

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 broker: A credit undertaking that is a member of the Central Bank of Iceland real-time gross settlement (RTGS) system.

Special reserve amount: The special reserve base multiplied by the special reserve ratio.

Special reserve account: An account with a deposit institution in Iceland that is identified with ledger code 24.

Holding period: The term during which the special reserve amount shall be held in a special reserve account and the term of a repurchase agreement.

Repo (repurchase agreement): A purchase, by a special reserve broker, of a certificate of deposit from the Central Bank of Iceland for the special reserve amount, undertaken upon the initiative of an entity subject to the special reserve requirement, with an option to sell it to the Central Bank at the end of the holding period, at a price determined by the interest rate on the certificate of deposit.

Capital flow account: A term deposit account held by a deposit undertaking 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 undertaking concerned.

Certificates of deposit: Debt instruments that are issued by the Central Bank of Iceland; cf. Temporary Provision III of the Foreign Exchange Act.

New inflows of foreign currency: Foreign currency entering Iceland after 4 June 2016. The following are not classified as new inflows of foreign currency: 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(l) of the Foreign Exchange Act.

Article 2

Special reserve requirement

It is required to deposit funds deriving from new inflows of foreign currency pursuant to these Rules. The special reserve requirement is created when a special reserve base develops; cf., however, Article 4, Paragraph 2.

Article 3

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 deposits of such reinvested funds to domestic currency deposit accounts held at deposit undertakings in Iceland and bearing annual interest of 3.00% of more.
2. Domestic currency deposits with deposit undertakings in Iceland, other than those deriving from capital that:
 - a. is eligible for reinvestment according to Article 13(e) of the Foreign Exchange Act;
 - b. falls under Article 13(l) or Article 13(m) of the Foreign Exchange Act; or
 - c. bears annual interest of less than 3.00% and is not used, directly or indirectly, to invest in bonds or bills issued in domestic currency and electronically registered pursuant to the Act on Electronic Registration of Title to Securities; or in unit shares in 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 hold deposits in domestic currency with deposit institutions in Iceland if cash

and deposits bearing annual interest of 3.00% or more constitute 10% or more of the fund's assets; or in the equity of a company that is invested directly or indirectly in the aforementioned investments.

3. New investments and reinvestment of such new investments according to Article 13(m) of the Foreign Exchange Act, 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 held at deposit undertakings in Iceland, if cash and deposits bearing annual interest of 3.00% or more constitute 10% or more of the funds' assets.
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 that is established for the purpose of investing, directly or indirectly, in domestic currency deposits bearing annual interest of 3.00% or more.
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 held at deposit undertakings in Iceland and bearing annual interest of 3.00% or higher. The same applies to such loans that are used for 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, or in the equity of a company that is invested directly or indirectly in the manner described in the first sentence.

Article 4

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

An individual who is the registered owner according to Paragraph 1, Items 1-3, shall be permitted to dispose of new inflows of foreign currency according to Article 3, up to a maximum equivalent to 100,000,000 kr., without incurring a special reserve requirement in accordance with these Rules. This authorisation is subject to the requirement that the individual be the beneficial owner of the funds in question.

If the combined equivalent value of an individual's disposal according to Article 3 exceeds the maximum amount specified in Paragraph 2 as stated at any given time, only the portion of new inflows of foreign currency in excess of the maximum amount shall be subject to the special reserve requirement according to these Rules.

Article 5

Special reserve ratio

A special reserve ratio of 0% applies to the following items in the special reserve base:

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

Article 6

Implementation of the special reserve requirement

The special reserve requirement shall be satisfied within two weeks of its establishment, in either of the following ways:

1. The entity subject to special reserve requirements deposits the special reserve amount to a special reserve account with a deposit undertaking in Iceland.
2. A special reserve broker enters into a repurchase transaction for the special reserve amount. The special reserve amount remains unchanged throughout the original holding period. The settlement currency of the special reserve amount shall be the Icelandic króna.

It is prohibited to release the special reserve amount or amend a repurchase agreement during the holding period. In spite of this, it is permissible to transfer a repurchase agreement between special reserve brokers, provided that such transfer is reported simultaneously to the Central Bank of Iceland.

Article 7

Holding period

The holding period shall be 12 months and shall begin on the business day that the special reserve requirement is satisfied.

At the end of the holding period, the special reserve amount is available for withdrawal from the special reserve account or for exercise of the option to sell provided for in the repurchase agreement, and it is thereby no longer subject to the special reserve requirement pursuant to these Rules.

Article 8

Capital flow accounts

Deposit undertakings are required to deposit the special reserve amount that they hold in special reserve accounts in accordance with Article 6, Paragraph 1, Item 1, 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 undertakings shall satisfy the requirements according to Paragraph 1 on the same business day that the special reserve amount according to Article 6 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 undertaking 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 9

Terms and rates on certificates of deposit and repurchase transactions with certificates of deposit

The certificates of deposit shall bear 0% interest.

The certificates of deposit bear no maturity date but are callable by the Central Bank of Iceland in accordance with the provisions of the instrument concerned. If the Central Bank exercises the call-in provision, the special reserve broker's option to sell according to a repurchase agreement with the certificate of deposit concerned shall expire.

Certificates of deposit will not be delivered to special reserve brokers except in fulfilment of a repurchase agreement between the special reserve broker and the Central Bank of Iceland. A special reserve broker's option to sell according to a repurchase agreement entails the right, but not the obligation, to exercise the sell option. The Central Bank of Iceland is required to honour a special reserve broker's sell option, provided that other requirements provided for in these Rules are satisfied.

In other respects, the Central Bank of Iceland shall determine the terms and rates on certificates of deposit and repurchase agreements. The Central Bank shall announce the arrangements for these transactions, as well the applicable terms and conditions, on its website.

Article 10

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

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falling under Article 3, 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 undertakings shall notify the Central Bank of Iceland within the same business day of deposits of special reserve amounts to special reserve accounts or of purchases of Central Bank certificates of deposit according to Article 6.

Article 11

Penalties

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), cf. Temporary Provision III, Paragraph 6 of the Foreign Exchange Act.

Article 12

Entry into effect

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. The Rules on Special Reserve Requirements for New Foreign Currency Inflows, no. 490/2016, shall cease to apply.

Reykjavík, 5 March 2019

Central Bank of Iceland

Már Guðmundsson
Governor

Andri Egilsson
Deputy Director
Capital Controls Surveillance Unit

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Attachment

Ministerial approval

With reference to Temporary Provision III of the Foreign Exchange Act, no. 87/1992, cf. Article 2, Paragraph 1 of Act no. 42/2016, the Minister of Finance and Economic Affairs has approved the Rules on Special Reserve Requirements for New Foreign Currency Inflows.

Ministry of Finance and Economic Affairs, 5 March 2019

Bjarni Benediktsson

Guðrún Þorleifsdóttir