include, among other things, the application of powers pursuant to this Article or other provisions of the law that are necessary to respond to the situation of the relevant financial undertaking.

To enforce the requirements and follow up on the evaluation as provided for in Art.80 and the fourth and fifth paragraphs of Art.81, third paragraph of Art.109(ff) and the first and second paragraphs of this Article and Regulation (EU) no. 575/2013, the Financial Supervisory Authority is authorised to prescribe:

1. higher own funds requirements than those laid down in Regulation (EU) no. 575/2013

2. improvements to internal processes, cf. Chapter IX,

3. that a financial undertaking present a special plan on how the undertaking will fulfil the requirements of this Act as well as the regulations and rules deriving from it, and set deadlines for financial undertakings regarding the implementation of the plan, including due to delays or improvements made to the plan.

4. write-down of assets in the calculation of own funds.

5. limiting or restricting a financial institution's activities or, as applicable, sale or assets or business units that create excessive risk.

6. reduction of the risks entailed by the undertaking's activities, products or system, including due to outsourced activities.

7. that financial undertakings limit bonuses to a percentage of net profits when payouts lead to insufficient own funds.

8. that financial undertakings use net profits to strengthen its own funds.

9. that dividend and interest payments to shareholders, guarantee capital owners and owners of additional Tier 1 instruments shall be limited or prohibited, provided this does not cause the financial undertaking to default.

10. Imposing specific liquidity requirements, including due to maturity mismatches between a financial undertaking's assets and liabilities.

11. More frequent reporting requirements.

12. Additional disclosure to the market.

The Financial Supervisory Authority shall prescribe higher own funds as provided for in point 1 of the third paragraph, if the review and evaluation as provided for in Art.80 or Art.109(ff) reveals that the activities of a financial undertaking are such that:

1. A financial undertaking does not meet the conditions and requirements laid down in Art.50, Art.77(a) or Art.77(b) of this Act or Art.393 of Regulation (EU) no. 575/2013 and it is unlikely that other control measures will be sufficient to ensure that it does so within a reasonable period of time.

2. Risk factors are not sufficiently covered by the capital requirements laid down in Sections 3, 4 and 7 of Regulation (EU) no. 575/2013, although not if the risk factors are covered by transition arrangements or provisions of applicable laws.

3. It is unlikely that changes in the valuation of positions or asset portfolios in the trading

book enable a financial undertaking to sell or protect assets over a short period of time without incurring significant losses considering normal market conditions, cf. the fourth paragraph of Art.81.

4. An evaluation as provided for in the third paragraph of Art.109(ff) reveals that a financial undertaking does not meet the conditions for the use of internal methods and there is a possibility that this will lead to insufficient own funds.

5. It does not reach or repeatedly fails to maintain own funds that meet the Financial Supervisory Authority's guidance on additional own funds as laid down in Art.107(b).

6. There is cause for serious concern due to other circumstances that are specifically relevant to the financial undertaking in question.

The Financial Supervisory Authority shall notify the resolution authority of a request for higher own funds, pursuant to point 1 of the third paragraph and guidance on additional own funds according to Art.107(b).

Capital to meet the higher own funds requirements as provided for in point 1 of the third paragraph shall be composed as follows:

1. Common Equity Tier 1 capital shall amount to a minimum of 56.25% of the additional requirement.

2. Tier 1 capital shall amount to a minimum of 75% of the additional requirement.

Capital to meet higher own funds requirements as provided for in point 1 of the third paragraph regarding excessive leverage shall be composed of Tier 1 capital:

The Financial Supervisory Authority may require that the Tier 1 capital or Common Equity Tier 1 capital amount be increased to a higher ratio than specified in paragraphs 6 and 7 if the circumstances of the relevant financial undertaking require it.

It is permitted to determine a special requirement for a financial undertaking's liquidity, as provided for in point 10 of the third paragraph, which must take into account the liquidity risk to which it is or may be exposed. When assessing whether a special liquidity requirement should be placed on a financial undertaking, the following factors must be taken into account:

1. the company's business model,

2. its handling of liquidity risk, i.a. on the basis of Art.78(h),

3. results of the review and evaluation process and stress tests on the basis of Art.80.

The Financial Supervisory Authority shall notify the European Banking Authority of actions it takes due to insufficient measures of a financial undertaking to cover liquidity risk that could threaten the undertaking's position or cause systemic risk.][1)]

[1)] *Act no.38/2022 Art.113.*

[Article 107(b)

Guidance on additional own funds.

The Financial Supervisory Authority shall notify financial undertakings of the guidance on additional own funds it deems desirable, in particular on the basis of a stress test as provided for in the seventh paragraph of Art.80, in excess of its obligations under this Act and the requirements of the Financial Supervisory Authority laid down in Art.107(a) to cover risks that the obligation does not cover sufficiently.][1)]

[1)] *Act no.38/2022 Art.113.*

[Article 107(c)

Early interventions by the Financial Supervisory Authority.

The Financial Supervisory Authority can apply early interventions against a credit institution or investment firm with guarantee capital as provided for in the second paragraph

of Art.14(a) if:

a. the undertaking violates the provisions of this Act or government directives based on them and regulations established on their basis, including Regulation (EU) no. 575/2013 or

b. it is likely that, due to a deteriorating financial situation, including a deteriorating liquidity position, increased hedging, increased defaults by borrowers or a concentration of exposures, that the undertaking will violate the Act or government directives as provided for in point (a).

If the circumstances referred to in points (a) or (b) exist, the Financial Supervisory Authority can implement or demand that a credit institution or investment firm take at least one or more of the following actions:

1. Take measures prescribed in the recovery plan or update the recovery plan and carry out actions according to the updated plan.

2. Submit an action plan with a timeframe to the Financial Supervisory Authority.

3. Call a shareholders' meeting or guarantee capital owners meeting. If that requirement is not complied with, the Financial Supervisory Authority can call a shareholders' meeting or guarantee capital owners meeting. In both cases, the Financial Supervisory Authority determines the agenda of the meeting and can demand that certain issues be discussed and decided upon.

4. Dismiss one or more board members and/or managing director, if they do not meet the requirements as provided for in Art.52, Art.52(a) and Art.54.

5. Submit to the Financial Supervisory Authority a plan for negotiations on debt restructuring with creditors.

6. Change the undertaking's business strategy.

7. Restructure the undertaking.

The Financial Supervisory Authority shall grant an undertaking a reasonable period of time to complete the actions it has requested pursuant to the second paragraph.

In the circumstances referred to in point (a) or (b) of the first paragraph, a credit institution or investment firm is obliged to provide the Financial Supervisory Authority with all the information deemed necessary to be able to update the resolution plan and assess the assets and liabilities of the relevant undertaking and its possible resolution procedure according to the Act on Resolution of Credit Institutions and Investment Firms. The resolution authority shall have access to that information. The Financial Supervisory Authority shall immediately inform the resolution authority of a credit institution or investment firm if the circumstances are such that an early intervention is permitted pursuant to the first paragraph.

The Central Bank of Iceland may set rules that define the criteria for when the Financial Supervisory Authority can apply early interventions due to the deterioration of the financial position of credit institutions and investment firms as provided for in point (b) of the first paragraph.][1)]

[1)]Act no.38/2022 Art.113.

[Article 107(d)

Dismissal of the board of directors and managing director with early interventions.

As provided for in the first sentence of the first paragraph of Art.107(c), the Financial Supervisory Authority can dismiss the board of directors of a credit institution or investment firm, partly or in whole, as well as the managing director, if the undertaking has seriously violated the provisions of the Act, government directives or Articles of Association of the undertaking or if serious criticism has been levelled against the management.

The Financial Supervisory Authority's dismissal decision as provided for in the first paragraph also applies if the finances of a credit institution or investment firm have deteriorated significantly or actions pursuant to Art.107(c) have not or are not likely, in the

opinion of the Financial Supervisory Authority, to correct the financial position of an undertaking.][1)]

[1)] *Act no.38/2022 Art.113.*

[Article 107(e)

Temporary administrator.

If the Financial Supervisory Authority considers that the removal of the board of directors and the managing director pursuant to Art.107(i) is not sufficient to correct the financial position of a credit institution or investment firm as provided for in the first sentence of the first paragraph of Art.107(c), it can appoint a temporary administrator to the company.

The appointment of a temporary administrator according to the first paragraph may mean:

a. that one or more temporary managers take over the board in part or in whole, or

b. that one or more temporary managers work with the current board.

The provisions of this Act and the Act on Public Limited Companies apply as appropriate to a temporary administrator who is appointed in accordance with point (a) of the second paragraph. The provisions of Art. 63 and 68 of Act no. 2/1995 on Public Limited Companies do not apply to the appointment of a temporary administrator who is appointed in accordance with point (a) of the second paragraph, and a meeting of the guarantee capital owners or shareholders cannot remove the interim administrator from office.

When the Financial Supervisory Authority appoints a temporary administrator, the letter of appointment to him shall, as appropriate, stipulate:

1. The term of office.

2. Principal tasks.

3. Duties.

4. Sphere of authority, both powers and limitations.

5. What decisions must the board submit to the temporary administrator, if it has not been dismissed.

6. What decisions does the temporary administrator need to submit to the Financial Supervisory Authority.

7. Submission of reports to the Financial Supervisory Authority.

The term of office of an appointed temporary administrator shall be a maximum of one year. Under special circumstances, the Financial Supervisory Authority may extend the term of office. The Financial Supervisory Authority can at any time change the appointment of a temporary administrator according to the second paragraph and his mandate according to the fourth paragraph, or dismiss the temporary administrator.

The Financial Supervisory Authority assesses the eligibility of the temporary administrator. The eligibility requirements of the temporary administrator are governed by Art.52 and Art.52(a).

Temporary administrators are only liable for damage caused by them in their duties with intent or gross negligence.][1)]

[1] *Act no.38/2022 Art.113.*

[Article 107(f)

Contractual provisions set aside.

If the Financial Supervisory Authority takes action pursuant to Art.107(c) to Art.107(e), on a credit institution or investment firm, the actions, including events arising therefrom, do not correspond to a default under the agreement on financial collateral arrangements nor are they equivalent to a ruling on a licence of cessation of payments, authorisation to seek composition or bankruptcy proceedings under the Bankruptcy Act, etc. The provision of the

first sub-paragraph is subject to the condition that the undertaking continues to fulfil the principal obligations of a contractual relationship, including regarding payments, delivery and the granting of collateral rights.

The content of an undertaking beyond the principal obligations of a contractual relationship, as provided for in the first paragraph, provide that under the measures of the Financial Supervisory Authority, as provided for in Art.107(c) to Art.107(e), the undertaking's contractual partners do not automatically have the right to:

1. Exercise the right to terminate, cancel, repeal or amend contractual obligations or payment or netting arrangements on the basis of a contract.
2. Acquire ownership, control or acquire collateral rights owned by the undertaking;
3. Affect the contractual rights of the undertaking.

The provisions of the first and second paragraphs apply to agreements entered into by a subsidiary and which the parent company or other undertaking within a group guarantees or otherwise supports. The provisions of the first and second paragraphs also apply to agreements between undertakings within a group that include cross-default provisions.][1)]

[1)]Act no.38/2022 Art.113.

[Article 107(g)

Early interventions on a consolidated basis.

If conditions for actions, as provided for in Art.107(c.) or Art.107(e.), exist with respect to a parent company in the top tier of a group in the European Economic Area, which is located in Iceland, the Financial Supervisory Authority, as a supervisory body on a consolidated basis, shall consult with other competent authorities within the supervisory colleges and notify the European Banking Authority before taking action against the parent company. The Financial Supervisory Authority's decision on actions shall then be notified to the competent authorities in the supervisory colleges and the European Banking Authority.

If the Financial Supervisory Authority, as a supervisory body on a consolidated basis, receives a notification from the competent authority of a subsidiary in accordance with the second paragraph of Art.107(h), it shall submit its assessment of the impact of the proposed actions on the group within three business days of receiving the notification.

When more than one competent authority within a college of supervisors wants to take one or more actions, in accordance with Art.107(c) or Art.107(e), with respect to more than one credit institution or investment firm within a group, the Financial Supervisory Authority, in cooperation with other competent authorities in the college of supervisors shall assess whether it is appropriate to appoint the same temporary administrator, as provided for in Art.107(e) for all the relevant undertakings or opt for the coordinated application of one or more measures as provided for in Art.107(c) towards one or more of the undertakings.

The Financial Supervisory Authority shall endeavour to make a joint decision with the relevant competent authorities in the college of supervisors and that decision shall be available no later than five business days after the information was submitted to the competent authorities pursuant to the first paragraph.

If a joint decision has not been reached after consultation as referred to in the first paragraph within the deadline stated in the fourth paragraph, the Financial Supervisory Authority shall make a decision to apply one or more measures, as provided for in Art.107(c) or Art.107(e), on the parent company. The Financial Supervisory Authority shall notify the parent company and competent authorities in the college of supervisors of its decision.

The Financial Supervisory Authority shall defer its decision in accordance with the first and fifth paragraph if any competent authority in the college of supervisors has referred its decision to the European Banking Authority or the EFTA Surveillance Authority pursuant to Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, before the end of the consultation period as provided for in the first paragraph

or the time limit stated in the fourth paragraph, and wait for a decision which the EFTA Surveillance Authority may take.

The decision of the Financial Supervisory Authority shall be in accordance with the conclusion of the EFTA Surveillance Authority.][1)]

[1)] *Act no.38/2022 Art.113.*

[Article 107(h)

Early intervention relating to the subsidiary of a parent company in the top tier of a group in the European Economic Area.

If the Financial Supervisory Authority supervises one or more subsidiaries, which are credit institutions or investment firms with guarantee capital as provided for in the second paragraph of Art.14(a), it shall consult with the supervisory body on a consolidated basis and notify the European Banking Authority if the conditions according to Art.107(c) or Art.107(e) for actions towards a subsidiary are fulfilled, before a decision on the application of the actions is taken. The Financial Supervisory Authority's decision on actions shall then be notified to the supervising entities on a consolidated basis and the relevant competent authorities in the college of supervisors.

The Financial Supervisory Authority may take a decision on the application of measures, pursuant to Art.107(c) or Art.107(e) towards a subsidiary that is subject to its supervision, as provided for in the first paragraph, if a joint decision is not reached with the supervisory body on a consolidated basis and, if applicable, other competent authorities within the time limit set in the fourth paragraph of Art.107(g). The Financial Supervisory Authority shall notify the subsidiary of the decision. The Financial Supervisory Authority shall postpone implementing the decision if the competent authority has referred the decision to the European Banking Authority or the EFTA Surveillance Authority, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, and await the decision which the EFTA Surveillance Authority may take. The decision of the Financial Supervisory Authority shall be in accordance with the conclusion of the EFTA Surveillance Authority.][1)]

[1)] *Act no.38/2022 Art.113.*

[Article 107(i)

Publication of information on prudential requirements.

The Financial Supervisory Authority shall regularly publish on its website:

1. Laws, government directives and guidelines relating to prudential requirements.
2. Information on how the options and scope of prudential rules of the European Economic Area are applied.
3. General criteria and methodology it applies in the review and evaluation process, including criteria for maintaining proportion[al]i[t]y.
4. Statistics on the implementation of prudential rules, including the number and type of administrative penalties and other control measures to address violations.

In connection with Section 5 of Regulation (EU) no. 575/2013, the Financial Supervisory Authority shall publish the following on its website:

1. The general criteria and methodology it applies to monitor compliance with Art. 405-409 of the regulation.
2. Annual summary of inspections and measures to address violations against Art. 405-409 of the regulation.

If the Financial Supervisory Authority grants a parent company an exemption pursuant to the third paragraph of Art.7 or the first paragraph of Art.9 of Regulation (EU) no. 575/2013, it shall publish on its website:

1. The criteria it applies to determine that there are no existing or foreseeable significant restrictions, legal or otherwise, on the prompt transfer of capital or repayment of debt.
2. The number of exempt parent companies and the number of subsidiaries in countries outside the European Economic Area.
3. A summary of:
   a. the total amount of own funds on a consolidated basis of a parent company that benefits from an exemption for subsidiaries in countries outside the European Economic Area,
   b. the proportion of own funds on a consolidated basis of a parent company that benefits from an exemption for subsidiaries in countries outside the European Economic Area,
   c. the proportion of total own funds which are required under Art.92 of the regulation on a consolidated basis for a parent company that benefits from an exemption for subsidiaries in countries outside the European Economic Area.][1)]

[1)]Act no.38/2022 Art.113.

[Article 107(j)

Confidentiality.

The Financial Supervisory Authority is bound by the Central Bank of Iceland Act in the implementation of this Act. The Financial Supervisory Authority may only use information that is subject to confidentiality and obtained during the implementation of this Act to fulfil its supervisory duties, including when determining penalties, and in lawsuits regarding the activities of the supervisory authority.][1)]

[1)]Act no.38/2022 Art.113.

[Article 108] [1)]

[*Justification.*

The Financial Supervisory Authority shall justify its decisions in writing regarding the application of supervisory powers or penalties pursuant to this Act.][2)]

[1)]Act no.130/2004, Art.11. [2)]Act no.38/2022 Art.114.

B. Supervision on a consolidated basis.

[Article 109] [1)]

[*Prudential requirements on a consolidated basis.*][2)]

[The provisions of Chapters VII, IX and IX A shall apply to groups where the parent company is a financial undertaking, mixed financial holding company or financial holding company. The parent company shall be responsible for implementation of this provision within the group. The provisions of Art.52 and Art.52(a) on the eligibility requirements of board members and managing directors and other duties of board members and provisions Chapter VII Section C on remuneration also apply to financial holding companies.][2)]

. . . [2)]

. . . [2)]

The Financial Supervisory Authority may decide that the provisions of the first paragraph of this Article and [the ninth and tenth paragraphs of Art.97][3)] shall also apply in other instances involving a financial undertaking which alone or jointly with another party has such ownership links to an undertaking that it is deemed necessary to apply these provisions.

[The Financial Supervisory Authority may decide that an undertaking shall be considered part of a consolidated financial undertaking when the financial undertaking has a decisive influence on the company.][4)]

The provisions of the first paragraph of this Article and [the ninth and tenth paragraphs of Art.97][3)] shall not apply to undertakings in which a financial undertaking has temporarily acquired a holding, either to ensure the enforcement of a claim or due to reorganisation of the undertaking, nor to enterprises pursuing insurance activities. The Financial Supervisory Authority may, however, decide that the said provisions shall apply.

The Fi[na]ncial Supervisory Authority may grant an exemption from the first paragraph. . .[2)] of this Article and [the ninth and tenth paragraphs of Art.97.][3)]

[The Financial Supervisory Authority may exempt a financial undertaking from the obligation to comply with requirements of this Act on an individual entity basis unit basis if it has granted an exemption pursuant to Art.7 of Regulation (EU) no. 575/2013.

The provisions of Chapters VII and IX do not apply on a consolidated basis to a subsidiary that does not fall under the scope of this Act and is established in a country outside the European Economic Area, if its parent institution in the European Economic Area can demonstrate to the Financial Supervisory Authority that it would be contrary to the laws of that country.

The provisions of Section C of Chapter VII do not apply on a consolidated basis to subsidiaries in the European Economic Area that are subject to other specific legislation on remuneration or subsidiaries outside the European Economic Area that would be so if they were established in the European Economic Area. The exception in the first sub-paragraph does not, however, apply to employees of a subsidiary that does not fall under the scope of this Act and is an asset management company or provides services pursuant to points (b), (c), (d) or (g) of the first paragraph of Art.4 of Act no. 115/2021 on Markets for Financial Instruments, if they perform duties that have a significant impact on the risk profile or operations of financial undertakings that belong to the group.][2)]

[1)]Act no.130/2004, Art.11. [2)]Act no.38/2022 Art.115. [3)]Act no.130/2004, Art.15. [4)]Act no.57/2015 Art.35.

[Article 109(a)

Conflict of laws.

When the requirements based on this Act and the Act on Additional Supervision of Financial Conglomerates regarding the activities of a mixed financial holding company are comparable, the Financial Supervisory Authority, if it is a supervisory body on a consolidated basis, may consult the competent authorities, cf. Section C of this chapter to decide on whether the supervision of the company will be carried out on individual aspects or all respects, in accordance with the Act on Additional Supervision of Financial Conglomerates.

When the requirements based on this Act and the Act on Insurance Activities regarding the activities of a mixed financial holding company are comparable, the Financial Supervisory Authority, if it is a supervisory body on a consolidated basis, may consult the competent authorities in the insurance market if it is other than the Financial Supervisory Authority, to decide on whether the supervision of the company will be carried out on individual aspects or all respects, in accordance with this or the Act on Insurance Activities, depending on which activities in the financial or insurance sectors are deemed most important in the meaning of Art.4 of Act no.61/2017 on the Additional Supervision of Financial Conglomerates.

The Financial Supervisory Authority shall notify the European Banking Authority and the European Insurance and Occupational Pensions Authority of decisions pursuant to the first and second paragraphs.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(b)

Supervision on a consolidated basis.

The Financial Supervisory Authority conducts supervision on a consolidated basis on a group to which a credit institution belongs, if its parent company is:

a. a parent credit institution in a Member State or a parent credit institution in the European Economic Area, which the Financial Supervisory Authority supervises on an individual entity basis or

b. parent investment firms in a Member State, parent investment firms in the European Economic Area, parent financial holding companies in a Member State, mixed parent financial holding companies in a Member State, parent financial holding companies in the European Economic Area or mixed parent financial holding company in the European Economic Area or mixed parent financial holding company in the European Economic Area if the Financial Supervisory Authority supervises on an individual entity basis one or more credit institutions that are their subsidiaries and the total of their balance sheet results is higher than that of credit institutions that are subsidiaries of entities that are supervised by another authority on an individual entity basis.

The Financial Supervisory Authority conducts supervision on a consolidated basis on a group to which no credit institution belongs, if its parent company is:

a. a parent investment firm in a Member State or a parent investment firm in the European Economic Area, which the Financial Supervisory Authority supervises on an individual entity basis or

b. a parent financial holding company in a Member State, a mixed parent financial holding company in a Member State, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area, if the Financial Supervisory Authority supervises one or more investment firms that are its subsidiaries on a individual entity basis and the sum of their balance sheet results is higher than that of investment firms which are its subsidiaries and which are supervised by another authority on an individual entity basis.

Point (b) of the first paragraph and point (b) of the second paragraph also apply when requirements apply on a consolidated basis as provided for in the third or sixth paragraph of Art.18 of Regulation (EU) no. 575/2013.

The Financial Supervisory Authority can, in agreement with the respective competent authorities, decide that another competent authority shall supervise a group as referred to in the first and second paragraphs on a consolidated basis, if it better reflects the relative importance of the activities of the financial undertakings within the group in the respective Member States or better ensures continuity in supervision. The relevant parent institution in the European Economic Area, a parent financial holding company in the European Economic Area, a mixed parent financial holding company in the European Union or a financial undertaking with the highest balance sheet result shall first be given the right to raise objections. [The Financial Supervisory Authority shall without delay notify the EFTA Surveillance Authority and the European Banking Authority of decisions of this kind.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(c)

Coordination of group supervision.

If the Financial Supervisory Authority conducts supervision on a consolidated basis, it shall:

1. Coordinate the collection and dissemination of information, both during ongoing operations and emergency situations.

2. Plan and coordinate, in consultation with the relevant competent authorities, the supervision of ongoing operations, including *inter alia* supervision as provided for in the chapter.

3. Prepare, plan and coordinate, in consultation with the relevant competent authorities and the Central Bank, if necessary, the monitoring of emergency situations, including due to unfavourable developments in the relevant financial undertakings or financial markets in general, through emergency communication channels that already exist if possible.

If the Financial Supervisory Authority conducts supervision on a consolidated basis and it is unable to fulfil its obligations as provided for in the first paragraph, due to the non-cooperation of another authority, it may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European Financial Market Supervisory System. The same applies if another competent authority conducts supervision on a consolidated basis and the Financial Supervisory Authority considers that it is not performing its tasks in accordance with the first paragraph.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(d)

Joint decisions.

If the Financial Supervisory Authority conducts supervision on a consolidated basis of a group where the parent company is a parent institution in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company and another competent authority supervises a financial undertaking that is a subsidiary of the group on an individual entity basis or if the Financial Supervisory Authority conducts supervision on an individual entity basis and another competent authority conducts supervision on a consolidated basis, the Financial Supervisory Authority shall do everything in its power to reach a joint decision with the relevant competent authority, within four months of the consolidated supervisory body submitting its analysis of the group's risks, on:

1. Instructions that the group or financial undertaking belonging to it must have higher own funds, cf. point 1 of the third paragraph of Art.107(a).

2. Liquidity management measures, including special liquidity requirements, cf. point 10 of the third paragraph of Art.107(a).

3. Notification of guidance on additional own funds as provided for in Art.107(b).

If the Financial Supervisory Authority conducts supervision on a consolidated basis, it is obliged to consult with the European Banking Authority before it makes a decision according to this Article , if another competent authority supervising a financial undertaking in the group on an individual entity basis requests it within the time limit laid down in the first paragraph.

If another competent authority is a supervisory body on a consolidated basis, the Financial Supervisory Authority may within the deadline laid down in the first paragraph request consultation with the European Banking Authority.

If a joint decision is not reached within the deadline laid down in the first paragraph, the Financial Supervisory Authority may make a unilateral decision on requirements on a consolidated or individual entity basis, as appropriate, but it must always take into account the assessment of other competent authorities on the risks of the consolidated group and its subsidiaries and other views and reservations that they have expressed within the deadline laid down in the first paragraph.

The Financial Supervisory Authority or other competent authority shall defer its

decision to the European Banking Authority or EFTA Surveillance Authority pursuant to Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, within the consultation period as provided for in the first paragraph and wait for a decision which the EFTA Surveillance Authority may take. The decision of the Financial Supervisory Authority shall be in accordance with the conclusion of the EFTA Surveillance Authority. The Financial Supervisory Authority shall not refer the matter to the European Banking Authority or the EFTA Surveillance Authority if the deadline set in the first paragraph has passed or a joint decision has been reached.

Decisions according to this Article must be written and reasoned, i.a. with regard to risk assessment, view and reservations expressed by other relevant competent authorities within the deadline set in the first paragraph. If the European Banking Authority has been consulted, it must be reported how its recommendations have been taken into account and any significant deviations from them explained. If the Financial Supervisory Authority conducts supervision on a consolidated basis, it shall send the decisions to the relevant competent authorities and parent institution in the European Economic Area.

The Financial Supervisory Authority shall recognise the decisions of other competent authorities pursuant to this Article with regard to a group or financial undertaking which they supervise.

Decisions pursuant to this Article shall be updated annually. They must also be updated if the competent authority of a subsidiary of a parent institution in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area sends a written and reasoned request to that effect to the supervisory body on a consolidated basis, and it then becomes possible for these authorities to work in bilateral cooperation.][1)]

[1)]Act no.38/2022 Art.116.

[Article 109(e)

Provision of information about the group

If the Financial Supervisory Authority supervises on a consolidated basis, it must provide other relevant competent authorities and the European Banking Authority with information on the close links of a consolidated group pursuant to the third paragraph of Art.7, corporate governance pursuant to the first paragraph of Art.50 and requirements on a consolidated basis pursuant to the first sub-paragraph of the first paragraph of Art.109, in particular on the legal and organisational structure of the group and its governance.][1)]

[1)]Act no.38/2022 Art.116.

[Article 109(f)

Provision of information in emergency situations.

If the Financial Supervisory Authority supervises on a consolidated basis, it shall as soon as possible alert other competent authorities that supervise a group or entities within it, the European Banking Authority, the European Systemic Risk Board, the EFTA Surveillance Authority and the relevant central banks and government entities responsible for legislation on financial undertakings, financial institutions and insurance companies in Member States and inspectors who act on their behalf, about an emergency situation, including conditions as provided for in Art.18 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, or unfavourable developments in the markets that can jeopardise the liquidity and stability of the financial system in a Member State where entities within a group have been granted a licence or operate significant branches and provide all the information these entities need to carry out their work, through existing communication channels if

possible. The same applies, where applicable, if an Icelandic financial undertaking operates a significant branch in another Member State.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(g)

Information gathering from other authorities.

If the Financial Supervisory Authority supervises a financial undertaking that is a subsidiary of a parent institution in the European Economic Area on an entity basis, it shall, when it needs information about the processes and methodologies prescribed in this Act, which it can be assumed have already been provided to the competent authority that supervises the group on a consolidated basis, endeavour to obtain the information from that authority.

If the Financial Supervisory Authority conducts supervision on a consolidated basis, it shall, when it needs information that it can be assumed has already been provided to another competent authority that supervises a unit within a group on an individual entity basis, seek to obtain the information from that authority.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(h)

Gathering of information from the parent company.

The Financial Supervisory Authority shall, at the request of the competent authority of a foreign financial undertaking that it supervises on a consolidated basis, obtain information from the domestic parent company of the group, which the foreign competent authority needs to conduct its supervision of the group. If the Financial Supervisory Authority conducts supervision on a consolidated basis, it may request that the competent authority of the foreign parent company of the group obtain information from the parent company, which the Financial Supervisory Authority needs to conduct its consolidated supervision.

The Financial Supervisory Authority may request that the foreign parent company of a domestic financial company that is not subject to supervision on a consolidated basis pursuant to Art.19 of Regulation (EU) no. 575/2013 provide it with information that may facilitate its supervision of the financial undertaking. A domestic parent company of a financial undertaking in another member state that is not subject to supervision on a consolidated basis, pursuant to Art.19 of Regulation (EU) no. 575/2013, shall comply with the request of the competent authority of the financial undertaking for information that may facilitate its supervision of the financial undertaking.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(i)

Gathering of information from a subsidiary.

If the Financial Supervisory Authority conducts supervision on a consolidated basis on a financial undertaking, a financial holding company or a mixed financial holding company, the Financial Supervisory Authority may demand from its subsidiary the information it needs for the purpose of the supervision, even if the subsidiary does not come under the supervision of the group.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(j)

Supervisory colleges

If the Financial Supervisory Authority conducts supervision on a consolidated basis, it shall establish a supervisory college of competent authorities that supervise units within the group in order to facilitate cooperation between the authorities and cooperation with authorities in countries outside the European Economic Area. The Financial Supervisory Authority shall invite the competent authorities responsible for the supervision of a financial holding company, a mixed financial holding company, subsidiaries of a parent institution in the European Economic Area, a parent financial holding company in the European Economic Area or a mixed parent financial holding company in the European Economic Area, and the competent authorities in Member States where a group operates significant branches, central banks where applicable and regulators in countries outside the European Economic Area who are, in the opinion of all relevant competent authorities, subject to an adequate confidentiality obligation, to be part of a supervisory college. The Financial Supervisory Authority shall, in consultation with other competent authorities in the supervisory college, establish written criteria for its working arrangements.

Supervisory colleges shall be a forum for:

1. An exchange of information between the relevant authorities and the European Banking Authority in accordance with Art.21 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision.
2. Division of tasks between the relevant authorities.
3. Making supervisory plans, cf. Art.82
4. Coordination of supervision of entities within a group, i.a. to ensure consistent application of prudential requirements and to avoid unnecessary duplication of regulatory requirements, i.a. on disclosure and in emergency situations.

If the Financial Supervisory Authority conducts supervision on a consolidated basis it will chair the meetings of the supervisory colleges and invite the authorities concerned. All members of the supervisory colleges must be notified in advance of meetings with an agenda. They shall be informed of decisions made at meetings and what actions are taken, as soon as possible.

If the Financial Supervisory Authority conducts supervision on a consolidated basis, it must inform the European Banking Authority about the work of the supervisory college.

The Financial Supervisory Authority may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in the event of a dispute with another competent authority regarding the work of a supervisory college, as provided for in Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision.][1)]

[1)]*Act no.38/2022 Art.116.*

[Article 109(k)

Third-country group:

The Financial Supervisory Authority shall, if applicable, assess whether a financial undertaking that is a subsidiary of another financial undertaking, financial holding company or mixed financial holding company in a country outside the European Economic Area and is not subject to the consolidated supervision of a competent authority in the European Economic Area, but is subject to the supervision of a supervisory body in a country outside the European Economic Area, which is equivalent to consolidated supervision according to this Act. Such an assessment shall be carried out at the request of the parent company, one of the regulated entities that have been granted a licence within the European Economic Area or at the initiative of the Financial Supervisory Authority. In the assessment, the Financial Supervisory Authority shall take into account guidelines from the European Banking Committee and consult with the European Banking Authority.

If the Financial Supervisory Authority considers that there is no equivalent to a group supervisory body in a country outside the European Economic Area, it shall, in consultation with other relevant competent authorities, conduct supervision of the financial undertaking in a manner that ensures the objectives of group supervision can be achieved. For this purpose, the Financial Supervisory Authority may require the establishment of a financial holding company or a mixed financial holding company in the European Economic Area, which is subject to consolidated supervision with the financial undertaking. The Financial Supervisory Authority shall notify other relevant competent authorities, the European Banking Authority and the EFTA Surveillance Authority of measures pursuant to this paragraph.

The Financial Supervisory Authority shall work closely with competent authorities in other Member States that supervise financial undertakings or branches that belong to the same third-country group as a financial undertaking or branch in Iceland in order to ensure that all activities of the group in the European Economic Area are subject to comprehensive supervision, and to prevent the circumvention of group requirements and adverse effects on financial stability in the European Economic Area.][1)]

[1)]Act no.38/2022 Art.116.

[Article 109(I)

Review and evaluation and application of supervisory powers on a consolidated basis.

The Financial Supervisory Authority shall carry out reviews and evaluations and exercise supervisory powers as provided for in this Act on a consolidated basis if applicable, pursuant to Title II, part 1 of Regulation (EU) no. 575/ 2013.][1)]

[1)]Act no.38/2022 Art.116.

[Article 109(m)

Exchange of information within a group.

Notwithstanding the obligation of confidentiality as provided for in Art.58, financial undertakings and other legal entities that are subject to the same supervision on a consolidated basis may exchange the information they need to satisfy supervisory requirements under this Act or similar requirements in other Member States.][1)]

[1)]Act no.38/2022 Art.116.

[Article 109(n)

List of holding companies supervised by the Financial Supervisory Authority.

The Financial Supervisory Authority shall send the competent authorities of other Member States, the European Banking Authority and the EFTA Surveillance Authority a list of financial holding companies and mixed financial holding companies, which it supervises on a consolidated basis][1)] pursuant to Art.11 of Regulation (EU) no. 575/2013.

[1)]Act no.38/2022 Art.116.

[[**Article 109(o)**][1)]

Group financial support agreement.

Undertakings within a group may enter into a special agreements for financial support within the group. Such agreements may be between two or more of the following undertakings:

1. [A parent institution][2)] in a Member State if [it][2)] is a credit institution or investment firm with initial capital as provided for in the second paragraph of Art.14(a).

2. [A parent institution][2] in the European Economic Area State if [it][2] is a credit institution or investment firm with initial capital as provided for in the second paragraph of Art.14(a).

3. Financial holding company.

4. Mixed holding company.

5. Mixed financial holding company.

6. Parent financial holding company in the European Economic Area.

7. Mixed parent financial holding company in the European Economic Area.

8. Parent financial holding company in a Member State.

9. Mixed parent financial holding company in a Member State.

10. A subsidiary in another Member State or in a country outside the European Economic Area that is a credit institution or investment firm with guarantee capital as provided for in the second paragraph of Art.14(a) or a financial institution that is subject to supervision on a consolidated basis in Iceland

It is not possible to conclude a financial support agreement within a group unless the intention is to only implement it if it is possible to apply early interventions with respect to parties to the agreement after the agreement has been concluded.

A financial support agreement within a group and which parties can be parties to such agreements is subject to the prior approval of the Financial Supervisory Authority pursuant to [Art.109(p)][2] and shall otherwise be in accordance with this Article and [Art.109(p) – Art.109(t)].[2]

The financial support agreement must specify the rules for calculating the compensation that covers all transactions according to the agreement. The amount of the compensation shall be established before the financial support is granted. A financial support agreement shall be in accordance with the following principles:

1. Each of the contracting parties voluntarily enters into the agreement.

2. The parties to the contract shall be guided by their own interests.

3. A party that provides financial support must have sufficient information from the recipient of the financial support before the compensation for financial support is determined and a decision is made to provide the financial support.][3]

[1]Act no.38/2022 Art.116. [2]Act no.38/2022 Art.117. [3]Act no.54/2018, Art.13.

[[**Article 109(p)**][1]

Confirmation of contract.

A parent company in the top tier of a group in the European Economic Area must seek approval and obtain confirmation of a financial support agreement within a group from the Financial Supervisory Authority. The application must be accompanied by a copy of the contract, specifications of the parties to the contract and other documents which the Financial Supervisory Authority deems necessary to take a decision on the application. The Financial Supervisory Authority shall send a copy of the application and relevant data to... [2] the competent authorities of the companies that are expected to become parties to the agreement.

The Financial Supervisory Authority's endorsement of the agreement is subject to all the conditions of [Art.109(r)][3] being met.

The Financial Supervisory Authority shall endeavour to make a joint decision with the competent authorities on the application for approval of an agreement, taking into account the effect the agreement may have in the Member States in which the group operates. The joint decision must be reached within four months from the receipt of the completed application, and it must be notified to the applicant along with the justification.

If a joint decision is not reached within the time limit provided for in the third paragraph,

the Financial Supervisory Authority shall make an independent decision on the application, pursuant to the first paragraph, taking into account the assessment of the competent authorities. The Financial Supervisory Authority shall notify the Applicant and the competent authorities of the decision.

The Financial Supervisory Authority shall defer its decision as provided for in the fourth paragraph, if any of the competent authorities involved in the case refer the decision of the supervisory body to the EFTA Surveillance Authority or, as the case may be, the European Banking Authority in accordance with Act no. 24/2017, before the end of the deadline, as provided for in the third paragraph and the Financial Supervisory Authority shall in those cases wait for a decision which the EFTA Surveillance Authority may take on the basis of [Regulation (EU) no. 1093/2010].[3)] The decision of the Financial Supervisory Authority shall be in accordance with the decision of the EFTA Surveillance Authority.][4)]

[1)]Act no.38/2022 Art.116. [2)]Act no.91/2019, Art.52. [3)]Act no.38/2022 Art.118. [4)]Act no.54/2018, Art.13.

[[**Article 109(q)**][1)]

Shareholders' approval.

After receiving confirmation from the Financial Supervisory Authority pursuant to [Art.109(p)][2)], all parties to a financial support agreement within a group must submit the agreement to a shareholders' meeting for approval or rejection. An agreement is considered binding for an undertaking when it has been approved at a shareholders' meeting.

The board must report to the shareholders on the transactions according to the agreement every year at the company's AGM.][3)]

[1)]Act no.38/2022 Art.116. [2)]Act no.38/2022 Art.119. [3)]Act no.54/2018, Art.13.

[[**Article 109(r)**][1)]

Conditions for group financial support.

Financial support may be provided according to [Art.109(o)][2)], if all the following conditions are met:

1. There are ground to believe that financial support is important in order to solve the recipient's financial difficulties.
2. The financial support is intended to maintain or rectify the finances of the group or undertakings within the group, and for the benefit of the party providing the financial support.
3. The financial support is in accordance with the terms of the agreement, including on compensation as provided for in the fourth paragraph of Art.[109(o)].[2)]
4. There is a reasonable prospect that compensation for the provided financial support will be paid.
5. The financial support does not endanger the liquidity or solvency of the undertaking providing the financial support.
6. The financial support does not threaten financial stability.
7. The undertaking that provides financial support meets all the requirements of this Act and government directives based on it regarding equity, liquidity and large exposures, and it is not foreseeable that the undertaking will violate the Act by providing the financial support. The Financial Supervisory Authority may grant exemptions from these conditions.

[8. The financial support does not weaken the resolvability basis according to the Act on Resolution of Credit Institutions and Investment Firms of the company that provides the financial support.][3)]

The conditions for financial support within a group as provided for in [regulations[4)] of the Central Bank of Iceland which shall at least stipulate][3)] more detailed conditions as provided for in points 1,3 and 5 of the first paragraph.][5)]

[1)]Act no.38/2022 Art.116. [2)]Act no.38/2022 Art.120. [3)]Act no.70/2020, Art.103. [4)] Reg. 666/2021. [5)]Act no.54/2018, Art.13.

[[Article 109(s)][1)]

Decision to provide financial support.

The decision to provide financial support based on an agreement as provided for in the first paragraph of [Art.109(o)][2)] must be taken by the board of directors of the undertaking that provides financial support. The board's decision must be reasoned and state the objectives of the financial support. It must also specifically explain how the decision complies with the conditions according to Art.[109(r)].[2)]

The board of the undertaking to which the financial support is directed shall make a decision on the acceptance of the financial support on the terms deriving from the agreement, as provided for in the first paragraph of [Art.109(o)].[2)]

The board of an undertaking that intends to provide financial support according to [Art.109(o)][2)] notify the following parties before financial support is granted:

1. Financial Supervisory Authority.
2. ... [3)]
3. The supervisory body on a consolidated basis, if it is other than the Financial Supervisory Authority.
4. The competent authorities in the Member State where the recipient of the financial support is located, if they are different from those stated in points 1 or 2.
5. As the case may be, the EFTA Surveillance Authority and/or the European Banking Authority.

A notification as provided for in the third paragraph must be accompanied by a reasoned decision from the board as provided for in the first paragraph and a detailed description of the proposed financial support, including a copy of the agreement.

The Financial Supervisory Authority has a maximum of five business days from receipt of the completed notification according to the third paragraph to reject or limit financial support within a group with a reasoned decision. Rejection or limitation of financial support shall be based on the fact that the conditions of [Art.109(r)][2)] are not fulfilled [3)]

The Financial Supervisory Authority's decision to authorise, reject or limit financial support within a group shall be immediately notified to the parties pursuant to points 2-5 of the third paragraph.

If the supervisory body on a consolidated basis or the competent authorities of the recipient of financial support, including the Financial Supervisory Authority, does not agree to a restriction or refusal of financial support, the relevant authorities may, within two days of receiving the notification, refer the dispute to the EFTA Surveillance Authority or, as the case may be, the European Banking Authority in accordance with Act no.24/2017.

If the Financial Supervisory Authority neither rejects nor limits financial support within a group within the time limit set in the fifth paragraph, an undertaking is allowed to provide financial support in accordance with the notification as provided for in the third paragraph.

The decision of an undertaking's board of directors to provide financial support within a group shall be notified to the parties, pursuant to points 1-5 of the third paragraph.

If the Financial Supervisory Authority, as a supervisory body on a consolidated basis, rejects or limits financial support within a consolidated group, pursuant to the fifth paragraph, and the group's recovery plans, according to Art.82(d) provide for such financial

support, the competent authority in the Member State where the undertaking, which was to provide the financial support, is located may request that the Financial Supervisory Authority take the initiative to revise the group's recovery plans, as provided for in Art.82(c). If a recovery plan has been made for a subsidiary, as provided for in the fourth paragraph of Art.82(d) and the Financial Supervisory Authority has refused or limited financial support within the group according to the fifth paragraph, the Financial Supervisory Authority may demand that a company update its recovery plan and submit it to the Financial Supervisory Authority.][4)]

[1)]Act no.38/2022 Art.116. [2)]Act no.38/2022 Art.121. [3)]Act no.91/2019, Art.53. [4)]Act no.54/2018, Art.13

[[**Article 109(t)**][1)]

Publication.

A company must publicly disclose whether it is a party to a financial support agreement within a group as provided for in [Art.109(o)].[2)] If an undertaking is party to such an agreement, it must give an account of the parties to the agreement and the main provisions of the agreement in a summarised form. Information about the agreement must be published annually, including changes that may occur to the terms or membership of the agreement. In other respects, the provisions of Regulation (EU) no. 575/2013].[2)] shall apply.

[The Central Bank of Iceland sets rules[3)]][4)] on the content and form of publications according to the first paragraph][5)]

[1)]Act no.38/2022 Art.116. [2)]Act no.38/2022 Art.122.[3)] Reg. 376/2021. [4)]Act no.70/2020, Art.103 [5)]Act no.54/2018, Art.13.

[*C. Collaboration with foreign authorities*][1)]

[1)]Act no.38/2022 Art.123.

[Article 109(u)

Cooperation within the European financial supervision system.

The Financial Supervisory Authority shall, when implementing this Act and the government directives established on its basis, take into account convergence in the European Economic Area with regard to supervisory tools and methods for the application of laws and administrative directives pursuant to Directive 2013/36/EU of the European Parliament and of the Council and Regulation (EU) no. 575/2013. To that end, the Financial Supervisory Authority shall:

1. Work closely with the competent authorities of other Member States and the EFTA Surveillance Authority with integrity and on the basis of trust and full mutual respect, in particular to ensure an appropriate and reliable flow of information between them.
2. Work with and participate in the activities of the European Banking Authority and, as the case may be, supervisory colleges.
3. Strive to comply with guidelines, recommendations and warnings issued by the European Banking Authority or the European Systemic Risk Board, pursuant to Art.16 of Regulation (EU) no. 1093/2010 or Art.16 of Regulation (EU) no. 1092/2010, cf. Act on the European System of Financial Supervision.
4. Work closely with the European Systemic Risk Board.][1)]

[1)]Act no.38/2022 Art.123.

[Article 109(v)

Cooperation with other competent authorities.

If an Icelandic financial undertaking has operations in another Member State or a financial undertaking from another Member State has operations in Iceland, especially if it operates a branch, the Financial Supervisory Authority shall cooperate closely with the competent authority in the relevant Member State on supervision of the undertaking. The Financial Supervisory Authority shall provide it with any information regarding the management and ownership of the undertaking that is likely to be useful for the supervision and examination of the conditions for an operating licence, in particular regarding liquidity, solvency, deposit guarantees, restrictions on large exposures, and other factors that may affect systemic risks arising from the undertaking, administrative systems, financial statements and internal control systems.

If an Icelandic financial undertaking has operations in another Member State, the Financial Supervisory Authority must immediately inform the competent authority in the Member State if a liquidity problem arises at the undertaking or is expected to arise, and provide the authority with information about the preparation and implementation of the recovery plan and supervisory measures taken in this regard.

If the Icelandic financial undertaking has a branch in the state, the Financial Supervisory Authority must also immediately provide the competent authority with any information and results regarding liquidity checks on the branch that are relevant for the protection of depositors or investors in that state.

If the Financial Supervisory Authority considers that a competent authority in another Member State in which an Icelandic financial undertaking operates has not taken appropriate measures to take into account information from the Financial Supervisory Authority, the Financial Supervisory Authority may, upon prior notification to the authority and the European Banking Authority, or the EFTA Surveillance Authority, if applicable, take appropriate measures to prevent violations and protect depositors, investors and others, who use their services or to safeguard the stability of the financial system.

If the Financial Supervisory Authority disagrees with the measures which a competent authority in another Member State takes against the activities of an Icelandic financial undertaking there, the Financial Supervisory Authority may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision.

The Financial Supervisory Authority may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, if its request for cooperation, in particular regarding the exchange of information, with a competent authority in another Member State has been rejected or not responded to within a reasonable period of time.][1)]

[1)]*Act no.38/2022 Art.123.*

[Article 109(w)

Consultation with other competent authorities.

The Financial Supervisory Authority shall consult with other competent authorities before making a decision on matters of substantial importance for their supervisory role and concerning:

a. changes in the ownership, structure or governance of credit institutions in a group that require the approval or permission of the Financial Supervisory Authority or

b. significant penalties or special measures taken by the Financial Supervisory Authority, including higher own funds requirements as provided for in point 1 of the third

paragraph of Art.107(a) and restrictions on the use of advanced measurement approaches in the calculation of own funds requirements as provided for in the second paragraph of Art.312 of Regulation (EU) no. 575/2013.

The Financial Supervisory Authority shall always consult with supervisory bodies on a consolidated basis regarding penalties and measures pursuant to point (b) of the first paragraph.

The Financial Supervisory Authority may decide not to consult with other competent authorities in urgent matters or when such consultation could jeopardise the effectiveness of decisions.

The Financial Supervisory Authority shall, immediately after making its decision, notify other competent authorities of it.][1)]

1) Act no.38/2022 Art.123.

[Article 109(x)

Disclosure to other competent authorities.

The Financial Supervisory Authority shall, at the request of other competent authorities, provide them with information relevant to the performance of their duties pursuant to Directive 2013/36/EU of the European Parliament and of the Council or Regulation (EU) no. 575/2013 and provide them with the necessary information on their own initiative. The following information is considered necessary:

1. Elements that can have a significant impact on the assessment of the financial health of a financial undertaking or financial institution in the relevant Member State.

2. The legal form and administrative systems of the group and its affiliated units, including significant branches and their competent authorities.

3. Methods for gathering information from financial undertakings in a group and for verifying that information.

4. Unfavourable developments in financial undertakings or other entities in a group that could have a serious impact on the financial undertakings.

5. Significant penalties and special measures taken by the Financial Supervisory Authority according to this Act, including the imposition of higher own funds requirements as provided for in point 1 of the third paragraph of Art.107(a) and restrictions on the use of advanced measurement approaches as provided for in the second paragraph of Art.312 of Regulation (EU) no. 575/2013.

If the Financial Supervisory Authority conducts supervision on a consolidated basis with a parent institution in the European Economic Area and financial undertakings controlled by parent financial holding companies in the European Economic Area or mixed financial parent holding companies in the European Economic Area, it shall provide all relevant information to other competent authorities that supervise the subsidiaries of these parent companies. When determining the scope of relevant information, the Financial Supervisory Authority shall take into account the importance of these subsidiaries in the financial systems of the respective Member States.

The Financial Supervisory Authority shall notify the appropriate foreign authorities of moratoriums, composition agreements or bankruptcies of domestic credit institutions operating branches in other states of the European Economic Area.

The Financial Supervisory Authority may seek the assistance of the European Banking Authority or the EFTA Surveillance Authority, as appropriate, in accordance with Art.19 of Regulation (EU) no. 1093/2010, cf. Act on the European System of Financial Supervision, if another competent authority does not provide necessary information or its request for cooperation is rejected or not responded to within a reasonable period of time, in particular regarding the exchange of information.][1)]

[1)]*Act no.38/2022 Art.123.*

[Article 109(y)

Verification of information.

At the request of another competent authority, the Financial Supervisory Authority shall verify information from a domestic financial undertaking, financial holding company, mixed financial holding company, financial institution, company in ancillary activities, mixed holding company or subsidiary as provided for in Art.109(i) or Art.109(bb), provided the Financial Supervisory Authority is authorised to do so. The Financial Supervisory Authority can allow the relevant authority to verify the information itself or entrust an auditor or other expert to do so. The Financial Supervisory Authority can request the same from another competent authority regarding a foreign entity, as provided for in the first sentence where applicable.][1)]

[1)]*Act no.38/2022 Art.123.*

[Article 109(z)

Examinations.

The Financial Supervisory Authority can examine a branch of a financial undertaking established in another country within the European Economic Area and demand information, after consultation with the competent authority in the relevant Member State, if it can be of significance to financial stability in Iceland. The Financial Supervisory Authority shall inform the authority of results that may be relevant to the assessment of the undertaking's risk or financial stability in Iceland.

Competent authorities in a state of the European Economic Area shall be authorised to carry out checks in Icelandic branches of undertakings established in their countries upon prior notification of such to the Financial Supervisory Authority.

If a financial undertaking, which has received an operating licence in Iceland and pursues activities in another state of the European Economic Area, violates the laws of that state and the competent authorities of that state take measures comparable to those listed in Art.34, the Financial Supervisory Authority shall assist the authorities in that state in their exchanges with the management of the financial undertaking concerned.

The provisions of this Article shall apply to Swiss and Faroese authorities, as applicable, provided that a co-operation agreement has been concluded between them and the [Central Bank of Iceland][1)].

[1)]*Act no.38/2022 Art.123.*

[Article 109(aa)

Disclosure to regulators and other parties.

The Financial Supervisory Authority may provide the following parties in Iceland or in other countries in the European Economic Area with information they need to perform their duties, even if they are subject to an obligation of confidentiality, if a similar obligation of confidentiality applies to parties concerned:

1. The institutions of the European Free Trade Association and other European financial supervisory bodies, cf. act on the European System of Financial Supervision.
2. Authorities that supervise financial undertakings or other entities in the financial market or supervise financial markets, including payment systems.
3. Governments or other entities responsible for maintaining the stability of the financial system in Member States by applying macroprudential rules.
4. Authorities or other entities that carry out restructuring measures aimed at protecting the stability of the financial system.

5. Institutional protection schemes as provided for in the seventh paragraph of Art.113 of Regulation (EU) no. 575/2013 and the authorities responsible for monitoring them.

6. Parties dealing with the liquidation or bankruptcy of financial undertakings or comparable processes and authorities responsible for supervising those parties.

7. Parties that carry out statutory audits on the accounts of financial undertakings, insurance companies, financial institution and authorities responsible for supervising those parties.

8. Authorities that oversee anti-money laundering and counter-terrorist financing operations and the Financial Intelligence Unit of the Police.

9. Authorities or other parties responsible for the application of the rules on structural separation within a banking group.

10. Entities that manage deposit guarantee schemes or investor compensation schemes.

11. Parties whose role according to the law is to clarify and investigate violations of corporate law in order to promote a stable and secure financial system.

12. Central banks and other institutions that play a similar role in the field of monetary affairs when the information is relevant to the implementation of their statutory tasks, including implementation of monetary policy and related liquidity measures, supervision of payment, netting and settlement systems and safeguarding the financial system.

13. Clearing houses or similar institutions that are authorised under national law to handle netting or settlement services if the provision of information is necessary to ensure the smooth operation of these institutions in relation to defaults or potential defaults by market participants.

The Financial Supervisory Authority may provide the International Monetary Fund and the World Bank for a planned evaluation of the financial sector, the Bank for International Settlements for a quantitative impact assessment, and the International Financial Stability Board for its supervisory role, information which these institutions need to perform their duties, even if they are subject to an obligation of confidentiality, if a similar obligation of confidentiality applies to the institutions concerned. The information may be provided in a summarised or non-personally identifiable form upon receipt of a clearly defined request that specifies what will be done with the information and which individuals will have access to it, but otherwise the information may only be provided to the Financial Supervisory Authority's office.

The Financial Supervisory Authority shall send the name of the party in Iceland to the European Banking Authority pursuant to points 5-7 and 11 of the first paragraph.

The Central Bank of Iceland may reach agreements with supervisory authorities or other parties, as provided for in the first paragraph, in countries outside the European Economic Area on the exchange of information for supervisory purposes, provided that the obligation of confidentiality is observed in accordance with the provisions of this Article .

Information obtained from the competent authorities of other Member States of the European Economic Area Agreement or during an on-site inspection or other inspections in another Member State of the Agreement may only be disclosed with the express consent of the authorities which provided the information or of the competent authorities of the State where the inspection took place and only for the purposes they have approved.][1)]

[1)] *Act no.38/2022 Art.123.*

[Article 109(bb)

Cooperation with regulators in the insurance market.

The Financial Supervisory Authority shall work closely with the authorities in other Member States that supervise insurance companies or other companies that offer investment services that are subject to licences and that are under the control of a domestic financial undertaking, a financial holding company, a mixed financial holding company or a mixed holding company,

i.a. through the exchange of information. The same applies if a national insurance company or another company offering investment services subject to a licence is controlled by a financial company, a financial holding company, a mixed financial holding company or a mixed holding company in another Member State.][1)]

1)Act no.38/2022 Art.123.

[Article 109(cc)

Cooperation with the supervisory authority of a financial conglomerate.

The Financial Supervisory Authority shall, if it supervises a group which is managed by a mixed financial holding company on a consolidated basis, but another authority is considered to be the supervisory authority of the financial conglomerate, cf. Art.25 of Act no. 61/2017 on Additional Supervision of Financial Conglomerates, work closely with the supervisory authority on the basis of a written agreement. The same applies if the Financial Supervisory Authority is considered the supervisory authority of the financial conglomerate, but another authority conducts the supervision on a consolidated basis.][1)]

[1)]Act no.38/2022 Art.123.

[Article 109(dd)

Act on measures against money laundering and terrorist financing

The Financial Supervisory Authority shall work closely with the Financial Intelligence Unit of the Police and the authorities that supervise to ensure that parties subject to the notification obligations laid down in points 1 and 2 of the first paragraph of Art.2 of Directive (EU) 2015/849, cf. Act on actions against money laundering and terrorist financing, comply with that directive and provide them with information relevant to their tasks under that directive, Directive 2013/36/EU of the European Parliament and of the Council and Regulation (EU) no. 575/2013, provided it does not hinder the ongoing investigation or handling of the case.][1)]

[1)]Act no.38/2022 Art.123.

[*D. Monitoring the use of internal methods.*][1)]

[1)]Act no.*38/2022 Art.123.*

[Article 109(ee)

Authorisation to use internal methods.

Financial undertakings are permitted, with the approval of the Financial Supervisory, Authority, to employ the Internal Ratings Based approach in assessing risk factors in the calculation of their risk base.][1)]

[1)]Act no.38/2022 Art.123.

[Article 109(ff)

Monitoring the use of internal methods.

The Financial Supervisory Authority shall at least annually evaluate the quality of the internal methods of financial undertakings. The Financial Supervisory Authority shall in particular assess whether they include a significant or systematic underestimation of capital requirement and whether there is an abnormal difference in capital requirements according to different internal methods. The Financial Supervisory Authority shall demand improvements

if this is the case, but ensure that they do not lead to a standardisation of methods or herd behaviour or entail bad incentives.

The Financial Supervisory Authority shall, at least every three years, assess whether a financial undertaking authorised to use internal methods for determining capital adequacy requirements meets the requirements attached to the authorisation, with regard to *inter alia* changes in the undertaking's operations and the use of the methods for new products, and whether the undertaking's technology and execution comply with the approved methodology.

If the undertaking no longer meets the conditions for applying internal methods to determine capital adequacy requirements or if the undertaking's internal methods do not adequately cover its risk, and the undertaking is unable demonstrate that its effects are insignificant, the Financial Supervisory Authority shall require the undertaking to submit an improvement plan with a timeframe. The Financial Supervisory Authority shall demand changes to the plan if it considers it unlikely to lead to a satisfactory correction of deficiencies within a reasonable time. If such a plan is not sufficient, the Financial Supervisory Authority shall take appropriate measures to remedy the deficiencies, such as requiring higher multiplication factors or additional capital, or revoking the undertaking's authorisation to use internal methods for determining capital requirements or limiting it to those areas where adequate improvements will be made within a reasonable time.

If back-testing of internal methods as provided for in Art.366 of Regulation (EU) no. 575/2013 reveal a number of deviations that indicate that the undertaking's market risk models are not sufficiently reliable, the Financial Supervisory Authority shall demand improvements immediately or revoke the undertaking's authorisation to rely on the relevant models.][1)]

Act no.38/2022 Art.123.

[Article 109 (gg)

Incentives to develop internal methods.

The Financial Supervisory Authority shall encourage financial undertakings that are important in terms of their size, nature and scope of operations and the multifaceted nature of their operations, to develop their own skills, methods and ability to assess credit and issuer risk and to increase the use of an internal ratings-based approach when calculating capital requirements due to credit risk, if their exposures are significant and they have a large number of significant counterparties.

The Financial Supervisory Authority shall encourage financial undertakings, to the extent that it is consistent with their size, nature and scope of operations and the multifaceted nature of their activities, to develop their own skills, methods and ability to assess counterparty risk and to increase the use of their own models when calculating capital requirements for counterparty risk due to debt instruments in the trading book and due to default risks and changes in credit rating if their exposures to counterparty risk are significant and they have a large number of significant positions in debt instruments of different issuers.][1)]

[1)]*Act no.38/2022 Art.123.*

[Article 109(hh)

Information regarding the use of internal methods.

A financial undertaking that is allowed to use internal methods for calculating risk-weighted exposures or capital requirements must at least annually notify the Financial Supervisory Authority and the European Banking Authority of the results of calculations of exposures or positions in benchmark portfolios, with the exception of calculations of operational risk. It must also inform the Financial Supervisory Authority of the methodology on which the calculations

were based.

If the Financial Supervisory Authority chooses to develop separate portfolios, it shall do so in consultation with the European Banking Authority and ensure that financial undertakings report the results of calculations separately from the results of calculations for the portfolios of the European Banking Authority.][1)]

[1)]*Act no.38/2022 Art.123.*

Chapter XIV

Penalties

[Article 110] [1)]

[*Administrative fines*

[The Financial Supervisory Authority may levy administrative fines on any party violating [the following provisions of this Act and rules adopted on their basis]:[2)]

1. Art.3, prohibiting pursuit of activities subject to licence without an operating licence;

2. Art.8 on notification of changes to previously submitted information on a financial undertaking;

3. The first paragraph of Art.12, on the exclusive right of a [credit institution][3)] to use in their company name, or as a clarification of their activities, the name of the type of [credit institution][3] has been granted an operating licence;

4. . . . , [3)]

5. Art. 17(a) on the obligation to maintain a special register of obligations and information disclosure to the Financial Supervisory Authority;

6. The second paragraph of Art.17(b) on compliance by a regulated party with the instructions of the Financial Supervisory Authority;

[7. [Art.18 to disclose the risks, risk management, capital adequacy and liquidity of the undertaking and other matters referred to in part 8 of Regulation (EU) no. 575/2013][3)]],[4)]

[8.][4)] the first and second paragraphs of Art.19 on operating in accordance with proper and sound business practices and customs on the financial market. . . [2)] . . . [3)] [and the fourth paragraph of Art.19 on not publishing or not updating information on the website regarding the names and nationalities of parties holding over 1% of share capital or guarantee capital in the undertaking][5)]

[9. The first paragraph of Art.19(a) regarding making accessible information on regulatory and legal remedies],[3)]

[10.][3)] the second paragraph of Art.21, on the obligation to report ancillary activities;

[11.] [3)] Art.22 on temporary activities and takeover of assets;[12.] 3). . . [6)]

[13.][3)] Art.29, on ownership and the obligation to report to the Financial Supervisory Authority;

[14.][3)] the first and second paragraphs of Art.29(a), prohibiting the granting of loans or other credit;

15. -18. . . . [3)]

[19.][3)] the first paragraph of Art.31, Art.32, [Art.32(a)][3)] and Art.33 on activities of foreign financial undertakings in Iceland;

[20.][3)] the first and fifth paragraphs of Art.36, the first and fourth paragraphs of Art.37 [the first and fifth paragraphs of Art.37(a)],[3)] the first paragraph of Art.38 and Art.39 on the activities of domestic financial undertakings abroad;

[21.][3)] [first paragraph][3)] of Art.40 on notification of a qualifying holding;

[22.][3)] . . . [7)]

[23.][3)] Art.47 on notification [of a change in ownership of a qualifying holding];[3)]

[24.][3)] [First paragraph of Art.48 on notification from a credit institution of a change in ownership of a qualifying holding][3)]

[25. Second paragraph of Art.48 on notification from a credit institution of owners of

a qualifying holding],

[26.][3] Art.49. [Disclosure obligations and ongoing evaluation of the eligibility of owners of qualifying interests.][7]

[27. First paragraph of Art.49(b) on the obligation of holding companies to apply for approval.

28. Art.49(d) on conditions for approval of a holding company,

29. Art.50 on arrangements for corporate governance, procedures and systems.][3]

[30.][3] the second, third and fifth paragraphs of Art.52 and Art.52(a)][7] on eligibility criteria, board members serving on the board of another financial undertaking and the obligation to report to the Financial Supervisory Authority;

[31.][3] [Art.52(c)][7]on notification by the board of directors of a parent company;

[32.][3] [Art.52(d)][7] on notification by the board of directors and managing director to the Financial Supervisory Authority;

[33. First paragraph of Art.52(e) on notification of a breach of prudential requirements or that an undertaking is failing],[3]

[[34.][3] First paragraph of [Art.52(f)][3] on restrictions on other duties of a board member or managing director],[8]

[35.][3] . . . [9]

[36.][3] [the first, fourth and fifth paragraphs of Art.54, on board duties, rules of procedure and prohibition against an executive chairman of the board of directors];[10]

[37.][3] [the first to third paragraphs][7] of Art.55, on participation of a board member in the handling of issues;

[38.][3] Art.56, on participation of employees in business operations;

[39.][3] Art.57, on rules of procedure;

[40. Art.57(a) regarding remuneration policy],[3]

[41.][3] Art.[57(b), on bonuses],[3]

[42. Art.57(C) on auditing remuneration and the payment of bonuses][3]

[43.][3] [Art.57(d)][3] on severance agreements;

[44.][3] Art.58, on obligation of confidentiality;

[[45.][3] Art.60(a) on the obligation to have processes that fulfil the conditions of the provisions,

[46.][3] The first paragraph of Art.60(b) on the obligation of confidentiality regarding the notification of a violation in the activities of a financial undertaking],[11]

[47.][3] [Art.63, on disposition of [profit][3]],[12]

[48.][3] [Art.64, on adopting and complying with rules on transactions with holdings in a savings bank];[12]

[49.][3] [the second paragraph of Art.65, on obligations of a savings bank];[12]

[50.][3] [the third paragraph of Art.69, on maintaining and updating a register of guarantee capital owners],[12]

[51. Art.77(a) and Art.77(b) on risk control systems for the activities of mixed holding companies and the implementation of risk management,

52. Art.78(a) on the handling of credit and counterparty risk;

53. Art.78(c) on the handling of concentration risk;

54. Art.78(e) on the handling of market risk;

55. Art.78(g) on the handling of operational risk;

56. Art.78(h) on the handling of liquidity risk;

57. The first and second paragraphs of Art.82(a) on making a recovery plan or updating it;

58. Art.86 of this Act or Art. 28, 52 or 63 of Regulation (EU) no. 575/2013 by making payments to owners of instruments that are part of the undertaking's own funds in contravention of the provisions.][3]

[59.][3] Art.87, on the preparation and signing of annual financial statements;

[60.][3]) the first paragraph of Art.88, on good accounting practice;

[61.][3] Art.89, on the report of the board of directors;

[62.][3] . . . [3]

[63.][7] Art.92, on [disclosure and notification obligations][8] of auditors;

[64.][3] Art.95 on submission of annual financial statements to the Financial Supervisory Authority;

[65.][3] Art.106 , on merger of a financial undertaking with another undertaking or its individual operating units;

[66.][3] Art.107 on supervisory powers of the Financial Supervisory Authority; [and supervision on a consolidated basis, including by obstructing supervision, withholding data or information or submitting insufficient data or information], [10]

[67. Point 10 of the third paragraph of Art.107 on special requirements to maintain liquidity],[3]

[[68.][3] Art.109 on prudence requirements and supervision on a consolidated basis; . . . [3]

[69.][3] Third paragraph of [Art.109(s)][3] to notify the Financial Supervisory Authority of planned financial support within a group].[10]

[70. Settlements between the Financial Supervisory Authority and parties, cf. Art.111,

71. Part 3, 4, 6 or 7 of Regulation (EU) no. 575/2013 or point 1 or 10 of the third paragraph of Art.107(a) of this Act by which the parent institution, parent holding financial company or mixed parent financial holding company fails to take measures on a consolidated or sub-consolidated basis, which the provisions or decisions based on them reserve.

72. Art.395 of Regulation (EU) no. 575/2013 on ceilings on large exposures,

73. Art. 405 of Regulation (EU) no. 575/2013 on conditions for bearing credit risk due to securitised positions,

74. Art. 412, cf. Art.460 of Regulation (EU) no. 575/2013 on liquidity ratio requirements or against liquidity ratio requirements in the rules as provided for in the third paragraph of Art.117(b), provided the violation is repeated or persistent,

75. Art. 413, cf. Art.428(b) of Regulation (EU) no. 575/2013 on the stable funding ratio or against the stable funding ratio in the rules as provided for in the third paragraph of Art.117(b),

76. Part 7 A of Regulation (EU) no. 575/2013 on reporting requirements,

77. Part 8 of Regulation (EU) no. 575/2013 on disclosure of institutions].[3]

[[The Financial Supervisory Authority may impose administrative fines on any party who has ensured that an undertaking receives a licence in accordance with this Act on the basis of false information or in any other abnormal manner.

Fines may range from ISK 100,000 to ISK 800 million. Fines imposed on legal entities can however be higher or up to 10% of their total turnover according to the last approved annual accounts of the legal entity or 10% of the last approved consolidated accounts if the legal entity is part of a group.][3]

When determining fines according to this provision [and other administrative penalties and measures for violations as provided for in the first paragraph][3] consideration shall be given to all relevant circumstances, including the following:

a. the seriousness of the violation,

b. how long the violation has lasted,

c. liability of the offender. . . , [3]

d. financial position of the offender,

e. [the benefit to the offender or loss avoided by a violation,],[3]

f. whether the violation led to losses of a third party,

g. any possible systemic effects of the violation,

h. offender’s willingness to cooperate,

i. previous offences and whether there have been repeated offences.

[Decisions on administrative fines are enforceable.][13)] Fines shall accrue to the Treasury, net of collection costs. If administrative fines are not paid within a month of a decision by the Financial Supervisory Authority, penalty interest shall be paid on the amount of the fine. The determination and calculation of the penalty interest shall be governed by the Act on Interest and Price Indexation.

Administrative fines [and other administrative penalties][3)]will be imposed regardless of whether violations are committed deliberately or through negligence.

If an individual or legal entity violates this Act and/or rules issued on the basis thereof, and it has been established that the individual or entity benefited financially from the violation, the amount of the fine may be determined and could, notwithstanding the [third paragraph.],[3)]amount to up to twice the amount of the financial benefit that stood to be gained by the violation.][14)]][15)]][16)]

[1)]Act no.130/2004, Art.11. [2)]Act no.119/2011, Art.7. [3)]Act no.38/2022 Art.124. [4)]Act no.96/2016, Art.55 [5)]Act no.47/2013, Art.13. [6)]Act no.116/2021, Art.137. [7)]Act no.57/2015, Art.36. [8)]Act no. 8/2019, Art.6. [9)]Act no.115/2021, Art.148. [10)]Act no.54/2018, Art.14. [11)]Act no.23/ 2017, 2. Art.[12)]Act no.77/2012, Art.8. [13)]Act no.91/2019, Art.54. [14)]Act no.58/2015, Art.7. [15)]Act no.75/2010, Art.52 [16)]Act no.55/2007, Art.7.

[Article 110(a)

Suspension of voting rights.

The Financial Supervisory Authority may temporarily suspend the voting rights of a shareholder or guarantee capital owners of a financial undertaking if he/she commits a violation in the manner described in the first and second paragraphs of Art.110][1)]

[1)]Act no.38/2022 Art.125.

[Article 110(b)

Ban on working for a financial undertaking.

The Financial Supervisory Authority may temporarily ban a person who commits a violation in the manner described in the first and second paragraphs of Art.110 or violates the Act on Measures against Money Laundering and Terrorist Financing from working for financial undertakings.][1)]

[1)]Act no.38/2022 Art.125.

[Article 110(c)

Dismissal of a board member or managing director of a holding company.

The Financial Supervisory Authority may dismiss a board member or managing director of a financial holding company, a mixed holding company and a mixed financial holding company for violations of Chapter provisions XIII on supervision or government directives established on the basis of the chapter.][1)]

[1)]Act no.38/2022 Art.125.

[Article 111] [1)]

[*Settlement.*][2)]

[If a party has violated the provisions of this Act or decisions by the Financial Supervisory Authority based upon it, the Financial Supervisory Authority may conclude the case with a settlement with the party's consent, provided no major offence is involved subject to criminal

punishment. A settlement is binding upon a party to the case once the party has approved and confirmed its substance with his/her signature. [The Central Bank of Iceland][3] sets detailed rules[4] on the implementation of these provisions.][5]

[1]Act no.130/2004, Art.11. [2]Act no.38/2022 Art.126. [3]Act no.91/2019, Art.36. [4]Reg. 326/2019. [5]Act no.55/2007, Art.8.

[Article 112][1]

[The right not to incriminate oneself.] 2)

[In a case directed against an individual, which may conclude with the levying of [administrative penalties][2] or charges laid with the police, a person who there is reasonable grounds to suspect is guilty of an offence has the right to refuse to answer questions or deliver data or article unless the possibility can be excluded that this may be of significance for determining his/her offence. The Financial Supervisory Authority shall inform the suspect of this right.][3]

[1]Act no.130/2004, Art.11. [2]Act no.38/2022 Art.127. [3]Act no.55/2007, Art.9.

[Article 112(a)

[*Time limit to levy administrative penalties*][1]

The authorisation of the Financial Supervisory Authority to levy [administrative penalties][1] under this Act shall expire once five years have elapsed from the time the behaviour concluded. Calculation of the time limit provided for in the first paragraph shall be suspended when the Financial Supervisory Authority notifies a party of the initiation of an investigation of an alleged offence.

The interruption of the limitation period has legal effect for all the parties involved in the violation.][2]

[1]Act no.38/2022 Art.128. [2]Act no.55/2007, Art.10.

[Article 112(b)

[*Fines or imprisonment of up to two years.*][1]

[Violations of the following provisions of this Act and rules adopted on their basis shall be liable to fines or imprisonment of up to two years, unless more severe punishment is provided for in other Acts:][2]

1. Art.3, prohibiting pursuit of activities subject to licence without an operating licence;
2. the second paragraphs of Art.17(b) on information to the Financial Supervisory Authority,
3. [the first and second paragraphs of Art.19, on operating in accordance with proper and sound business practices and customs on the financial market],[3]
4. the second paragraph of Art.21, on the obligation to report ancillary activities;
5. Art.22, on temporary activities and takeover of assets;
6. . . [4]
7. Art.29, on ownership and the obligation to report to the Financial Supervisory Authority;
8. the first and second paragraphs of Art.29(a), prohibiting the granting of loans or other credit;

[9. . . . [3]

10. . . . [. . . 3)] ,[2]

[11.][2] . . . [1]

[12.][2] the first paragraph of Art.31, Art.32, [Art.32(a)],[3] and Art.33, on activities of

foreign financial undertakings in Iceland;

[13.][2] [first paragraph][3] of Art.40, on notification of a qualifying holding;

[14.][2] . . . [5]

[15.][2] Art.49. [Disclosure obligations and ongoing evaluation of the eligibility of owners of qualifying interests.][5]

[16. First paragraph of Art.52 on notification of a breach of prudential requirements or notification that an undertaking is failing],[3]

[17.][3] [the fourth and fifth paragraphs][5] of Art.54 on rules of procedure and prohibition against an executive chairman of the board of directors;

[18.][3] the second and third paragraphs of Art.55, on participation of directors of financial undertakings in handling issues;

[19.][3] Art.56, on participation of employees in business operations;

[20.][3]) the first paragraph of Art.57, on employees with financial undertakings;

[21. Art.57(b), on bonuses;

22. Art.57(c) on auditing of remuneration and payment of bonuses],[3]

[23.][3] [Art.57(d)][3] on severance agreements;

[24.][3] Art.58, on obligation of confidentiality;

[25.][3] [Art.63, on disposition of [profit][3]],[6]

[26.][3] . . . [3]

[27.][3] . . . [3]

[28.][3] Art.87, on preparation and signing of annual financial statements;

[29.][3]) the first paragraph of Art.88, on good accounting practice;

[30.][3] Art.89, on the report of the board of directors;

[31.][3] . . . [3]

[[32.][3] Art.92, on disclosure and notification obligations of auditors];[7]

[[33.][3] Art. 107 on obstructing supervision or providing misleading and/or false information].[8]

[34. Art. 405 of Regulation (EU) no. 575/2013 on conditions for bearing credit risk due to securitisation positions,

35. Part 7 A of Regulation (EU) no. 575/2013 on reporting requirements,

36. Part 8 of Regulation (EU) no. 575/2013 on disclosure of institutions.][3]

The same penalties also apply to deliberate provision of incorrect or misleading information on the circumstances of a financial undertaking or other information concerning it, either publicly or to the Financial Supervisory Authority, other public entities or its clients.][9]][10]

[1]Act no.58/2015, Art.8. [2]Act no.119/2011, Art.8. [3]Act no.38/2022 Art.129. [4]Act no.96/2016, Art.56 [5]Act no.57/2015, Art.37. [6]Act no.77/2012, Art.9. [7]Act no.8/2019, Art.7. [8]Act no.54/2018, Art.15 [9]Act no.75/2010, Art.53. [10]Act no.55/2007, Art.10.

[Article 112(c)

[*Culpability etc.*][1]

Violations of this Act which are liable to fines or imprisonment shall be subject to punishment whether committed deliberately or through negligence.

Any direct or indirect gain acquired through a violation of the provisions of this Act liable to fines or imprisonment may be confiscated by a court judgement.

Attempted violations or participation in violations pursuant to this Act are punishable under the provisions of the General Penal Code.

[A legal entity may be fined for violating this Act and rules issued on the basis thereof, regardless of whether guilt is proven against a specific representative of the legal entity, employee or another person acting on its behalf. If the representative of the legal entity, its

employee or another person acting on its behalf has in an unlawful manner breached this Act or rules issued on the basis thereof in the activities of the legal entity, he may be punishable, in addition to the legal entity being fined.][2)]][3)]

[1)]Act no.38/2022 Art.130. [2)]Act no.58/2015, Art.9. [3)]Act no.55/2007, Art.10.

[Article 112(d)

[*Referring Charges to the police.*][1)]

[Violations against this Act shall only be subject to police investigation following a complaint from the Financial Supervisory Authority.][2)]

If an alleged violation of this Act is liable to both [administrative penalties][1)] and punishment, the Financial Supervisory Authority shall assess whether to refer the charges to the police or conclude the case with an administrative decision… [3)]. In the case of major violations, the Financial Supervisory Authority should refer them to the police. A violation is considered major if substantial amounts are involved or if the violation has been committed in an especially reprehensible manner or under circumstances which greatly increase the culpability of the violation. Furthermore the Financial Supervisory Authority may, at any stage of the investigation, refer violations of this Act for [police investigation].[2)] Care shall be taken to ensure consistency in resolving comparable cases.

Charges laid by the Financial Supervisory Authority shall be accompanied by copies of the documentation supporting the suspicion of a violation. The provisions of Chapters IV-VII of the Public Administration Act shall not apply to a decision by the Financial Supervisory Authority to lay charges with the police.

The Financial Supervisory Authority may provide the police and prosecution with information and documentation which [it][4)] has acquired and is connected with the violations referred to in the second paragraph. The Financial Supervisory Authority may participate in actions by the police concerning their investigation of violations referred to in the second paragraph.

The police and prosecution may provide the Financial Supervisory Authority with information and documentation which they have acquired and is connected with the violations referred to in the second paragraph. The police may participate in actions by the Financial Supervisory Authority concerning their investigation of violations referred to in the second paragraph.

If the prosecution is of the opinion that there is insufficient cause for bringing suit concerning alleged punishable behaviour which furthermore is liable to administrative penalties, it may send or return the case to the Financial Supervisory Authority for handling and a decision.][5)]

[1)]Act no.38/2022 Art.131. [2)]Act no.88/2008 Art.234. [3)]Act no.91/2019, Art.56. [4)]Act no.91/2019, Art.34 [5)]Act no.55/2007, Art.10.

[Article 112(e)

Fines or imprisonment of up to six years

[Violations of the [provisions of Part 4 of Regulation (EU) no. 575/2013 on limits to large exposures].[1)]][2)] shall be liable to fines or imprisonment of up to six years, if there are no more severe penalties under other legislation.][1)]

[1)]Act no.38/2022 Art.132. 2)Act no.*58/2015, Art.10.*

[Article 112(f)

Temporary ban due to the dismissal of the board and the managing director.

If the Financial Supervisory Authority suspends the board of a credit institution or investment firm with guarantee capital as provided for in the second paragraph of Art. 14(a), partly or in whole, or the managing director as provided for in Art.[107(c) or Art.[107(d), the Financial Supervisory Authority may temporarily prohibit the person concerned from taking a seat on the board of directors or becoming a managing director of a company or entity that falls under the scope of the Act on Recovery and Resolution of Credit Undertakings and Investment Firms.][2)]

[1)]Act no.38/2022 Art.133. [2)]Act no.70/2020, Art.103.

[Article 112(g)

Publication of decisions on administrative penalties.

The Financial Supervisory Authority shall publish on its website decisions on administrative penalties for violations of this Act, including the nature of the violations and the individuals and legal entities subject to penalties, without undue delay after the relevant parties have been informed of the decisions. If the decisions are referred to the courts, the Financial Supervisory Authority shall also publish information on the status and outcome of the court cases. The information shall remain on the website for at least five years. Personal information shall, however, not be on the website for longer than what is considered necessary in accordance with the Act on Personal Data Protection and Processing of Personal Data.

The Financial Supervisory Authority shall defer publication pursuant to the first paragraph or publish decisions without personal identification information if it would cause damage to the relevant individuals or legal entities, which is disproportionate to the offence in question or would jeopardise the stability of the financial market or ongoing investigation of a criminal case.][1)]

[1)]Act no.38/2022 Art.134.

[Article 112(h)

Information disclosure to the European Banking Authority on administrative penalties.

The Financial Supervisory Authority shall inform the European Banking Authority of decisions on administrative penalties for violations of this Act and of court cases related to them and their conclusions.][1)]

[1)]Act no.38/2022 Art.134.

Chapter XV

Miscellaneous provisions.

[Article 113][1)]

Registration of accounts by name.

All deposit accounts, custody accounts and safety deposit boxes must be registered in the name of the customer together with his/her address and Id. No.

[1)]Act no.130/2004, Art.11.

[Article 114][1)]

Lost documents.

If a deposit certificate or acceptance receipt issued by a financial undertaking for a pledge or assets taken into custody is lost, the board of the financial undertaking may summon the bearer of the documents in question with three months' notice from the final publication of such a summons, which must be published in the Legal Gazette three times.

If no one answers the summons before the time limit elapses, all claims on the financial undertaking based on the deposit document or acceptance receipt shall be cancelled. The financial undertaking shall then, at the request of the person who formerly received the deposit certificate or acceptance receipt from the undertaking in question, issue the party or such person who proves his/her legal right derived from this party, with a new one with the same terms and conditions as the previous one.

[1)]Act no.130/2004, Art.11.

[Article 115][1)] . . . [2)]

[1)]Act no.130/2004, Art.11. [2)]Act no.*38/2022 Art.135.*

[Article 116][1)]

Exempted funds and exemption from legal form.

[Notwithstanding the authorisations of the Harbour Development Fund, as provided for in Ports Act no.61/2003, the Housing Financing Fund and the Accommodation and Construction Institution, as provided for in Housing Act no.44/1998, these funds shall not be considered as financial undertakings in accordance with this Act.][2)]

Public investment funds which are in operation upon the entry into force of this Act shall be exempt from the requirements of Art.13 on operating as limited liability companies.

[Section A of Chapter IX on the recovery plan does not apply to the Regional Development Institute (Byggðastofnun) and Municipality Credit Iceland Plc. (Lánasjóður sveitarfélagi ohf.) [Chapter X on capital buffers does not apply to the Regional Development Institute (Byggðastofnun). The Regional Development Institute (Byggðastofnun) and Municipality Credit Iceland Plc. (Lánasjóður sveitarfélagi ohf.)] are exempt from the requirements for regular reporting on liquidity and stable funding. The Central Bank of Iceland can exclude the Regional Development Institute (Byggðastofnun) and Municipality Credit Iceland Plc. (Lánasjóð sveitarfélaga ohf.) from other reporting requirements laid down in this Act or government directives established on the basis of them, if they are not necessary for the Financial Supervisory Authority's supervision of them or performance of its other functions, as the case may be, by limiting the requirements for the frequency or extent of reporting from the Regional Development Institute and Municipal Loan Fund Ltd.][2)]][3)]

[1)]Act no.130/2004, Art.11. *[2)]Act no.38/2022 Art.136.* *[3)]Act no.44/2021, Art.5.*

[Article 116(a)[1)]][2)]

[1)]Act no.38/2022, Art.137. [2)]Act no.57/2015, Art.38.

Chapter XVI
Entry into force, etc.

[Article 117][1)]

Transposition

[This Act transposes into Icelandic law provisions of the Directives of the European Parliament and the Council 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions, 2001/24/ EC on the on the reorganisation and winding

up of credit institutions, 2013/36/ EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Art.4 of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms with regard to simplified recovery plans, as well as Art. 5-9, and 19-30 of the same Directive.][2)]

[1)]Act no.130/2004, Art.11. [2)]Act no.*38/2022 Art.138.*

[Article 117(a)

[Regulations of the Minister.

The Minister sets regulations to implement regulations approved by the European Commission based on the following provisions of Directive 2013/36/EU of the European Parliament and of the Council, with subsequent amendments, and to implement the provisions of this Act:

1. Art.145 on delegated acts.
2. Art.146 on implementing acts.

The Minister sets regulations to implement regulations approved by the European Commission based on the following provisions of Regulation (EU) no. 575/ 2013:

1. the fourth paragraph of Art.107, on credit risk procedures;
2. The seventh paragraph of Art.114 on exposures to central governments or central banks.
3. The fourth paragraph of Art.115 on exposures to regional governments or local authorities.
4. The fifth paragraph of Art.116 on exposures to public sector entities.
5. The second paragraph of Art.117 on exposures to multilateral development banks.
6. the second paragraph of Art.142, on definitions
7. Art.391 on the definition of an institution for large exposures purposes.
8. Paragraphs 1 and 2 of Art.456 on delegated acts
9. Art.457 about technical adjustments and corrections.
10. Art.459, on prudential requirements.
11. Art.461(a) on alternative standardised approach for market risk.
12. Third paragraph of Art.497 on own funds requirements for exposures to central counterparties (CCPs)[1)]
13. Fourth paragraph of Art.503 on own funds requirements for exposures in the form of covered bonds.][2)]][3)]

[1)]Reg. 860/2022. *[2)]Act no.38/2022 Art.139.* *[3)]Act no.57/2015, Art.40.*

[Article 117(b)

[*Rules of the Central Bank of Iceland.*

The Central Bank of Iceland sets rules[1)] to implement regulations approved by the European Commission based on the following provisions of Directive 2013/36/EU of the European Parliament and of the Council, with subsequent amendments, and implement the provisions of this Act:

1. Paragraphs 2 and 3 of Art.8 on authorisations to operate;
2. Paragraph 9 of Art.22 on notification and assessment of proposed acquisitions.
3. Paragraphs 5 and 6 of Art.35 on notification requirement and interaction between competent authorities
4. Paragraphs 5 and 6 of Art.36 on commencement of activities;
5. Paragraphs 4 and 5 of Art.39 on notification procedure.
6. Paragraphs 6 and 7 of Art.50 on collaboration concerning supervision.
7. Paragraphs 4 and 5 of Art.51 on significant branches;

8. Paragraph 4 of Art.77 on internal approaches for calculating own funds requirements.

9. Paragraphs 7 and 8 of Art.78 on supervisory benchmarking of internal approaches for calculating own funds requirements.

10. Paragraph 5 of Art.84 on interest risk arising from non-trading book activities.

11. Paragraph 2 of Art.94, on the variable elements of remuneration.

12. Paragraph 5 of Art.98 on technical criteria for the supervisory review and evaluation.

13. Paragraph 5 of Art.113 on joint decisions on institution-specific prudential requirements.

14. Paragraphs 4 and 5 of Art.116 on colleges of supervisors.

15. Paragraph 4 of Art.120 on supervision of mixed financial holding companies.

16. Paragraph 18 of Art.131 on global and other systemically important institutions.

17. Paragraph 7 of Art. 140 on calculation of institution-specific countercyclical capital buffer rates.

18. Paragraph 3 of Art.143 on general disclosure requirements.

The Central Bank of Iceland sets rules[2)] to implement regulations approved by the European Commission based on the following provisions of Regulation (EU) no. 575/ 2013:

1. Paragraph 4 of Art.4 on what conditions meet the criteria of a group of connected clients.

2. Paragraph 9 of Art.18 on consolidated accounting methods.

3. Paragraph 8 of Art.20 on joint decisions on prudential requirements.

4. Paragraph 4 of Art.26 on Common Equity Tier 1 items.

5.Paragraph 2 of Art.27 on capital instruments of mutuals, cooperative societies, savings institutions or similar institutions in Common Equity Tier 1 items.

6. Paragraph 5 of Art.28 on Common Equity Tier 1 instruments.

7. Paragraph 6 of Art.29 on capital instruments issued by mutuals, cooperative societies, savings institutions and similar institutions.

8. Paragraph 2 of Art.32 on the concept of a gain on sale referred to in point (a) of paragraph 1 of Art.32 of Regulation (EU) no. 575/2013.

9. Paragraph 4 of Art.33 on what constitutes close correspondence between the value of the bonds and the value of the assets, as referred to in point (c) of paragraph 33 of Regulation (EU) no. 575/2013.

10. Paragraphs 2, 3 and 4 of Art.36 on deductions from Common Equity Tier 1 items.

11. Paragraph 2 of Art.41 deduction of defined benefit pension fund assets.

12. Paragraph 6 of Art.49 on the conditions for the application of calculation methods referred to in Annex I, Part II of Directive 2002/87/EC with regard to the deduction options referred to in the first paragraph of Art.49 of Regulation (EU) no. 575/2013.

13. Paragraph 2 of Art.52, on additional Tier 1 instruments.

14. Paragraph 7 of Art.72(b) on eligible liabilities instruments.

15. Paragraph 7 of Art.73 on conditions under which indices are considered to fulfil conditions for a broad market index with regard to Paragraph 4 of Art.73 of Regulation (EU) no. 575/2013.

16. Paragraph 4 of Art.76, on index holdings of capital instruments.

17. Paragraph 5 of Art.78 on supervisory permission for reducing own funds.

18. Paragraph 3 of Art.78 on reducing eligible liabilities instruments.

19. Paragraph 2 Art.79 on a temporary waiver from deduction from own funds.

20. Paragraph 2 Art.83 on qualifying Additional Tier 1 and Tier 2 capital issued by a special purpose entity.

21. Paragraph 4 of Art.84 on minority interests included in consolidated Common Equity Tier 1 capital.

22. Paragraph 4 Art.97 on Own Funds based on Fixed Overheads.

23. Paragraph 14 of Art.105 on Requirements for Prudent Valuation.

24. Paragraph 4 of Art.110 on treatment of credit risk adjustment.

25. Paragraph 4 of Art.124 on exposures secured by mortgages on immovable property.

26. Paragraph 4 of Art.132(a) on methods for calculating the risk weight of the exposures of collective investment undertakings.

27. Paragraphs 1 and 3 of Art.136 on the mapping of credit assessments from external credit assessment institutions.

28. Paragraph 5 of Art.143 on permission to use the IRB Approach.

29. Paragraph 2 of Art.144 on competent authorities' assessment of an application to use an IRB Approach.

30. Paragraph 6 of Art.148 on the conditions for implementing the IRB Approach across different classes of exposure and business units.

31. Paragraph 3 of Art.150 on conditions for permanent partial use as provided for in points (a), (b) and (c) of the first paragraph of Art.150 of Regulation (EU) no. 575/2013.

32. Paragraph 9 of Art.153 on risk weighted exposure amounts for exposures to corporates, institutions and central governments and central banks.

33. Paragraph 8 of Art.164 on the assessment of Loss Given Default (LGD).

34. Paragraph 3 of Art.173 on the integrity of assignment process.

35. Paragraph 6 of Art.178 on the materiality threshold of a credit obligation past due.

36. Paragraph 3 of Art.180 on requirements specific to probability of default estimation.

37. Paragraph 3 Art.181 on requirements specific to own-LGD estimates.

38. Paragraph 4 of Art.182 on requirements specific to own-conversion factor estimates.

39. Paragraph 6 of Art.183 on the recognition of conditional guarantees.

40. Paragraph 10 of Art.194 on Principles governing the eligibility of credit risk mitigation techniques.

41. Paragraph 8 of Art.197 on eligibility of collateral under all approaches and methods.

42. Paragraph 9 of Art.221 on Using the Internal Models Approach for Master netting agreements.

43. Art. 270 on the mapping of credit assessments.

44. Paragraph 5 of Art.277 on transactions with a linear risk profile.

45. Paragraph 3 of Art .279(a) on the supervisory delta factor.

46. Paragraph 4 of Art.312 on permission and notification of advanced measurement approaches.

47. Paragraph 5 of Art.314 on combined use of different approaches.

48. Paragraph 3 of Art.316 on the methodology for calculating the relevant indicator.

49. Paragraph 3 Art.318 on the conditions of application of the principles for business line mapping.

50. Paragraph 9 of Art.325 on calculating the own funds requirements for market risk

51. Paragraph 5 of Art.325(u) on own funds requirements for residual risk.

52. Paragraph 8 of Art.325(w), on gross jump-to-default amounts.

53. Paragraph 3 of Art.325(ap) on the definition of emerging markets and an advanced economy in connection with risk weights for equity risk.

54. Paragraphs 8 and 9 Art. 325(az) on the use of alternative internal models.

55. Paragraph 7 of Art. 325(bd) on liquidity horizons;

56. Paragraph 3 of Art.325(be) on the assessment of the modellability of risk factors.

57. Paragraph 9 of Art.325(bf) on regulatory back-testing requirements and multiplication factors.

58. Paragraph 4 of Art.325(bg) on profit and loss attribution requirement.

59. Paragraph 3 of Art.325(bk) on calculation of stress scenario risk measure.

60. Paragraph 12 of Art.325(bp) on particular requirements for an internal default risk model.

61. Paragraph 3 of Art.329 on options and warrants.

62. Paragraph 3 of Art.341 on the definition of the term market, as provided for in

Paragraph 2 of Art.341 of Regulation (EU) no. 575/2013

63. Paragraph 1 of Art.344 on stock indices.

64. Paragraph 6 of Art.352 on the calculation of the overall net foreign exchange position.

65. Paragraph 3 of Art.354 on closely correlated currencies.

66. Paragraph 4 of Art.358 on particular instruments.

67. Paragraph 4 of Art.363 on permission to use internal models.

68. Paragraph 5 of Art.382 on procedures for excluding transactions with non-financial counterparties established in a third country from the own funds requirement for Credit Valuation Adjustment (CVA) risk charge.

69. Paragraph 7 of Art.383 on advanced measurement approaches.

70. Paragraphs 8 and 9 of Art.390 on calculation of the exposure value.

71. Paragraph 4 of Art.394 on the criteria for the identification of shadow banking entities, as provided for in Paragraph 2 of Art.394 of Regulation (EU) no. 575/2013.

72. Paragraphs 2 and 3 of Art.410 on harmonised conditions for application.

73. Paragraphs 3 and 3(a) of Art.415 on liquidity reporting.

74. Paragraphs 4 and 5 of Art.419 on currencies with constraints on the availability of liquid assets.

75. Paragraph 10 of Art.422 on objective criteria regarding liquidity outflows.

76. Paragraph 3 of Art.423 on the notion of materiality and methods for the measurement of additional outflow.

77. Paragraph 6 of Art.425 on objective criteria regarding liquidity inflows.

78. Art.426 on Updating Future liquidity requirements.

79. Paragraphs 7 and 9 of Art.430 on reporting on prudential requirements and financial information.

80. Paragraph 6 of Art.430(b) on specific reporting requirements for market risk.

81. Art. 434(a) on specific reporting obligations.

82. Paragraphs 1 and 3 of Art.460 on liquidity.

83. Paragraph 6 of Art.481 on additional filters and deductions.

84. Paragraph 3 of Art.487 on items excluded from grandfathering in Common Equity Tier 1 or Additional Tier 1 items in other elements of own funds.

85. Paragraph 5 of Art.492 on transitional provisions for disclosure of own funds.

86. Paragraph 3 of Art.495 on treatment of equity exposures under the IRB Approach.

[The Central Bank of Iceland is authorised to set regulations on the liquidity and stable funding of financial undertakings. The rules may stipulate minimum and average liquidity and minimum stable funding in Icelandic króna and foreign currencies, and may also decide that different provisions apply to specific categories of financial undertakings.

The Central Bank of Iceland may stipulate[3)] which options and provisions as provided for in Regulation (EU) no. 575/ 2013 are applied when setting the rules.][4)]][5)]

[1)]Reg. 787/2022. Reg. 790/2022. Reg. 791/2022. Reg. 792/2022. Reg. 794/ 2022. Reg. no. 886/2022. Reg. no. 887/2022. Reg. no. 888/2022. [2)] Reg. no. 790/2022. 1) Reg. 793/2022. [3)] Reg. no. 789/2022. [4)]Act no.38/2022 Art.140. [5)]Act no.57/2015, Art.40.

[Article 117(c) [1)]][2)]

[1)]Act no.38/2022 Art.141. [2)]Act no.96/2016, Art.58.

[Article 118][1)]

Entry into force

This Act shall enter into force on 1 January 2003. . . . [2)]

[1)]*Act no.130/2004, Art.11.* [2)]Act no.*57/2015 Art.41*

[Article 119][1)]

[2)]*Act no.130/2004, Art.11.*

[Article 120] [1)]. . .

[3))]*Act no.130/2004, Art.11.*

Temporary Provisions

I [1)]

[4)]*Act no.38/2022 Art.142.*

II [1)]

[5)]*Act no.38/2022 Art.142.*

III.

[When setting the rules as provided for in Art.117(b), the Central Bank of Iceland may refer to the publication of regulations in the Official Journal of the European Union in English. If the Central Bank of Iceland exercises this power, it shall make the English versions of the regulations available on its website.][1)]

[1)]*Act no.38/2022 Art.143.*

IV[1)]

[1)]*Act no.75/2010, Art.55.*

[**V**[1)]][2)]

[1)]*Act no.38/2022 Art.142.* [2)] Act no.*44/ 2009, Temporary Provisions. II.*

[**VI** [1)]][2)]

[1)]*The provision expired on 31 Dec. 2020 as provided for in the eighth paragraph.* [2)]Act no.*44/ 2009, Temporary Provisions. IV.*

VII.–XIII..[1)]

[1)]*Act no.38/2022 Art.142.*