

This is an English translation.

The original Icelandic text, as published in the Law Gazette (Stjórnartíðindi), is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.

Act No. 127/2011 amending the Foreign Exchange Act, the Customs Act and the Act on the Central Bank of Iceland.

I. CHAPTER I.

Amendments to the Act on Foreign Exchange, No 87/1992, as later amended.

Article 1

The introductory sentence in the definitions of "movements" in Article 1 of the Act shall read as follows: Transnational movement of capital between countries refers to the movement or transfer of funds between national and foreign entities in relation to:

Article 2

Pursuant to the words, "according to Article 4, Article 5 " in paragraph 1 Article 7 read: Article 13 a- Article 13 n.

Article 3

Pursuant to Article 13 seventeen new Articles are added, as follows:

a. (Article 13 a)

Notwithstanding provisions of the Article 2 in this Act and Article 9 of Act No. 34/1991 on foreign investment in business enterprises, the capital movements and foreign currency arbitrage specified in the provisions of Article 13 b - 13 n shall be disallowed up to 31 December 2013.

b. (Article 13 b)

The following transnational capital movements are not allowed:.

1. Trade in and the issue of securities, units in UCITS, money-market instruments and other negotiable financial instruments.
2. Deposits into and withdrawals from accounts in credit institutions.
3. Lending, borrowing and issue of guarantees not related to international trade in goods and services.
4. Import and export of securities and indigenous and foreign currency.

5. Forward transactions, derivative transactions, trade in options, currency swaps and interest rate swaps, and other related foreign exchange arbitrage, in which the Icelandic króna is one of the denominators.
6. Gifts and grants and other capital movements comparable to those listed in points 1 to 5 and are likely to cause serious and significant volatility in exchange rate and monetary policy.

All capital movements according to paragraph 1 transnationally in foreign currency are not allowed, except in the case of disbursement for the purchase of goods or services, or other financial transactions that are specifically exempted from this Act. An individual who is a foreign resident is then authorized to transfer out foreign currency if it is demonstrated that the money is for living expenses. This authorization for living expenses applies for capital movements within the calendar year up to the equivalent of 3,000,000 kr. for individuals, 6,000,000 kr. for married couples / cohabiting partners and 2,000,000 kr. for each minor child subject to their custody and who is domiciled with the aforementioned. Furthermore, it is allowed to export foreign currency held by an individual be it shown that the funds are proceeds from an accident compensation or inheritance. Students who can demonstrate that they are studying abroad are considered foreign parties for the purposes of this provision.

All capital movements according to paragraph 1 between countries in the indigenous currency, are not allowed. Exempted from the ban in sentence 1 are:

1. Capital movements that are specifically exempted from this Act and disbursement is made by withdrawal from an account held by the payer with an indigenous financial corporation.
2. Capital movements to trade in goods and services, which take place in foreign currency in which payment is made by withdrawal from an account held by the purchaser with an indigenous financial corporation.
3. Movement of capital for real estate activities in this country and transactions in financial instruments that the Central Bank of Iceland accepts as valid collateral for the bank under the rules for trade with the Central Bank of Iceland, and are issued in the national currency when the payment is made by withdrawal from an account held by the purchaser at a financial corporation in this country.
4. Movement of capital for the payment of claims from a bankruptcy and payment of composition under a bankruptcy scheme, cf. Act No 21/1991, and where payment is made by withdrawal from an account held by the payer with a indigenous financial corporation.

c. (Article 13 c.)

Foreign exchange transactions between residents and non-residents where indigenous currency is a constituent of the transaction are not allowed.

A resident is not allowed to purchase foreign currency from an indigenous financial corporation, for disbursement in foreign currency, unless he demonstrates that the money is to be used for trade in goods and services or movement of capital under the provisions of Article 13 j and 13 k. Foreign exchange transactions for trade in goods and services between two indigenous parties are not allowed.

Notwithstanding paragraph 1 a non-resident may purchase foreign currency from a national financial corporation in connection with capital movements according to Article 13 j, for such disbursements from a resident of this country, and paragraph 2 Article 13 k. Furthermore, non-residents may purchase foreign currency from an indigenous financial corporation at which they have their business be it demonstrated the money is for living expenses. This authorization for living expenses applies for the purchase of foreign exchange within the calendar year up to the equivalent of 3,000,000 kr. for individuals, 6,000,000 kr. for married couple / cohabiting partners and 2,000,000 kr. for each minor child subject to their custody and who is domiciled with the aforementioned. Furthermore, it is allowed to purchase foreign currency for proceeds from accident compensation, or an individuals inheritance. Students who can demonstrate that they are studying abroad are considered foreign parties for the purposes of this provision.

Furthermore, non-residents are allowed to purchase national currency from financial corporations in this country

d. (Article 13 d.)

Purchase by residents of foreign currency in cash is not allowed except under a special authorization of this Act. The same applies to cash withdrawals from foreign currency accounts in financial corporations in this country.

Notwithstanding the provisions of paragraph 1 a resident individual may purchase foreign currency in cash from an indigenous financial corporation with which he is in business or withdraw foreign currency in cash from a currency account in an indigenous financial corporation on the following conditions:

1. The foreign currency denominator is intended for use for travelling abroad. At purchase or withdrawal an individual shall demonstrate the proposed trip by presenting a ticket or receipt for payment of his scheduled travel within four weeks. In the case of crew members who do not have a ticket the itinerary shall be shown by presentation of rosters or other verifiable means.
2. That there is not purchased or withdrawn foreign currency in cash for an amount equivalent to more than 350,000 kr. on the purchase- or withdrawal date for each person under paragraph 1 per calendar month.
3. That it is shown that a person or his guardian, if minors are involved, is the owner of the funds paid for the foreign currency or the foreign currency account invoked. Notwithstanding the provisions of sentence 1 a person is permitted to purchase foreign currency for a spouse.
4. That the person specified in the purchase or withdrawal of the foreign exchange takes the money out of the country himself.

If the itinerary is annulled the foreign currency shall be returned to a national financial corporation within two weeks after the fact.

An individual who is a resident and staying temporarily abroad for longer than one calendar month but not exceeding six calendar months at a time, is, despite the provisions of paragraph 1, authorized to purchase foreign currency for each calendar month of his stay abroad and transfer it abroad, to an account in his financial corporation where he is staying.

An individual who is a foreign entity and is present in the country temporarily for travel, then has the right to purchase foreign currency from an indigenous financial corporation, up to the equivalent of 350,000 kr. in cash for each calendar month, be it shown that the money is for use when travelling abroad.

Financial corporations in this country may apply for exemption from paragraph 2 which allows a branch of a financial corporation to sell a person, who is a resident but not with his business in the relevant financial corporation, foreign exchange up to the equivalent of 350,000 kr. in cash for each calendar month, be it shown that the money is for use for travelling abroad. The Central Bank of Iceland shall publicly disclose information on those entities who receive an exemption under this provision.

e. (Article 13 e.)

Investments in securities, units in UCITS, money market certificates or other negotiable instruments issued in foreign currency are not allowed. However, entities who have invested in such financial instruments prior to 28 November 2008 may reinvest. Where funds are the proceeds of a sale or settlement, or stem from dividend- and interest payments, used in whole or in part, to invest back into any kind of investment within two weeks and it then is considered reinvestment in the sense of sentence 2.

Sales proceeds from trading in financial instruments under paragraph 1, issued in indigenous currency, between residents and foreign entities that are implemented in this country should be put into the seller's account at a financial corporation in this country.

Settlement of transactions in foreign currency with financial instruments under paragraph 1, issued in the national currency, is not allowed.

It is not allowed to publish and / or sell financial instruments under paragraph 1, which are settled in a another currency than the currency of issue and the national currency is one of the currencies of settlement. If the issue has taken place in the indigenous currency, it is obligatory to submit the proceeds from the sale into an account in the national currency in the name of the issuer with a financial corporation in this country.

Transnational capital movements for prepayment of financial instruments under paragraph 1 are not allowed.

f. (Article 13 f.)

Transnational capital movements for investments in financial claims in foreign currency and other similar claims not covered by Article 13 e, are not allowed.

Transnational capital movements for real estate activities abroad are not allowed unless it is shown that the transactions are due to emigration of residents. The maximum foreign exchange purchase and capital movement for the purchase of one real estate unit, related to migration is the equivalent of 100,000,000 kr.

Transnational capital movements for investment in other assets in foreign currency, including commodities, vehicles and machinery, which are neither a normal part of economic activities of a party nor intended to import his produce are not allowed. Notwithstanding the ban in

sentence 1 the foreign currency purchase and capital flow between countries for the purchase of a motor vehicle is permitted on a single occasion, be the acquisition related to emigration from the buyer's country, provided the amount is not in excess of 10,000,000 kr.

g. (Article 13 g.)

Borrowing and lending between indigenous and foreign parties other than in trade between countries in goods and services are not allowed unless such borrowing and lending between companies are within the same group.

Notwithstanding paragraph 1 borrowings and lending that meet the following requirements shall be allowed:

1. Each party's loan shall not be greater than 10,000,000 kr. or the equivalent thereof in foreign currency within the calendar year.
2. Maturity is not less than one year.
3. Foreign exchange transfers for the loan are in accordance with the provisions of Article 13 l.
4. Loan contracts, including all appendices and attachments are sent to the financial corporation carrying out the capital movement within a week of signing such agreements.

It is not allowed to prepay loans and borrowing of indigenous parties to parties abroad. It is not allowed to repay loans between residents and non-residents in indigenous currency if the loan was made in a foreign currency. It is not allowed to repay loans between residents and non-residents in foreign currency if the loan was made in a indigenous currency.

The provisions of this Article shall not prevent that borrowings and lending between indigenous and foreign entities are extended, provided other terms and conditions apply to the same extent as before.

h. (Article 13 h.)

It is not allowed to join or assume a liability for payments between indigenous and foreign parties. Provisions of this Article do neither apply to warranties for goods and services nor to warranties between companies within a group.

i. (Article 13 i.)

It is not allowed to engage in derivative transactions where the indigenous currency is in the agreement against the foreign currency, whether it is the case of currency or securities agreement, or combinations of currencies and securities agreements, or other similar financial instruments.

Derivative transactions that are solely for trade in goods and service are not governed by this provision.

j. (Article 13 j.)

Transnational capital movements because of payments of interest, indexation, dividends, and contractual payments are exempted from these rules, cf. paragraph 1 and point 1. Paragraph 3 Article 13 b and paragraphs 2 and 3. Article 13 c. Residents are allowed to purchase foreign currency for payment of contractual maturities on loans in foreign currency from the indigenous financial corporations that granted the relevant loans.

With interest pursuant to paragraph 1 it is only referred to the interest on deposits in indigenous financial corporations and accrued interest in bonds issued by national entities.

In calculating the interest under. Paragraph 1, on bonds that accrue interest daily, the interest shall be calculated in proportion to the time the party has been owner of the bond. Interest on zero-coupon bonds with prepaid interest, e.g. of Treasury- bills shall be calculated as the difference between the issue price (purchase price on the date of issue) and nominal value. Interest on zero-coupon bonds distribute evenly (linearly) to maturity.

With indexation for the purposes of paragraph 1 is referred to the price indexation in interest and principal payments.

Dividend income that is derived from the reduction of share capital or the liquidation of a company, according to paragraph 4. Article 11 of Act No. 90/2003, is not considered a dividend for the purposes of paragraph 1.

Foreign exchange transactions and capital movements transnationally for disbursements under this provision must have occurred within six months of their arrival or possible arrival into the occupancy of the owner or his representative.

k. (Article 13 k.)

Notwithstanding the provisions in point 6 Paragraph 1 Article 13 b transnational capital movements of gifts and grants by residents to foreign bodies, such as individuals, charitable organizations or other entities, are allowed for up to 3,000,000 kr. within the calendar year. Capital movements for gifts and grants shall be deposited into an account held by the receiver and donor and grantor or shall be the truthful owners of the funds in question.

Salaries that a non-resident has earned in this country the last six months are exempted from these rules, cf. paragraph 1 and point 1. Paragraph 3 Article 13 b. Furthermore, foreign exchange transactions in such capital movements shall not be limited by paragraph 1. Article 13 c. The same applies to the salary of a resident that resides abroad for work or study. Student loans, unemployment benefits, pension payments, including old age and disability pension and allowances for social assistance and other similar payments are considered wages for the purposes of this paragraph.

l. (Article 13 l.)

All foreign currency that indigenous parties acquire, such as for the sale of goods and services, or otherwise, shall be returned to an indigenous financial corporation within three weeks that the currency entered the occupancy of the owner or his representative. Return obligation under paragraph 1 is fulfilled when the foreign currency is held in a foreign currency account with a financial corporation in this country. Return obligation does not apply to residents that reside abroad for work or study.

m. (Article 13 m.)

Indigenous new investment shall be unrestricted.

New investment for the purposes of this provision is an investment made after 31 October 2009 for new influx of foreign currency that is converted to the national currency in a financial corporation in this country. Derivatives are not considered as new investments. Deposits in foreign currency accounts in indigenous financial corporations, prior to 31 October 2009, and revenues from export transactions are not considered to be new inflows of foreign exchange. Foreign exchange transactions, in which the new inflow of foreign currency is converted into the national currency in accordance with paragraph 2., are not included under paragraph 1 Article 13 c.

An investor shall, with the assistance of an indigenous financial corporation, announce a new investment to the Central Bank within two weeks that the new inflow of foreign currency is converted to the national currency. Such notification must be accompanied by documentation showing that a new investment for the purposes of this provision is concerned.

Upon approval by the Central Bank that funds have been released by the sale of a new investment, such funds shall not be subject to restrictions under Article 13 b and Article 13 c.

n. (Article 13 n.)

The Central Bank of Iceland and the Treasury are exempted from Article 13 b - Article 13 m of this Act.

The following entities shall be exempted from Article 13 b - Article 13 m of this Act, except for paragraph 3. Article 13 b, Article 13 c and Article 13 i:

1. Residents that are parties to an investment contract with the Icelandic government.
2. Residents who operate under a license from the Minister of Industry in the search for oil under Act.No 13/2001.

The following entities are exempt from paragraph 1 Article 13 e, paragraph 1 Article 13 f and provisions of Article 13 g and Article 13 h:

1. Companies in the majority ownership of the Treasury, operating under special Acts.
2. Companies in the majority ownership of municipalities, operating under special Acts.

A legal entity, which the Financial Supervisory Authority has taken control over by appointing a liquidating board or an interim board of directors, and a legal entity that a district court judge has ordered into custody of a liquidation committee pursuant to Act no. 161/2002, are exempted from paragraph 2. Article 13 Article 13 e, paragraph 1 Article 13 f, Article 13 g, Article 13 h and Article 13 i.

Companies, that have more than 80% of their revenue and 80% of expenses abroad, may be exempted from paragraph 1. Article 13 e, paragraph 1 Article 13 f, Article 13 g, Article 13 h and Article 13 i. Those companies that consider themselves qualifying according to point 1 shall submit applications to the Central Bank of Iceland and demonstrate that they meet the criteria along with an attestation by a certified public accountant. The Central Bank of Iceland

publishes a list of parties that have an exemption on this basis. Companies that receive an exemption under this paragraph shall when 12 months have passed after verification by the Central Bank for an exemption demonstrate that they still meet the requirements of this paragraph and transmit confirming data to the Central Bank of Iceland with an attestation by a certified public accountant to that effect. Such verification shall be received by the Central Bank at 12-month intervals thereafter. If it transpires that the company no longer meets the requirements of this paragraph the exemption shall be repealed.

Commercial banks, savings banks and credit corporations operating under the Financial Supervisory Authority other than legal entities subject to paragraph 4., are authorized to do foreign exchange transactions by direct trading, futures and swaps. Also, commercial banks, savings banks and credit corporations are exempted from the provisions of Article 13 g, 13 h and 13 l. Commercial banks, savings banks and loan corporations are authorized to receive money market deposits in foreign currency from foreign sources, in accordance with the provisions of Act No 161/2002.

o. (Article 13 o.)

The provisions of Article 7 apply to the authorizations of the Central Bank of Iceland to grant exemptions from the provisions of Article 13 b - 13 n. However no fee shall be collected for the granting of exemptions. The Central Bank may impose conditions for exemption. Notwithstanding the wording of Article 7 the Central Bank may grant general exemptions without prior application to that effect. Applications for exemptions shall be received in writing at the Central Bank with relevant documents. The Central Bank may adopt detailed rules for implementing provisions of Article 13 b - Article 13 n.

p. (Article 13 p.)

When currency controls are no longer in effect, cf. Article 13 a, but no later than 1 April 2014, the Central Bank of Iceland shall delete the information obtained pursuant to paragraphs 1, 2 and 4 Article 15 e, Article 15 f and paragraphs 1 and 2 Article 15 g. This will however not apply to documents relating to alleged violations of the Foreign Exchange Act and the information underlying the results of investigation into alleged violations..

q. (Article 13 q.)

The Minister of Economic Affairs shall report annually to the Parliament on the progress of the liberalization program for foreign exchange controls, cf. Article 13 a. The provision shall be subject to review prior to the preparation of the report.

Article 4

Pursuant to point 6 in paragraph 2 in Article 15 a of the Act a new point shall be added to read as follows, and numbers of other points shall change in accordance with this: Article 13 a - 13 n on ban of capital movements and foreign exchange transactions.

Article 5

Subsequent to point 3 Paragraph 1 in Article 16 a new point shall be added to read as follows, and numbers of other points change in accordance with this: Article 13 a - 13 n on the prohibition of capital movements and foreign exchange.

Article 6

Interim provision I of the Act shall read as follows:

Up to 31 December 2013 the Central Bank may subject its trade in foreign exchange to requirements for internal planning and capital investment policy of customers, ownership and financing, the minimum period of ownership of shares or shares issued by the customers, their allocation of currency to further specified capital investments and minimum duration period for their investments.

Article 7

Instead of the date "30 September 2011 " in paragraph 1 in temporary provision II of the Act read: 31 December 2013.

II. CHAPTER II

Amendment to the Customs Act No.: 88/2005, as amended.

Article 8

Instead of the date "30 September 2011 " in the temporary provision IV of the Act read: 31 December 2013.

III. CHAPTER III

Amendment to the Act on the Central Bank of Iceland, No 36/2001, as amended.

Article 9

The following temporary provision is added to the Act:

Notwithstanding paragraph 2 in Article 17 the Central Bank may, until 31 December 2013, carry out business transactions with individuals and companies, as is provided that the relevant transactions are deemed necessary by the Central Bank for liberalization of the restrictions which have been placed on capital movements and foreign exchange transactions.

IV. CHAPTER IV

Entry into force.

Article 10

This Act shall enter into force forthwith.

Adopted by Althingi, 17 September 2011.