

RULES

on foreign exchange

CHAPTER I

Foreign exchange transactions and cross-border movement of capital

Article 1

Definition of cross-border movement of capital

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

Article 2

Exemptions for cross-border movement of capital

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

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

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

The contents and procedure for notifications pursuant to Paragraph 2 shall be as is provided for in Article 15.

Article 3

Exemptions for foreign exchange transactions

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

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

Article 4

Exemptions for investments in foreign currency

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

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

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

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

Investments pursuant to Paragraph 1 shall be reported to the Central Bank of Iceland. The contents and procedure for notifications shall be as is provided for in Article 15.

Article 5

Exemptions for lending and borrowing

Borrowing and lending in domestic and foreign currency between residents and non-residents are exempt from the restrictions laid down in Article 13(g), Paragraphs 1-3 of the Foreign Exchange Act, cf. Paragraph 2, except for foreign currency loans from residents to non-residents that are disbursed to a bank account with a financial undertaking in Iceland and allocated, directly or indirectly, to:

- a. Investments in bonds or bills issued in domestic currency and electronically registered pursuant to the Act on Electronic Registration of Title to Securities.
- b. Deposits in domestic currency with deposit institutions in Iceland that bear annual interest of 3.00% or more.
- c. Investments in unit share certificates of funds that invest in bonds or bills issued in domestic currency and electronically registered pursuant to the Act on Electronic Registration of Title to Securities, or that own domestic currency deposits held at deposit institutions in Iceland, if cash and deposits bearing annual interest of 3.00% or more constitute 10% or more of the funds' assets.
- d. Investments in the equity of a company that invests or allocates funds, directly or indirectly, in the manner described in Items a-c.

Upon receipt of confirmation from the Central Bank of Iceland that the loan is not for the purposes listed in Paragraph 1, Items a-d, such loans are exempted from the restrictions laid down in Article 13(g), Paragraphs 1-3 of the Foreign Exchange Act.

Repayments of loans in domestic and foreign currency between residents and non-residents are exempt from the restrictions laid down in Article 13(g), Paragraphs 4 and 5 of the Foreign Exchange Act, except for repayments of foreign currency loans from residents to non-residents which are allocated, directly or indirectly, for the purposes described in Paragraph 1, Items a-d.

The contents and procedure for requests for confirmation pursuant to Paragraph 2 shall be as is provided for in Article 14.

Article 6

Exemptions for issuance of guarantees

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

Article 7

Exemptions for derivatives transactions

Derivatives transactions with financial undertakings in Iceland for the purpose of hedging against risk, where domestic currency is used in a contract against foreign currency, are exempt from the restrictions laid down in Article 13(i), Paragraph 1 of the Foreign Exchange Act, upon receipt of confirmation from the Central Bank of Iceland that the transactions involve hedging, provided that a foreign exchange imbalance exists over the duration of the derivative contract. Hedging pursuant to the first sentence shall reflect the foreign exchange imbalance, and contracts shall be amended accordingly if the premises for them change;

i.e., underlying assets are sold or debts settled prior to maturity. The Central Bank may revoke the confirmation pursuant to the first sentence if it concludes that the premises for the hedging no longer exist.

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

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

Financial undertakings in Iceland shall notify the Central Bank of Iceland before the end of the first business day of each calendar month of outstanding derivatives contracts pursuant to Paragraph 1 with their clients.

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

The contents and procedure for notifications pursuant to Paragraph 4 shall be as is provided for in Article 13, Paragraph 4.

Article 8

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

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

Article 9

New investment

These Rules do not affect the parties' obligations in connection with investment undertaken using new inflows of foreign currency in the sense of Article 13(m) of the Foreign Exchange Act. Such investments must be reported within three weeks of the date the new inflows of foreign currency are converted to domestic currency, cf. Article 13(m), Paragraph 4, and reinvestments pursuant to Paragraph 7 of the same Article. Funds released upon the sale of a new investment do not require confirmation from the Central Bank of Iceland; however, the Bank shall be notified of the sale.

The contents and procedure for notifications pursuant to Paragraph 1 shall be as is provided for in Article 15.

Article 10

Exemptions from repatriation requirements

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

Article 11

Exemptions for payments for goods and services exports

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

Article 12

Other

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

CHAPTER II

Notification and requests for confirmation

Article 13

Notifications and requests for confirmation of derivatives transactions

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

1. Derivatives transactions for hedging on the basis of planned trade in goods and/or services:
 - a. The company's annual accounts for the past two years.
 - b. An estimate of the foreign exchange imbalance due to trade in goods and services, itemised by month in domestic and foreign currency, with reference to the foreign exchange imbalance for the past year.

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

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

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

Notifications from financial undertakings in Iceland to the Central Bank of Iceland concerning outstanding derivatives contracts pursuant to Article 7, Paragraph 4 shall be sent in electronic form to the Central Bank of Iceland in accordance with the Bank's guidelines on further implementation of these Rules; cf. Article 18, which are published on the Bank's website.

Article 14

Requests for confirmation of foreign-denominated loans from residents to non-residents

Requests for Central Bank of Iceland confirmation of foreign-denominated loans from residents to non-residents pursuant to Article 5 shall contain the following information and documentation:

- a. Information on the lender (name, national ID number, and address).
- b. Information on the borrower (name, national ID number, and address).
- c. Information on the purpose and disposal of the loan.
- d. Amount of the loan.
- e. Interest rate.

The Central Bank shall be provided with all further documents and data that it may request in order to confirm that the loan has not been granted for the purposes listed in Article 5, Paragraph 1, Items a-d.

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

Article 15

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

Notification to the Central Bank of Iceland of cross-border movement of capital pursuant to Article 2, Paragraph 2, Items 1-7, foreign exchange transactions pursuant to Article 3, and investments pursuant to Article 4 shall be sent by the financial undertaking acting as an intermediary for the movement of capital, foreign exchange transaction, or investment within five business days of the date payment is made. If payment takes place without the involvement of a domestic financial undertaking, the payer him- or herself shall notify the Central Bank.

Notifications and documentation pursuant to Paragraph 1 shall be sent in electronic form to the Central Bank of Iceland, in accordance with the Central Bank's guidelines on the implementation of these Rules, cf. Article 18, which are published on the Bank's website. A financial undertaking acting as an intermediary for

movement of capital may, upon prior consultation with the Central Bank, fulfil the notification obligation pursuant to Paragraph 1 using an automated system.

Article 16

New investment

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

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

Article 17

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

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

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

CHAPTER III

Guidelines, sanctions, and entry into force

Article 18

Guidelines

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

Article 19

Sanctions

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

Article 20

Entry into force

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

Reykjavík, 12 March 2017

Central Bank of Iceland

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