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### Act on Depositors' and Investors' Guarantee Fund: The New Legislation in Short

Iceland: Office of the Prime Minister

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The

October 07, 2008 / Prime Minister's Office

Government

# Act on depositors' and investors' of guarantee fund: The new legislation in Iceland short

In recent months, the world financial markets have been in a state of crisis mainly due to shortage of liquidity and limited supply of credit. Icelandic banks have been affected dramatically like financial institutions in other countries. Under these difficult conditions, authorities all over the world have been forced to adopt measures aimed at securing the functioning of financial markets. The Icelandic Authorities have taken similar measures.

With the new act, adopted yesterday evening, the Minister of Finance, on behalf of the Treasury, is authorised to disburse funds in order to establish a new financial firm or take over an existing financial firm, either wholly or in part. Also amendments are made to the Act on Financial Undertakings, the Act on Official Supervision of Financial Activities, the Act on Deposit Guarantees and Investor Compensation Scheme, and the Act on Housing Affairs. These amendments are made to allow the authorities to respond to current financial market conditions without delay, with the purpose of securing the functioning of the banking system.

The principal amendments to the Act on Financial Undertakings is an authorisation to the Financial Supervisory Authority to intervene extensively in the operations of financial firms in case of special circumstances or events, for the purpose of limiting damage or the risk of damage in the financial markets. It is stipulated that the Financial Supervisory Authority is authorised to do the following, among other things:

Call shareholders' meetings or meetings of guarantee capital owners without consideration of the company's Articles of Association or the provisions of the Act respecting Public Limited Companies.

Assume control of a shareholders' meeting or meeting of guarantee capital holders for the purpose of taking decisions on necessary measures, including limiting the decision-making power of the Board, dismissing the Board in whole or in part, taking over the

operations of the financial firm in whole or in part, or disposing of such an undertaking in whole or in part, including merging it with another undertaking.

Restrict or prohibit a financial undertaking's disposal of its capital and assets.

Furthermore, the act authorises the Financial Supervisory Authority to take custody of those assets that are to satisfy the financial undertaking's obligations and have their value assessed, and dispose of them for payment of accrued claims, insofar as is justifiable.

Demand that an undertaking apply for moratorium on payment or seek composition of creditors. Furthermore, it is stipulated that, in the Act on Official Supervision of Financial Activities, the above-specified authorisations of the Financial Supervisory Authority to intervene in the operations of financial undertakings be extended to include parties, other than financial undertakings, whose operations are subject to official supervision.

The primary amendments to the the Act on Depositors' and Investors' Guarantee Fund are:

That deposits be given priority in the event of insolvency proceedings.

To allow for reimbursement of deposit balances in Icelandic krónur.

That fixed rate deposit balances be reimbursed in accordance with the terms of the accounts, so that the Fund will not be required to pay before the account owner would have been able to withdraw the balance in accordance with the terms of the account.

That the rules concerning netting of debt apply to settlement between deposit balances and debt within the same financial undertaking.

Reykjavik, 7 October 2008