

INTERGOVERNMENTAL CONFERENCE ON THE
ACCESSION OF ICELAND TO THE EUROPEAN UNION

NEGOTIATING POSITION OF ICELAND
Chapter 9
Financial Services

Summary of the negotiating position

1. Chapter 9 on Financial Services is covered by the EEA Agreement. Iceland implements and applies EEA relevant *acquis* under this chapter on an on-going basis.
2. Iceland accepts the *acquis communautaire* with respect to Chapter 9 as of 1 March 2012. Iceland will have implemented any outstanding *acquis*, as of that date, under this chapter by the date of accession.
3. Iceland has the legislative and institutional framework necessary to continue implementing the *acquis* in this chapter.
4. Iceland requests one adaptation under this chapter (see negotiation request).

EEA Agreement

Iceland has been a party to the Agreement on the European Economic Area (EEA Agreement) since its entry into force in 1994. As a result, Iceland has participated in the internal market for more than 18 years and implemented all relevant EU legislation with respect to the four freedoms, as well as in other important areas such as research and development, education, social policy, the environment, consumer protection, tourism and culture. The EFTA Surveillance Authority (ESA) monitors on an on-going basis Iceland's performance under the EEA Agreement and publishes information about Iceland's implementation record twice a year in an internal market scoreboard.

In those chapters covered by the EEA, Iceland has built its legislative framework and institutional framework to comply with and implement relevant EU legislation. Chapter 9 on Financial Services is covered by the EEA Agreement.

Legislative and Institutional Framework

The legislative framework is in place to continue implementing the *acquis* in this chapter. The *acquis* on financial services is covered by Annex IX of the EEA Agreement.

The institutional capacity and structures are in place to continue to implement the *acquis* in this chapter. Important measures have been taken to improve the administrative capacity and quality of financial services supervision following the financial crisis and further reforms are on-going. An action plan on reforms for the years 2011 – 2014 was approved by the Financial Supervisory Authority in August 2011.

The Ministry of Economic Affairs, the Financial Supervisory Authority (FME) and the Central Bank of Iceland (CBI) have overall responsibility for financial markets.

The Ministry of Economic Affairs is responsible for the overall legal framework regarding the financial markets. The Ministry's Department of Business Affairs and Financial Markets leads the work within the government of preparing financial market legislation. The Department currently has eight experts, with two additional experts to be recruited in 2012. The Ministry's Department of Economic Affairs is also involved in analyses in the financial market field. Responsibility for legislation regarding pension funds is, however, with the Ministry of Finance. The main agencies falling under the remit of the Ministry of Economic Affairs in fields related to financial services are the Financial Supervisory Authority, the Central Bank of Iceland and the Competition Authority.

The Ministry leads a high-level Financial Stability Committee with representatives from the Prime Minister's Office, the Ministry of Finance, the CBI and FME. The Committee is a forum for consultation, exchange of information, and drafting of proposals related to financial stability and co-ordination of contingency measures in case of a potential financial crisis. The Committee is also intended to promote transparency concerning the division of tasks among the parties and the collaboration among them. The Committee is a consultative body and does not take decisions on measures but shall propose measures when necessary. The Committee can sponsor and participate in contingency exercises related to possible financial market crises. The Committee shall also handle co-operation with the Nordic countries and other European countries in case of a possible financial crisis, as the Domestic Standing Group of the Icelandic authorities. In this light, Iceland joined the other Nordic countries in signing a co-operation agreement on cross-border financial stability, crisis management and resolution in 2009.

Financial Supervisory Authority (Fjármálaeftirlitið or FME) conducts micro-prudential supervision, apart from liquidity ratios and foreign exchange mismatches, in Iceland for financial services. It is an independent institution under the Ministry of Economic Affairs. The parties subject to FME supervision are: commercial banks, savings banks, credit undertakings (investment banks), deposit departments of co-operative societies, securities companies, securities brokerages, management companies of UCITS, stock exchanges, central securities depositories, pension funds, insurance companies, and insurance brokers licensed to operate in Iceland.

The FME has 115 employees (March 2012), of which 20 are engaged in oversight, 36 in off-site and 20 in on-site. The Board of Directors of the FME consists of three members, all appointed by the Minister of Economic Affairs, of which one is nominated by the Central Bank. Each member has an alternate, who is appointed in the same manner as the member. Since the establishment of the FME in 1998, the authorities have strived to align its operational framework with the Basel Core Principles of Effective Supervision, including by financing the FME through a special tax levied on the supervised entities. This commitment by the government has been reiterated repeatedly, including in Iceland's Letter of Intent to the International Monetary Fund on 16 August 2011, in which the Government commits itself to securing the required resources for the FME to be able to carry out its tasks as intended.

The Central Bank of Iceland (CBI) is an independent institution owned by the State but under separate administration. The Act on the CBI No. 36/2001 defines the Bank's objectivities and main governing bodies. The principal objective of the CBI is to promote price stability. The CBI also undertakes tasks consistent with its role as central bank, such as

maintaining currency reserves and promoting efficient and sound financial system (macro surveillance), including domestic and external payment systems. The Ministry of Economic Affairs is responsible for CBI issues along with a seven-member supervisory board elected by the Parliament, as provided for in the Act. With a recent governmental decision, which is now being discussed in the Parliament, the CBI will fall under the responsibility of the Ministry of Finance from 1 September 2012. The decisions regarding the application on the CBI monetary policy instruments shall be taken by the Monetary Policy Committee. The monetary policy instruments include interest rates and transactions with credit institutions other than emergency lending, as well as reserve requirements and currency market transactions intended to influence the ISK exchange rate. According to the Act the CBI has a role as a lender of last resort under exceptional circumstances and when deemed necessary by the bank in order to maintain confidence in the country's financial system. According to the Act the Central Bank can only grant guarantees or extend emergency loans to credit institution in liquidity difficulties against collateral deemed sufficient by the Bank. The legislation gives the CBI powers to issue rules on liquidity, minimum reserve requirements and foreign currency imbalances for credit institutions. The FME has also issued best practice guidelines regarding liquidity management based on the Basel committee's proposals. The CBI publishes two reports annually on financial stability.

The Icelandic Financial Crisis

The Icelandic economy and financial sector continue to recover following the crisis that engulfed the economy in late 2008 when nearly the entire banking sector collapsed. The restructuring of the financial sector was central to the economic programme implemented from November 2008 in cooperation with the International Monetary Fund (IMF), with additional financing to strengthen the currency reserves from the other Nordic countries, the Faroe Islands and Poland. The programme was successfully concluded in August 2011 and Iceland continues to engage with the Fund in Post-Programme Monitoring.

The new financial system that has emerged following the crisis is focused on domestic operations and the banks' capital and liquidity positions are well above the minimum required by the Financial Supervisory Authority (FME) and the Central Bank of Iceland (CBI). All the three large banks (with market share of around 97%) had capital levels of 21% to 22% at end of year 2011 - well above the 16% minimum capital adequacy ratio stipulated by the FME. Most of this is Tier 1 capital, or in the range of 16% to 22% of risk-weighted assets. The current required capital levels are due to continued domestic and international economic uncertainty and continued high levels of non-performing loans being worked through by the banks following the crisis. The workout of non-performing loans is expected to be largely finalised in 2012. Capital requirement levels in the future will be in line with the Basel III framework and related developments, including at the Macroeconomic Assessment Group, which shows that higher capital levels than were the norm prior to the international financial crisis might be optimal from a macro-prudential viewpoint – not least for small open economies.

Substantial progress has been made over the past three years in rebuilding and restructuring the financial sector, its regulatory framework and supervision. Laws and regulations have been reformed, cooperation between FME and CBI has been strengthened, and the number of FME staff has been increased substantially. Further information is given on page 6

Iceland continues to implement policies that build on the success of its economic programme, with the exchange rate having stabilized in relative terms and the Government finances having

returned to a sustainable path following austerity measures of 10% of GDP from 2009 to 2011. Further measures, both on the revenue and expenditure side, are in place to secure a primary balance in 2012 and an overall balance by 2014. The success of the programme was marked by Iceland's return to international capital markets in June 2011, less than three years after the crisis began.

General Statement – Reforms

Extensive amendments have been made to the banking sector's regulatory and supervisory framework over the past three years. These include providing formal status to risk management within financial undertakings; an absolute ban on granting loans collateralised by own shares or initial shares and tightened rules on loans to related parties. More stringent demands are now made for increased transparency in the ownership of companies and qualification requirements of boards of directors and managing directors of all types of financial undertakings. Rules have also been set on remuneration (bonuses) and employment termination agreements (severance pay) in line with Commission recommendations. The legal framework for internal and external auditors has been strengthened and the role of auditors has been clarified further. These legal changes support regulatory amendments being finalised by the FME regarding inter alia related parties and large exposures.

CBI and FME are required by law to cooperate and conclude a cooperation agreement in that respect. A revised Cooperation Agreement between the FME and CBI was signed in early 2011. Its main aim is to clarify the responsibility of each authority and the division of tasks between them. The agreement stresses that the acquisition and communication of information, both from financial undertakings and between the two supervisory institutions, be systematic. The cooperation agreement also aims to ensure that coordinated contingency plans are in place and that the regulatory environment's effectiveness in promoting financial system is assessed on regular basis. The agreement stipulates the setting up of working groups and mandates regular meetings between the Governor of the CBI and the Director of the FME with the aim of assessing systemic risk.

A new tax on financial companies has been levied since 1 January 2012. The tax is 5.45 percent of their wage bill. The financial sector is not subject to VAT. The tax will therefore allow for a more level playing field between these firms and the remainder of the services sector. Banks also pay a tax of 0.0875 percent of total liabilities to finance their share in the special interest rebate for indebted households (ISK 6 bn for 2011 and 2012).

The financial crisis exposed serious shortcomings in micro-prudential regulation and supervision. Progress has been made in correcting the weaknesses in prudential regulation and supervision that had permitted the development of excessive risk taking in the Icelandic banking system. Efforts to improve prudential regulation and supervision have been taken recently in order to prevent the practices that most contributed to the failure of the banks from recurring and further reforms are planned, notably to ensure compliance with the revised Basel Core Principles and to implement Basel III. The government is also in the process of finalising a bill to the Parliament to make sweeping changes to the Depositors' and Investors' Guarantee Fund (DIGF) in line with reforms being envisaged in the EU.

Act No. 75/2010, amending the Act on Financial Undertakings No. 161/2002, was passed by the Parliament in June 2010. The Act addresses most of these shortcomings, including:

- The FME has been given increased powers of intervention into the operations of entities subject to official supervision and discretionary powers;

- Improved risk management and governance in banks (including stronger rules on executive pay and more stringent requirements to qualify to be a member of the board of directors);
- Stricter rules on lending to related and connected parties and key personnel;
- Rules on large exposures have been redefined and strengthened;
- A consolidated credit registry has been established into which all large exposures of all financial institutions are entered. If entered into the registry, the FME has the power to order those entities, whether subject to official supervision or not, to render information on their total liabilities in and outside Iceland, provided those liabilities are considered to have a systemic financial impact;
- A total ban on lending against collateral in own shares;
- Strengthened provisions on internal as well as external auditors;
- Strengthened fit and proper requirements for major shareholders;
- Rules on remuneration and severance pay.

The Minister of Economic Affairs has submitted a report on the future of the Icelandic financial system and its public supervision to the Parliament. The report is intended to contribute to the debate on this important issue and does not contain concrete proposals. Instead, it considers the main issues and viewpoints in open terms with a link to broader international developments. As a next step, the Minister has appointed a working group of three internationally recognised experts to prepare proposals on a unified legislative framework for the Icelandic financial system. The group is expected to submit its proposals before the start of the fall Parliamentary session and advise the Ministry on subsequent legislative drafting.

The Minister has also decided to work with the Law Institute of the University of Iceland in preparing two legislative proposals as a follow-up to the report. The first on financial stability, including the role and responsibility of public bodies and the tools at their disposal to achieve this aim (i.e. macro-prudential authority). The second on the authority to intervene in the affairs of financial institutions that face serious financial difficulties and on winding up measures for financial institutions facing bankruptcy (i.e. recovery and resolution regime).

The new capital adequacy Directive and Regulation (CRD4 and CRR) are both foreseen to be incorporated into the EEA-agreement shortly following its adoption within the EU. Preparations have already begun in Iceland for the implementation of the new framework within this context. The adoption of the new more stringent requirements will not pose a difficulty for Icelandic financial institutions due to their strong capital and liquidity positions. Iceland shares the concern expressed by some member states that harmonised capital requirement levels would prevent national authorities from imposing higher standards to address risks particular to national circumstances.

In 2011 the FME conducted a self-assessment of its compliance with the Basel Committee Core Principle (BCP) for Effective Banking Supervision. The Ministry of Economic Affairs commissioned an external expert to validate the FME's self-assessment. The FME completed in August 2011 an Action Plan on Reforms for the years 2011 – 2014. The FME has applied for IPA assistance (Instrument for Pre-Accession Assistance) for the implementation of the Action Plan. One of the actions in the plan was to change the organizational structure of the FME from a sector based structure focused on the sectors of the supervised entities to a functional based structure focused on oversight, off-site and on-site. The new organizational structure came into force in January 2012.

The number of FME staff has more than doubled since 2008; there are currently 115 employees (March 2012). The budget for the year 2012 is almost double the budget for the year 2008. The Government is committed to continue providing the FME with the means to secure the human and financial resources needed to match the ambitious agenda presented to improve the supervision capacity. This commitment has already been demonstrated with the doubling of the FME's budget in four years despite the sharp contraction of the financial sector.

The FME announced a new mission statement in late 2010. The new future vision is founded on the Authority's experience and its role in extraordinary circumstances, and is laid down with the aim of preventing such circumstances from occurring again. Implementing measures on specific issues will be executed in further detail based on the following three main pillars of the strategy:

- Compliance and sound business practices
- Independent analysis and evaluation
- Professional discussion and transparency

It will be necessary to monitor the success of the implementation of the new strategy closely. In this regard the core principles of the Basel Committee will be used as a basis; these principles include coordinated quality requirements on rules and supervision of banking activities in any given country. The FME's mission statement lays out a vision that financial markets should operate in accordance with applicable rules in the interest of society as a whole.

Banks and financial conglomerates

Iceland implements the acquis in the area of banks and financial conglomerates on an on-going basis.

Strengthening of the supervisory capacity in the financial sector has been a high priority for the government since late 2008. This commitment and concrete actions in this regard were central to Iceland's economic programme with the IMF. Iceland also continues to seek to strengthen macro prudential frameworks.

Rules and regulations regarding maturity mismatches in foreign currency and overall currency risk are being considered in respect of macro-prudential tools as Iceland lifts the capital controls imposed as an integral part of the economic programme with the IMF. The lifting of the controls will be discussed under chapter 4 on the free movement of capital. The main objective of these tools is to prevent the pre-crisis economic conditions that led to financial instability from reappearing. This issue will have to be addressed before the close of the negotiations.

The main Icelandic legislation on banks and financial conglomerates consists of the Act on Financial Undertakings, No. 161/2002, as amended, the Act on Official Supervision of Financial Operations No. 87/1998, as amended, and the Act on Payment of Cost Due to Official Supervision of Financial Activities, No. 99/1999, as amended.

The following highlights the key acquis in the field and the transposing legislation in Iceland:

- Directive 2006/48/EC (relating to the taking up and pursuit of the business of credit institutions) is transposed by Act No. 161/2002 on Financial Undertakings.

- Directive 2007/18/EC (amending Directive 2006/48/EC) on the exclusion or inclusion of certain institutions from its scope of application and the treatment of exposures to multilateral development banks is transposed by Rules No. 215/2007 (amended by Rules No. 1167/2008) of the Financial Supervisory Authority on the Capital Requirement and Risk Weighted Assets of Financial Undertakings.
- Directive 2007/44/EC on the prudential assessment of acquisitions is transposed by Act No. 161/2002 and Act No. 56/2010.
- Directive 2009/27/EC on technical provisions concerning risk management is transposed by FME's Rules No. 378/2011, amending Rules No. 215/2007, on the Capital Requirements and Risk Weighted Assets of Financial Undertakings. The rules came into force in April 2011.
- Directive 2009/83/EC on technical provisions concerning risk management is transposed by FME's Rules No. 222/2012, amending Rules No. 215/2007, on the Capital Requirements and Risk Weighted Assets of Financial Undertakings. The rules came into force in March 2012.
- Directive 2009/111/EC concerning banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management is transposed by Act No. 161/2002 (as amended by Act No. 119/2011). The FME will issue implementing rules no later than the second quarter of 2012 and securitisation provisions will be issued in the fourth quarter of 2012.
- Directive 2006/49/EC (capital adequacy requirements for investment firms and credit institutions) is transposed by Act No. 161/2002, Rules No. 215/2007 (amended by Rules No. 1167/2008 and Rules No. 378/2011), and Rules No. 216/2007 on large exposures incurred by financial undertakings. Directive 2008/23/EC on implementing powers of the Commission is not EEA relevant. Iceland will implement the Directive by the date of accession.
- Directive 2002/87/EC on the comprehensive framework for the supplementary supervision of financial conglomerates is transposed by Act No. 161/2002, as amended, Act No. 56/2010 on insurance activities, and FME Rules No. 920/2008 on supplementary supervision of financial conglomerates.
- Directive 94/19/EC (deposit guarantee scheme) is transposed by Act No. 98/1999 on Deposit Guarantees and Investor- Compensation Scheme and Regulations Nos. 120/2000 and 864/2002. Directive 2009/14/EC, amending Directive 94/19/EC, is not yet part of the EEA Agreement. However, a draft bill of law transposing Directive 2009/14/EC is in the process of being finalised and will be submitted to Parliament immediately following its incorporation into the EEA Agreement. It should be noted that the EFTA Surveillance Authority (ESA) has initiated infringement proceedings against Iceland before the EFTA Court regarding the application of Directive 94/19/EC (Case E-16/11). Iceland has submitted its statement of defence which rejects the claims of the Authority and contends that the claims of the Authority should be dismissed by the EFTA Court. The case is expected to run its course in the coming

months and Iceland expects all parties to respect the judgement of the EFTA Court in this matter.

- EU rules on bank and branch accounts is transposed by the Act on Financial Undertakings No. 161/2002, Rules No. 834/2003 on the Annual Accounts of Credit Institutions and the Act on Annual Accounting No. 3/2006.
- EU rules on reorganisation and winding-up is transposed by Act No. 161/2002 on Financial Undertakings, Act No. 21/1991 on bankruptcy, etc. and Regulation No. 1049/2008 (amending regulation No. 872/2006) on the notification and publication of decisions on the financial reorganisation and winding up of credit institutions.
- Regulations (EU) No. 1093/2010, 1094/2010 and 1095/2010 establishing the three European Supervisory Authorities (ESAs) have not been incorporated into the EEA Agreement. Iceland will make all required preparations to be able to take full part in the work of the ESAs as soon as possible, either under the EEA Agreement or by the date of accession at the latest. Iceland currently has observer status with the ESAs following its participation in the predecessor committees.
- Regulation (EU) No. 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (ESRB) has not been incorporated into the EEA Agreement. Iceland will make all required preparations to be able to take part in the work of the ESRB as soon as possible, either under the EEA Agreement or by the date of accession at the latest.

Insurance and occupational pensions

Iceland implements the *acquis* in the area of life insurance and non-life insurance and occupational pension funds on an on-going basis.

The main Icelandic legislation on life and non-life insurances are: Act on Insurance Activities No. 56/2010; the Act on Insurance Brokerage No. 32/2005; the Act on Insurance Contracts No. 30/2004; the Act on Official Supervision of Financial Operations No. 87/1998; and the Act on Payment of Cost Due to Official Supervision of Financial Activities No. 99/1999. The main Icelandic legislation on the operations of pension funds is the Act on Mandatory Pension Insurance and the Activities of Pension Funds, No. 129/1997, and the Act on Retirement Funds No. 78/2007.

The following highlights the key *acquis* in the field and the transposing legislation in Iceland:

- Directive 2002/83/EC (life insurance) is transposed by Act No. 56/2010 on Insurance Activities. Directive 2008/19/EC (amending Directive 2002/83/EC) on implementing powers conferred on the Commission is not EEA relevant. Iceland will implement the Directive by the date of accession.
- The *acquis* in the area of non-life insurance has been transposed in Iceland with the exception of Directive 91/371/EC and Regulation (EC) 2155/91 (Agreement b/w EU and Switzerland) and Directive 2008/36/EC on implementing powers conferred on the Commission. Iceland will implement these non-EEA relevant rules by the date of accession.

- The acquis on the supplementary supervision of insurance undertakings in an insurance group is transposed by Act No. 87/1998 on Official Supervision of Financial Activities, Act No. 56/2010 on Insurance Activities and Regulation No. 954/2001 on the Calculation of Adjusted Solvency Margin. Directive 2008/25/EC amending Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, as regards the implementing powers conferred on the Commission, is not EEA relevant. Iceland will be implement Directive 2008/25/EC by the date of accession.
- Directive 2005/68/EC (re-insurance) is transposed by Act No. 56/2010. Directive 2008/37/EC on reinsurance, regarding the implementing powers conferred on the Commission, is not EEA relevant. Iceland will implement the Directive by the date of accession.
- A draft bill transposing Directive 2009/138/EU (Solvency II) will be introduced in fall 2012. It is foreseen that the implementing measures will enter into force either simultaneously with the EU or on the compliance date in the Solvency II Directive as amended by Omnibus II. Iceland requests that one public national entity (Viðlagatrygging Íslands, a natural catastrophe insurance provider) will be listed in Art. 8 of the Directive. See negotiation request on pg. 12.
- Directive 2004/14/EC (motor insurance) is transposed by Act No. 50/1987 on Road Transport, as amended by Act No. 155/2007, Act No. 56/2010 on Insurance Activity and Regulation No. 424/2008 on Compulsory Insurance in Respect of the Use of Motor Vehicles.
- Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles and the enforcement of the obligation to insure against such liability is transposed by Act No. 50/1987 on Road Transport and Regulation No. 424/2008 on Compulsory Insurance in Respect of the Use of Motor Vehicles.
- Directive 2002/92/EC (insurance mediation) is transposed by Act No. 32/2005 on insurance mediation, Act No. 30/2004 on insurance contracts, Act No. 87/1998 on official supervision of financial operations, Regulation No. 592/2005 on professional indemnity insurance, Regulation No. 590/2005 on trust accounts for insurance brokers and insurance agents and Regulation No. 972/2006 on examination in insurance mediation.
- Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings is transposed by Act No. 56/2010 on insurance activity, Act No. 3/2006 (previously Act No. 144/1994) on annual accounts, along with several implementing measures issued by the FME.
- Directive 2001/17/EC on reorganisation and winding-up of insurance undertakings is transposed by Act No. 56/2010 on Insurance Activity.
- Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision is transposed by Act No. 78/2007 on Respecting Occupational

Retirement Funds and Act No. 129/1997 on Mandatory Pension Insurance and Activities of Pension Funds.

The Ministry of Economic Affairs has the responsibility to see to that the legal framework for the insurance sector is implemented while the pension fund legislation is the Ministry of Finance responsibility. The insurance and pension sector in Iceland is regulated and supervised by the FME. The reorganization of the FME at the beginning of 2012 and the extensive increase in the financing of the FME are to secure the required capacity for the supervision of the sector.

Financial market infrastructure

Iceland implements the acquis in the area of financial market infrastructure on an on-going basis.

The following highlights the key acquis in the field and the transposing legislation in Iceland:

- Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims are transposed by Act No. 90/1999 respecting the Security of Transfer Orders in Payment System and Act No. 46/2005 on Financial Collateral Arrangements.
- Directive 2009/44/EC amending Directives 98/26/EC and 2002/47/EC has not been transposed in Iceland. A draft bill of law, which will amend Act No. 90/1999 respecting the Security of Transfer Orders in Payment System and Act No. 46/2005 on Financial Collateral Arrangements, will be submitted to the Parliament during the spring session of 2012.
- Recommendation 2009/784/EC on withholding tax relief procedures is implemented by Regulation No. 1082/2009.

The Ministry of Economic Affairs is responsible for governmental bills submitted to Parliament regarding the financial market infrastructure.

Securities markets and investment services

Iceland implements the acquis in the area of securities markets and investment services on an on-going basis. The main Icelandic legislation on securities markets is the Act on Securities Transactions No. 108/2007, the Act on Stock Exchanges No. 110/2007, the Act on Financial Undertakings No. 161/2002 and the Act on UCITS No. 128/2011.

The following highlights the key acquis in the field and the transposing legislation in Iceland:

- Directive 2004/39/EC on markets in financial instruments (MiFID) and its amending Directive 2006/31/EC are transposed by Act No. 108/2007 on Securities Transactions, Act No. 110/2007 on Stock Exchanges, Act No. 161/2002 on Financial Undertakings, Act No. 87/1998 on Official Supervision of Financial Activities, Act No. 98/1999 on Deposit Guarantees and Investor Compensation Scheme and Act No. 128/2011 on UCITS (previously Act No. 30/2003).

- Directive 2006/73/EC implementing Directive 2004/39/EC as regards organisational requirements and operating conditions for investment firms is transposed by Regulation No. 995/2007 on Investor Protection and the Business Conduct of Financial Undertakings.
- Regulation (EC) No. 1287/2006 implementing Directive 2004/39/EC on record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading and defined terms is transposed by Regulation No. 994/2007.
- Directive 2008/10/EC, amending Directive 2004/39/EC on markets in financial instruments on the implementing powers conferred on the Commission, is not EEA relevant. Iceland will implement the Directive by the date of accession.
- Directive 2000/64/EC on exchange of information with third countries is transposed by Act No. 87/1998 on Official Supervision of Financial Activities.
- Directive 97/9/EC on the establishment of an investor-compensation scheme is transposed by Act No. 98/1999 on Deposit Guarantees and Investor Compensation Scheme, Regulation No. 120/2000 and Regulation No. 864/2002.
- Directive 2001/34/EC on the admission of securities to official stock exchange listing and on information to be published on those securities and its amendments (Directive 2003/71/EC and Directive 2004/109/EC) are transposed by Act No. 110/2007 on Stock Exchanges, Act No. 108/2007 on Securities Transactions and Regulation No. 245/2006 on the Official Listing of Securities in a Stock Exchange.
- Directive 2003/71/EC (Prospectus Directive) is transposed by Act No. 108/2007 on Securities Transactions, Regulation No. 242/2006 on Public Offers of Securities, Regulation No. 243/2006, Regulation No. 169/2007, Regulation No. 324/2008 and Regulation No. 215/2010.
- Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive on information contained in prospectuses is transposed by Regulation No. 243/2006.
- Commission Regulation (EC) No. 1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities is transposed by Act No. 3/2006 on Annual Accounts and Act No. 108/2008 on Securities Transactions.
- Directive 2004/109/EC (Transparency) is transposed by Act No. 108/2007 on Securities Transactions.
- Directive 2003/6/EC (Market Abuse) and its accompanying rules are transposed by Act No. 108/2007 on Securities Transactions, Rules No. 1013/2007 on Investment Recommendations, Regulation No. 630/2005 on Inside Information and Market Abuse (amended with Regulation No. 887/2008), Rules No. 987/2006 on Treatment of Insider Information and Insider Trading, and an FME manual on the matter. Directive 2008/26/EC on insider dealing and market manipulation (market abuse) as regards the implementing powers conferred on the Commission is not EEA relevant. Iceland will implement the Directive by the date of accession.

- Directive 85/611/EEC on undertakings for collective investment in transferable securities (UCITS) are regulated in Iceland by Act No. 161/2002 on Financial Undertakings, Act No. 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS) and Investment Funds (previously Act No. 30/2003), Regulation No. 792/2003 on UCITS and Investment Funds, Act No. 87/1998 on Official Supervision of Financial Activities, Regulation No. 924/2009 on changes of Regulation on UCITS and Investment Funds No. 792/2003, Regulation No. 925/2009 on foreign management companies operating in Iceland and FME Rules No. 97/2004 on the financial statements of management companies of UCITS, as amended with Rules No. 1065/2009.
- Directive 2007/16/EC on the coordination of laws, regulations and administrative provisions relating to UCITS as regards the clarification of certain definitions will be transposed in the first half of 2012 with regulations issued by the Ministry of Economic Affairs.
- Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to UCITS is partly transposed in Iceland with Act No. 128/2011 on Undertakings for Collective Investment in Transferable Securities. A bill of law for the full transposition of the Directive will be presented to Parliament in the first half of 2012.

The FME is responsible for the supervision of securities markets and investment services in Iceland. The Ministry of Economic Affairs is responsible for preparing governmental bills that are submitted to parliament in this area.

Acceptance of the *acquis*

Iceland accepts the *acquis communautaire* in Chapter 9 on Financial Services as of 1 March 2012.

Iceland requests that the following adaptation text be added as point 5 to Article 8 of Directive 2009/138/EC (Solvency II):

“In Iceland, Viðlagatrygging Íslands”

Explanation:

The article lists institutions in four countries which pursue non-life insurance activities and are excluded from the Directive, unless their statutes or the applicable law are amended as regards capacity.

In Iceland, Viðlagatrygging Íslands (Natural Catastrophe Insurance) is a public entity which acts as a direct natural catastrophe insurer for all perils not covered by private insurers. Viðlagatrygging Íslands is subject to the Act on Insurance Activity and the Act on Official Supervision of the Financial Market.

Viðlagatrygging Íslands has a similar role as other institutions referred to in Article 8 of the Directive as the scope of its operations are limited to natural catastrophes only.

It is Iceland's position that the scope of the Directive would create an unnecessary burden for Viðlagatrygging Íslands.