



Iceland tax alert

Capital and currency controls lifted

New rules published by Iceland's Central Bank on 14 March 2017 lift most of the restrictions on foreign exchange transactions and the cross-border movement of domestic and foreign currency that had been in place for nearly nine years. Capital controls were introduced following the collapse of several major Icelandic commercial and savings banks during the 2008 financial crisis to halt the flight of capital out of the country.

Under the new rules, which apply immediately, businesses and households generally are no longer subject to the restrictions under the Foreign Exchange Act (FEA) on foreign exchange transactions, foreign investment, hedging and lending activities; further, the requirement that residents repatriate foreign currency has been eliminated. The easing of the rules target aspects of the restrictions that have had the most significant—and detrimental impact—on businesses and households.

As a result of the removal of restrictions, foreign investment by pension funds, funds for collective investment (UCITS) and others whose investment exceeds the maximum allowed amounts provided for in the FEA, which until now have been subject to explicit exemptions on capital movement by the central bank, are authorized.

In addition, cross-border transactions using krónur are authorized. Foreign financial undertakings will be permitted to transfer krónur and financial instruments issued in domestic currency to and from Iceland. However, the status of króna-denominated assets subject to special restrictions pursuant to Act No. 37/2016—so-called offshore króna assets—are unaffected by the new rules. Special reserve requirements for specified investments in connection with new inflows of foreign currency.

The new rules provide for general exemptions for nearly all of the restrictions imposed pursuant to the FEA (No. 87/1992). However, restrictions will remain in place for the following: (i) derivatives trading for purposes other than hedging; (ii) foreign exchange transactions carried out between residents and nonresidents without a financial intermediary; and (iii) in certain instances, foreign-denominated lending by residents to nonresidents.

The rules requiring financial undertakings and other parties engaging in capital transactions to notify the central bank of capital movements will remain in place for the present. However, various foreign exchange transactions and capital transfers that hitherto have been subject to central bank confirmation only will be subject to a disclosure requirement.

Although an exemption from the capital controls may not be needed with respect to foreign exchange or cross-border capital transfers, such transactions are likely to be subject to a requirement to notify the Central Bank or to obtain advance approval from the bank. It, therefore, will be necessary to examine each case individually to determine whether the transaction is subject to an exemption, notification or advance approval requirement (confirmation) from the Central Bank.

The Central Bank has issued guidelines on implementation of the relaxed rules to support financial undertakings and other parties in instances where notification or confirmation from the bank is required in connection with foreign exchange transactions and the cross-border movement of capital. (The rules can be found on the central bank website.)

Opportunity for holders of offshore króna to purchase EUR

The Central Bank has concluded an agreement with owners of offshore króna-denominated assets subject to special restrictions pursuant to Act No. 37/2016. Under the agreement, the bank will purchase offshore króna-denominated assets from such owners in an amount equal or close to ISK 90 billion at an exchange rate of ISK 137.5 per EUR 1.

Offshore króna holders that have not made an agreement with the bank will be invited to do so within the next two weeks, using the exchange rate provided for in the agreement.

Contacts

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