

No. 490/2016

4 June 2016

## RULES

### on special reserve requirements for new foreign currency inflows

#### Article 1 *Definitions*

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

*Special reserve account:* An account with a deposit institution in Iceland that is identified with ledger code 24 in the Icelandic Banks' Data Centre hf. system.

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

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

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

*New inflows of new foreign currency:* Foreign currency entering Iceland after 4 June 2016. Balances on deposit in foreign currency accounts with domestic financial undertakings dating from before 5 June 2016, export revenues, and other foreign currency subject to repatriation requirements, cf. Article 13(1) of the Foreign Exchange Act, are not considered new inflows of foreign currency.

#### Article 2 *Special reserve base*

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

1. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or in domestic currency deposits.
2. Domestic currency deposits with deposit institutions in Iceland, other than those deriving from capital that is eligible for reinvestment according to Article 13(e) or Article 13(f) of the Foreign Exchange Act, or that falls under Article 13(l) or Article 13(m) of the Foreign Exchange Act, but not those deriving from capital according to Item 5 of this Paragraph.
3. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, in unit share certificates of funds that invest in bonds or bills

issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or that own domestic currency deposits.

4. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, in the equity of a company that is established for the purpose of investing, directly or indirectly, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or in domestic currency deposits.
5. Loans granted to resident entities that are used for investments in domestic currency, for the benefit of the lender, in bonds or bills issued in domestic currency that are electronically registered in accordance with the Act on Electronic Registration of Title to Securities, or deposited to domestic currency deposit accounts. The same applies to such loans that are used for investments in unit share certificates of funds or in the equity of a company that is invested or disposed of, directly or indirectly, in the manner described in the first sentence.

### Article 3

#### *Parties subject to special reserve requirements*

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

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

### Article 4

#### *Special reserve ratio*

A special reserve ratio of 40% shall apply to the following types of capital in the special reserve base:

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

### Article 5

#### *Implementation of the special reserve requirement*

The special reserve requirement shall be satisfied by deposit of the special reserve amount to a special reserve account within two weeks of the date the new inflows of foreign currency are converted to domestic currency or the reinvestment according to Article 13(m), Paragraph 6 of the Foreign Exchange Act has taken place.

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

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

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

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

### Article 6

This is an English translation.

The original Icelandic text is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.

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### *Holding period*

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

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

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

### Article 7

#### *Capital flow accounts*

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

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

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

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

Capital flow accounts shall bear 0% interest.

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

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

### Article 8

#### *Reporting requirements*

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

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

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#### Article 9

##### *Sanctions*

Violations of the provisions of these Rules are subject to administrative fines and penalties in accordance with Articles 15(a)-15(d), Article 15(h), and Articles 16, 16(a), and 16(b) of Act no. 87/1992, with subsequent amendments.

#### Article 10

##### *Entry into force*

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

Reykjavík, 4 June 2016

*Central Bank of Iceland*

**Már Guðmundsson**

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