



CENTRAL BANK OF ICELAND

ACT NO. 36, MAY 5, 1986

Translation from the Icelandic

The Central Bank lays down further rules with respect to its transactions pursuant to this Article.

THE CENTRAL BANK OF ICELAND ACT

NO. 36, MAY 5, 1986

PART I

ORGANIZATION AND FUNCTIONS OF THE CENTRAL BANK

Article 1

The Central Bank may advance loans to deposit money banks on conditions

The Central Bank (Seðlabanki Íslands) is an independent institution owned by the State but subject to separate management according to this Act.

Article 2

The State Treasury is liable for all the obligations of the Central Bank. The domicile and venue of the Central Bank is in Reykjavík.

Article 3

The functions of the Central Bank are:

- a. to issue bank notes, to mint and issue coins, and to endeavour to maintain a supply of money and credit appropriate for a stable price level and for the full and efficient utilization of the productive capacity of the economy;
- b. to maintain and strengthen foreign exchange reserves sufficient to ensure free trade with other countries and the external financial security of the nation;
- c. to buy and sell foreign exchange to deal with exchange rate matters and to control and supervise foreign exchange transactions;
- d. to advise the Government on all matters relating to foreign exchange and monetary policy;
- e. to act as bankers to the State Treasury;
- f. to act as bankers to deposit money banks, to maintain supervision of banking operations and to promote a sound market in securities and money;
- g. to prepare as complete reports and forecasts as possible on all matters pertaining to the functions of the Bank;
- h. to engage in other activities which are consistent with its purpose as a central bank.

Article 4

The Central Bank shall in all its activities maintain close co-operation with the Government and present to the Government its views on policy in economic affairs and the implementation thereof. In the event of significant disagreement with the Government the Board of Governors of the Central Bank may state so publicly and explain its views. It shall, nevertheless, consider it as one of its main objectives to endeavour to implement such policy as the Government ultimately lays down.

The Central Bank shall not less than twice in each year submit to the Minister a report on developments and prospects in monetary affairs and in matters of balance of payments and rates of exchange.

PART II

ISSUE OF NOTES AND COINS

Article 5

The Central Bank has the sole right to issue bank notes and mint and issue coins or other currency which may circulate in place of bank notes or lawful coins.

The bank notes and coins issued by the Bank shall be legal tender for all payments at full nominal value.

The Minister decides, upon receiving the recommendations of the Central Bank, the form, appearance and denominations of the notes and coins issued by the Central Bank and causes an announcement thereof to be published.

PART III

DOMESTIC ACTIVITIES OF THE CENTRAL BANK

Article 6

The Central Bank accepts deposits from deposit money banks, which consist of commercial banks, savings banks, savings departments of co-operative societies and such other institutions or societies as may be authorized by law to accept deposits from the public for safekeeping and earning of interest. The Central Bank may in this respect agree with the Loan Institute of the Savings Banks to have a joint account for savings banks maintained with the Bank.

It may be determined by Regulations in special circumstances to have the Central Bank accept deposits from financial institutions other than those referred to in paragraph 1.

The Central Bank lays down further rules with respect to its transactions pursuant to this Article.

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Article 7

The Central Bank may advance loans to financial institutions which engage in deposit transactions with the Bank, cf. Article 6, by way of purchase of bonds or in other form against security which the Bank deems valid.

The Central Bank may advance loans to deposit money banks on conditions where the principal amount of the loan is denominated in a specific foreign currency, the repayment of principal and interest is subject to changes in the exchange rate of a specific foreign currency or changes in the exchange rate of the Icelandic krona. If the principal amount is denominated in a specific foreign currency the deposit money bank shall disburse the loan proceeds to its borrower in Icelandic kronur based on the buying rate of such foreign currency on the date of borrowing. The term foreign currency also refers to units of account which are based on more than one currency and are used in general lending transactions in the international market.

The Central Bank lays down further rules with respect to its transactions pursuant to this Article.

Article 8

In special circumstances the Central Bank may determine with the approval of the Minister that deposit money banks be obliged to maintain reserves on restricted account with the Bank equivalent to a specific percentage of the total funds on deposit with each bank or of its disposable funds. For purposes of this Act the term disposable funds refers to all funds which a bank employs for lending. However, specific classes of loans may be exempted subject to the approval of the Minister.

The Central Bank may determine that a specific portion of increases in deposit funds or disposable funds with each money bank be placed as required reserves with the Bank, provided that the total reserves which the money bank concerned is obliged to maintain with the Central Bank do not exceed the maximum stated in paragraph 1.

The Central Bank lays down further rules with respect to the basis and implementation of reserve requirements pursuant to paragraphs 1 and 2 of this Article, subject to the approval of the Minister.

The Central Bank furthermore may impose on deposit money banks stipulations as to the minimum or average of liquid assets which they must at all times have available. The term liquid assets refers to cash on hand, unrestricted net deposits with domestic and foreign banks, Treasury bills and other comparable assets.

Article 9

The Central Bank fixes the interest rates on deposits with the Bank and on credit advanced by the Bank.

The Central Bank may upon the approval of the Minister impose limits to the determination of interest rates by deposit money banks in order to ensure that real interest rates of deposit money banks are not higher than those generally prevailing in the major trading countries of Iceland as well as to reduce any inordinate margin between deposit and lending rates of interest.

The decisions of the Central Bank pursuant to paragraph 2 shall be published in the Legal Gazette.

Article 10

The Central Bank shall act as bankers to the Treasury, undertaking for it any kind of banking services. Deposits of the Treasury shall to the extent possible be held with the Central Bank.

The Central Bank may advance short-term loans to the Treasury. Such loans shall be paid up within three months after the end of each fiscal year through borrowing or other acquisition of funds outside of the Central Bank. Treasury bills, bonds and other securities which are issued by the Treasury and are bought by the Central Bank in the securities market or from financial institutions in order to promote balance in the money market shall not count as loans to the Treasury for purposes of this Article.

Article 11

The Central Bank may buy and sell Government bonds and other sound securities, and the Bank shall endeavour to establish an organized market in securities. For this purpose the Bank may establish and operate in cooperation with deposit money banks and recognized securities brokers a securities exchange where business is transacted in securities. The Central Bank issues regulations for the securities exchange upon the approval of the Minister.

The Central Bank may enter into obligations domestically by the issue of securities on terms to the effect that the principal and/or interest be tied to the rate of exchange of foreign currencies. The tax treatment of such securities shall be in accordance with the same rules as apply from time to time with respect to deposits with commercial and savings banks.

Article 12

The Central Bank may engage in other banking activities which may be regarded as consistent with its function as a central bank. The Bank shall

not carry on business which is considered to be the appropriate function of deposit money banks according to law or custom or the nature of the case. The Bank therefore may not transact business with the public or compete with other credit institutions for business. In the event of a dispute over the provisions of this Article, the Minister shall decide the issue.

PART IV

BANK INSPECTION

Article 13

The Central Bank shall supervise that deposit money banks conduct their activities in conformity with the laws, regulations and conventions which apply to their activities from time to time.

This function shall be entrusted to a special department within the Bank to be known as the Bank Inspectorate which shall operate under the control of the Board of Governors and the Board of Directors. The Minister appoints the Head of the Bank Inspectorate, who shall be appointed for a period not longer than six years at a time. If the Head of the Bank Inspectorate is temporarily indisposed the Minister may, after obtaining the recommendations of the Board of Directors, assign a person to act in his place.

A special cooperation committee of the Ministry and the Central Bank shall supervise the activities of the Bank Inspectorate. The committee shall be composed of one representative of the Ministry, one Governor of the Central Bank and the Head of the Bank Inspectorate. The Minister appoints the Chairman of the Committee.

Article 14

The Bank Inspectorate shall inspect the books and accounts of deposit money banks and otherwise examine their finances and operations as often as considered necessary. Deposit money banks are obliged to grant the Bank Inspectorate access to all their books, minutes of meetings, documents, valuable assets and other records in possession of the bank which relate to their activity, and otherwise furnish such information as the Bank Inspectorate may consider necessary for purposes of supervision, in such manner and as often as requested.

Article 15

The Bank Inspectorate shall ascertain that loans and other obligations of customers towards a deposit money bank are commensurate with the risk involved in the transaction in the light of the security for payment, the financial strength of the money bank and the equity of the bank. The same applies to the aggregate obligations of more customers than one when these

are financially related to such extent that their obligations toward the deposit money bank must be weighed jointly from the point of view of credit risk.

Article 16

The Bank Inspectorate may demand that deposit institutions:

- a. submit regularly information on their financial status and operations in such manner and itemized to such degree as requested,
- b. furnish other information which the Inspectorate considers necessary for purposes of supervision.

Article 17

If it appears in the course of inspections of the Inspectorate pursuant to the provisions of this Part that a deposit money bank does not comply with laws and other rules which apply to its activities, the Bank Inspectorate shall demand that this be rectified within a specific time limit.

If the governing board of a deposit money bank has neglected a duty which it is under pursuant to law, regulation or convention the Bank Inspectorate may summon a meeting of the board of the money bank to deal with corrective measures. A representative of the Inspectorate shall attend the meeting with freedom of expression and motion and shall chair the meeting.

The Bank Inspectorate may submit recommendations if it considers the status or operations of a deposit money bank to be unsound even though the provisions of paragraphs 1 and 2 may not apply.

If the demands or recommendations of the Bank Inspectorate for rectification are not observed, it may resort to sanctions against the deposit money bank, cf. Article 41. The Bank Inspectorate also may then appoint its representative as an inspector over the bank concerned. The bank shall be obliged to grant the inspector access to all of its books, minutes of meetings, documents, valuable assets and other records in its possession and otherwise furnish such information as requested by the inspector. The inspector shall have a right to attend meetings of the governing board of the bank with freedom of expression and motion. The cost of the work of the inspector shall be borne by the deposit money bank concerned.

Demands, recommendations and proposed actions of the Bank Inspectorate pursuant to this Article shall forthwith be brought to the notice of the Minister, the Board of Directors of the commercial bank concerned or the corporate Board of Directors in the case of a deposit money bank of another kind. The Central Bank shall also submit to the Ministry a report on the activities of the Bank Inspectorate not less than twice a year.

PART V

EXCHANGE RATE MATTERS AND FOREIGN TRANSACTIONS

Article 18

The Central Bank determines, subject to the approval of the Government, the value of the Icelandic króna in relation to foreign exchange, as well as the margins for buying and selling exchange rates. Within such margins the Central Bank quotes daily the buying and selling rate of exchange of those currencies for which there is a need in normal transactions. The Central Bank may unilaterally suspend exchange rate quotation for temporary purposes.

Determination of the rate of exchange of the Icelandic króna shall be aimed at maintaining as stable a rate as feasible and achieving a balance in foreign trade while securing at the same time the operational basis of the export industries and import-competing branches of industry.

The Central Bank shall endeavour to strengthen the foreign exchange reserves of the country and keep these as far as possible in sound and liquid securities or deposits and in fully convertible foreign exchange.

Article 19

In addition to the Central Bank, the commercial banks, the savings banks and the Loan Institute of the Savings Banks have the right to deal in foreign exchange, within limits determined by the Central Bank upon the approval of the Minister. The Central Bank may, upon the approval of the Minister, permit the Postal Administration to deal in foreign exchange.

Article 20

The Central Bank is in charge of the implementation of payments agreements with other States as well as of transactions with international financial institutions as agent for the Government. The Bank shall advise the Government on all matters pertaining to foreign exchange, including foreign borrowing, and undertake the administration of affairs in this field as may be agreed.

Article 21

The Central Bank may raise loans abroad for purposes of maintaining and strengthening the foreign exchange reserves.

Furthermore, the Central Bank may raise loans abroad for the purpose of re-lending the proceeds within Iceland, provided such re-lending is guaranteed by the State Treasury.

Article 22

The Central Bank exercises control over the trade in foreign exchange and supervision of compliance with laws and rules respecting transactions in and disposal of foreign exchange. In this capacity the Central Bank is entitled to demand of individuals, concerns and institutions any information on matters relating to foreign exchange.

Further rules concerning the handling of foreign exchange and the implementation of foreign exchange control shall be laid down in Regulations to be issued by the Minister upon obtaining the recommendations of the Central Bank, in accordance with this Act and the Act on Administration of Foreign Exchange and Trade.

Article 23

The Central Bank is, on behalf of the State, a financial agency to the International Monetary Fund.

PART VI

STATISTICAL REPORTS

Article 24

The Central Bank compiles reports and prepares forecasts with respect to balance of payments, foreign exchange and monetary policy and to other matters pertaining to the functions of the Bank, and shall publish the fullest possible information on those subjects.

All those concerned are obliged to furnish to the Central Bank such information as it may require in connection with the compilation of statistical reports, and the Bank shall in this respect enjoy the same rights as the Statistical Bureau of Iceland and the same penalties shall be applicable in the event of non-compliance.

PART VII

ADMINISTRATION OF THE CENTRAL BANK

Article 25

The supervisory authority of the Central Bank is vested in the Minister of Commerce and a Board of Directors as provided in this Act. Otherwise the administration of the Bank is in the hands of a Board of Governors.

Article 26

The Board of Governors of the Central Bank consists of three Governors. The Governors elect a Chairman from among their number for a term of three years.

The Minister appoints the Governors upon obtaining the recommendations of the Board of Directors. Governors shall be appointed for a term not longer than six years at a time.

In the event of the temporary absence of a Governor the Minister may nominate an acting Governor upon obtaining the recommendations of the Board of Directors.

Article 27

The Board of Governors is responsible for the operation of the Central Bank and has executive authority in all affairs of the Bank which are not entrusted to others according to this Act.

The Board of Governors holds meetings as often as is considered necessary and whenever any of the Governors may so desire.

The signatures of two Governors are required to commit the Bank. The Board of Directors may, however, grant powers to specific employees of the Bank for committing the Bank by their signatures in specific matters. Further provisions on powers of commitment shall be laid down in Regulations.

Article 28

The Board of Directors shall determine the salaries and other terms of appointment of Governors of the Bank. Upon the termination of their duty, Governors shall receive a suspensive salary for a period of twelve months, equal to the regular salary appertaining to their office. If a Governor has qualified for a pension the payment of a suspensive salary shall not apply. If a Governor accedes to another office during the period of suspensive salary the payment of suspensive salary shall discontinue if the office provides an equal or higher salary, while otherwise the difference in salary shall be payable to the end of the suspensive salary period. The Board of Directors shall determine the pension of Governors of the Bank.

Governors and Executive Directors of the Bank may not hold directorships in institutions or business concerns outside of the Bank or participate in business operations in other respects except where this is provided for by law or where the Bank is a party to the institution or concern in question.

Article 29

Having received the opinion of the Board of Directors the Minister may dismiss a Governor. The letter of dismissal shall specify the grounds for dismissal. The Governor shall be entitled to full salary for one to three years, although not longer than to the end of his term of appointment, and to a pension as further determined by the Board of Directors. In the event of a Governor resigning from office before the end of his term, he shall receive regular salary for up to one year and a pension as determined by the Board of Directors.

The Minister may dismiss a Governor without notice and without special payment of salary if he has committed an offence while in office.

Article 30

The Board of Directors of the Central Bank consists of five members elected by the Althing by proportional ballot for a term of four years, together with an equal number of Alternates. The Minister appoints one of the elected Directors as Chairman of the Board of Directors for a term of four years and a second Director as Vice-Chairman.

The Minister determines the fees of the Board of Directors.

Article 31

The Board of Directors superintends the activities of the Central Bank, and the Board of Governors shall consult closely with the Board of Directors on the general policy of the Bank and seek its opinion on decisions in important matters of consequence to the policy of the Bank, such as decisions pursuant to Article 8 and paragraph 2 of Article 9 hereof. Furthermore, the Board of Governors shall furnish the Board of Directors with regular reports on the activities of the Bank and the development of foreign exchange and monetary matters.

The Board of Directors submits proposals concerning the Regulations of the Central Bank and letters of instruction for the Governors to be issued by the Minister.

The Board of Directors holds meetings as necessary, but usually not less than fortnightly. The Chairman of the Board of Directors prepares meetings of the Board of Directors together with the Board of Governors. The Governors attend meetings of the Board of Directors and participate in discussions, except when the Board of Directors otherwise decides.

Article 32

In meetings of the Board of Directors three members constitute a quorum. Issues are decided by majority of vote.

Article 33

A special Auditing Department shall operate within the Central Bank under the supervision of the Board of Directors. An audit of the Central Bank shall also be performed by two Auditors elected by the Althing by proportional ballot for a term of four years, and an Auditor who is a chartered accountant and is appointed by the Minister for the same term.

Article 34

The Board of Directors engages and dismisses the Head of the Auditing Department of the Central Bank. The salary and other terms of employment of this officer shall be determined by the Board of Directors.

The Board of Governors engages and dismisses all other employees of the Bank. The appointment of Executive Directors is, however, subject to the approval of the Board of Directors.

PART VIII

ACCOUNTING

Article 35

The fiscal year of the Central Bank is the calendar year. Annual financial statements shall be prepared for each fiscal year and shall be completed as early as possible.

The preparation of the annual financial statements shall be in accordance with the law and with recognized accounting practices, both as regards the structure of the statements, the evaluation of the various items and in other respects.

The Minister shall lay down further rules on the accounting and preparation of the annual financial statements upon receiving the recommendations of the Board of Directors.

Article 36

Upon completion of the annual financial statements of the Bank they shall be signed by the Board of Governors and confirmed by the Board of Directors. If a Director has any comments to make on the financial statements they shall be signed with a reservation specifying the nature of the reservation.

The audited statements shall be submitted to the Minister for ratification not less than four months after the end of the fiscal year.

The annual financial statements shall be published in the Government Gazette and in the Annual Report of the Central Bank. A monthly balance sheet shall also be published in the Legal Gazette.

Article 37

In each year one-half of the average net profit of the three years next preceding, after deduction for allocation to dividend fund pursuant to paragraph 2, shall be paid out to the Treasury. In the calculation hereof the profit of the prior two years shall be revalued to correspond with the price level of the third year. The payment shall be rendered on June 1 of each year.

In each year an allocation shall be made to a dividend fund of not less than the equivalent of 40 million krónur based on the price level at the end of the year 1984. The dividend fund shall be maintained at the best available terms as to interest and value maintenance, while one-half of the annual income of the fund shall accrue to the Icelandic Science Foundation, cf. the Act on the Science Fund of Iceland.

PART IX

MISCELLANEOUS PROVISIONS

Article 38

Governors, members of the Board of Directors, and all employees of the Central Bank are bound to secrecy concerning the affairs of customers of the Bank, the affairs of the Bank itself and other matters of which they gain knowledge in their occupation and which should be kept secret according to law, instructions of superiors, or the nature of the case, except where a judge may decree that information must be provided in court or to the police or there is a duty to provide information according to law.

The duty to secrecy shall prevail even though employment may cease.

Notwithstanding the provisions of paragraph 1, the Central Bank may engage in exchanges of information with other banks and public institutions abroad relating to the examination or assessment of the financial soundness of deposit money banks and public agencies in this country and abroad, according to rules to be laid down by the Minister by Regulations.

Article 39

The Bank is exempt from income tax and property tax, cf. the Act on Income Tax and Property Tax.

The books of the Bank, drafts and obligations of any kind issued by the Central Bank and in its name, as well as obligations giving the Bank title

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to a pledge, coupons of bonds of the Bank and transfers thereof shall be exempt from stamp duty.

PART X

ENTRY INTO FORCE

Article 40

This Act shall take effect on November 1, 1986.

The provisions of Part VIII on accounting shall apply to the fiscal year 1985. The provisions of the second sentence of paragraph 2 of Article 26 and paragraph 2 of Article 28 shall apply only to those who are appointed as Governors after the entry into force of this Act. The provisions of paragraph 1 of Article 28 shall not reduce the pension rights of those who hold the office of Governor as their regular principal occupation upon the entry into force of this Act.

Article 41

By Regulations to be issued by the Minister upon obtaining the recommendations of the Board of Directors, further provisions shall be laid down respecting the activities of the Bank in accordance with this Act, including provisions for sanctions in the form of per-diem penalties and punitive interest for failure to comply with decisions of the Bank.

Article 42

Upon the entry into force of this Act, the following enactments and legislative provisions shall be repealed:

- a. Act No. 19/1961, on the Central Bank of Iceland,
- b. Act No. 20/1962, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- c. Act No. 10/1964, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- d. Act No. 103/1973, on Amendment to the Act No. 20/1962 on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,
- e. Act No. 14/1978, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland, cf. Art. 3 of the Act No. 10/1964,
- f. Act No. 36/1983, on Amendment to the Act No. 10/1961 on the Central Bank of Iceland,

- g. The provisions of Articles 30-33 and 37 and of subparagraph 3 of paragraph 1 of Article 39 of the Act No. 13/1979, on Administration of Economic Affairs et al.,
- h. The provisions of Articles 2 and 3 of the Act No. 10/1981, on Measures to Curb Inflation,
- i. The provisions of Article 5 of the Act No. 12/1981, on Pricing Restraints, Reduction of Goods Charge and Reserve Requirements for Deposit Money Banks,
- j. The provisions of Article 26 of the Act No. 43/1984, on Measures in Fiscal, Monetary and Credit Affairs in 1984.

TEMPORARY PROVISIONS

I

Upon the entry into force of this Act, the Althing shall elect five members of the Board of Directors of the Central Bank together with alternates of equal number. As from the same date the mandate of the members then sitting on the Board shall expire.

II

Upon the entry into force of this Act, the Althing shall elect two Auditors of the Central Bank.

III

The provisions of Article 37 on the allocation of net profit of the Central Bank to the Treasury shall initially apply in respect of the operating year of 1985.

IV

The Central Bank shall determine the maximum permissible rate for moratory interest pursuant to Article 5 of the Act No. 58/1960, on Prohibition of Usury, Moratory Interest et al., until specific legislation on moratory interest et al. has been enacted.

The books of the Bank, drafts and obligations of any kind issued by the Central Bank and in its name, as well as obligations giving the Bank title

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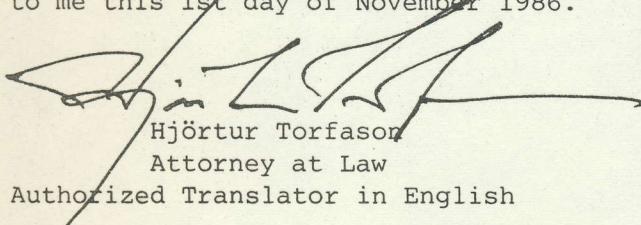
The determination of the payment of profit of the Central Bank to the Treasury in the year 1986, cf. Article 37, shall be made with reference to one-half of the average net profit of the Bank for the years 1985 and 1984, with the profit of the year 1984 being revalued to correspond with the price level of 1985.

Done in Reykjavík, May 5, 1986.

Vigdís Finnbogadóttir
(L.S.)

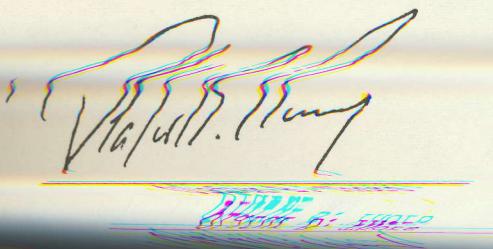
Matthías Bjarnason

The above is hereby certified as a true and faithful translation of the Icelandic original as published in the Government Gazette of 1986, Part A, pp. 107-115, and shown to me this 1st day of November 1986.


Hjörtur Torfason
Attorney at Law
Authorized Translator in English

The foregoing is a complete English version of the Central Bank of Iceland Act No. 36, May 5, 1986 translated under the auspices of the Bank as certified above.

Reykjavík, December 1986
THE CENTRAL BANK OF ICELAND


Vigdís Finnbogadóttir