

*Unofficial translation*

**Law**

**amending Act No. 36/2001, on the Central Bank of Iceland**

(As adopted on 26 February 2009 by the 136th Legislative Session of the *Althingi* 2008-2009)

Article 1

The words “Board of Governors” in the second sentence of the first paragraph of Art. 20 of the Act shall be replaced by: the Governor of the Central Bank.

Article 2

The second sentence of Art. 22 of the Act shall be replaced by two new sentences, which shall read as follows: Decisions on applying the Central Bank’s monetary policy control mechanisms shall be taken by the Monetary Policy Committee, cf. Art. 24. In other respects, the Bank’s direction shall be in the hands of the Governor.

Article 3

Art. 23 of the Act shall read as follows:

The Prime Minister shall appoint the Governor and Deputy Governor of the Central Bank for a five-year term. The Governor and Deputy Governor of the Central Bank must have completed a university degree in economics or a related subject and possess extensive experience and expertise in financial activities and in economic and monetary affairs. The same person can only be appointed Governor or Deputy Governor of the Central Bank twice. The Governor of the Central Bank shall be responsible for the Bank’s operations and shall be authorised to take decisions in all questions not entrusted to others by this Act. The Deputy Governor shall substitute for the Governor in the latter’s absence.

When appointment is made to the positions of Governor and Deputy Governor of the Central Bank, the Prime Minister shall appoint a committee of three to evaluate the qualifications of applicants. One committee member shall be appointed following nomination by the Standing Committee of Rectors of Icelandic Higher Educational Institutions, one following nomination by the Supervisory Board of the Central Bank of Iceland, and one member without nomination to chair the committee.

Should the Governor or Deputy Governor be unable to perform his/her duties temporarily, the Prime Minister may appoint a temporary replacement.

The Governor of the Central Bank shall set rules on the authorisations of employees and the Deputy Governor to oblige the Bank with their signatures, which shall be subject to the endorsement of the Bank’s Supervisory Board, cf. Art. 28.

Article 4

Art. 24 of the Act shall read as follows:

Decisions on applying the Central Bank's monetary policy control mechanisms shall be taken by the Monetary Policy Committee. In this context, the Bank's monetary policy control mechanisms include decisions on interest rates, transactions with credit institutions other than those listed in the second paragraph of Art. 7, a decision on reserve requirements as provided for in Art. 11, and currency market transactions as provided for in Art. 18, intended to influence the ISK exchange rate. Decisions by the Monetary Policy Committee must be based on the Bank's objectives and a thorough assessment of the current situation of and outlook for the economy and monetary issues and financial stability.

The Monetary Policy Committee shall be comprised of the Governor of the Central Bank of Iceland, the Deputy Governor, one of the Bank's executives responsible for formulating or implementing monetary policy and two experts in the field of economic and monetary policy appointed by the Prime Minister for a five-year term. The Governor of the Central Bank shall also chair its Monetary Policy Committee. The Monetary Policy Committee shall have a quorum if four of its five members attend a Committee meeting. Decisions by the Monetary Policy Committee shall be taken by a simple majority of votes; in the case of a tie, the Chairman or his/her substitute shall cast the deciding vote. The Monetary Policy Committee shall meet at least eight times each year. In addition, the Monetary Policy Committee may meet if its Chairman or three members of the Committee so request. The Monetary Policy Committee shall adopt rules concerning its work, subject to the endorsement of the Bank's Supervisory Board, on the preparation of, rationale for, and presentation of its monetary policy decisions. Minutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee's decisions and premises upon which they are based. If the Monetary Policy Committee deems that serious indications exist of threats to the financial system, it shall make public warnings as necessary. The Monetary Policy Committee may, however, decide not to account for decisions on currency market transactions, as provided for in Art. 18.

The Monetary Policy Committee shall report to the Althingi on its work twice each year. The contents of the report shall be discussed at a joint meeting of the Economy and Taxation Committee, the Budget Committee and the Trade Committee.

#### Article 5

Art. 25 of the Act shall read as follows:

The Governor of the Central Bank of Iceland and the Deputy Governor may not sit on the Board of Directors of an institution or commercial enterprise outside the Bank, nor otherwise participate in commercial operations except as required by law or in the case of an institution or commercial enterprise in which the Bank is involved. Should a dispute arise concerning the application of this provision, the Prime Minister shall decide the issue.

The Governor of the Central Bank of Iceland shall set rules, subject to the endorsement of the Supervisory Board, concerning the participation of other Central Bank employees on the Boards of institutions and commercial enterprises, cf. Art. 28.

The members of the Monetary Policy Committee appointed by the Prime Minister may not undertake work outside the Bank which could give rise to doubt as to their

impartiality. Should a dispute arise concerning the application of this provision, the Prime Minister shall decide the issue. The Prime Minister may, in a Regulation, set more detailed provisions on the qualifications of members of the Monetary Policy Committee.

#### Article 6

The second paragraph of Art. 27 of the Act shall read as follows:

The Governor of the Central Bank shall attend meetings of its Supervisory Board with the right to speak and make motions. The Governor shall, however, recuse him- or herself if the Supervisory Board so decides.

#### Article 7

The following changes shall be made to Article 28 of the Act:

- a. The words “Board of Governors” in the second sentence shall be replaced by: The Governor of the Central Bank.
- b. The words “Board of Governors” in sub-paragraph a) shall be replaced by: Governor of the Central Bank.
- c. The word “Governors” in sub-paragraph b) shall be replaced by: Governor, Deputy Governor and members of the Monetary Policy Committee who are not salaried employees of the Central Bank of Iceland.
- d. The words “Board of Governors” in sub-paragraph d) shall be replaced by: Monetary Policy Committee.
- e. Two new sub-paragraphs shall be added, sub-paragraphs e) and f), which shall read as follows:
  - e. Supervise the implementation of rules concerning the work and working practices of the Monetary Policy Committee.
  - f. Approve the selection of executives for the Monetary Policy Committee, upon receiving the proposal of the Governor of the Central Bank.
- f. The words “Board of Governors” in sub-paragraphs j), l), m) and n) shall be replaced by: Governor of the Central Bank.
- g. Sub-paragraph e) shall read as follows: approve the rules set by the Governor of the Central Bank on the authorisations of the Bank’s employees and the Deputy Governor to oblige the Bank, cf. Art. 23.

#### Article 8

The words “Board of Governors” in the first sentence of the second paragraph of Art. 33 of the Act shall be replaced by: Governor of the Central Bank.

#### Article 9

The following changes shall be made to Article 35 of the Act:

- a. The words “Board of Governors” in the first paragraph shall be replaced by: Governor of the Central Bank, the Deputy Governor, members of the Monetary Policy Committee.
- b. The words “Board of Governors” in the second paragraph shall be replaced by: Governor of the Central Bank, the Deputy Governor, members of the Monetary Policy Committee.

#### Article 10

The following changes shall be made to Article 37 of the Act:

- a. The words “Board of Governors” in the first sentence of the second paragraph shall be replaced by: Governor of the Central Bank.
- b. The words “Board of Governors” in the second sentence of the third paragraph shall be replaced by: Governor of the Central Bank.

#### Article 11

This Act shall enter into force immediately.

#### Article 12

*Amendments to Act No. 87/1998,*

*on Official Supervision of Financial Activities; as subsequently amended*

The following changes shall be made to Article 15 of the Act:

- a. The words “Board of Governors of the Central Bank” in the second paragraph shall be replaced by: Governor of the Central Bank.
- b. The words “Board of Governors of the Central Bank” in the fourth paragraph shall be replaced by: Governor of the Central Bank.

### **Temporary Provisions**

#### **I.**

Notwithstanding the provisions of Art. 26 of the Act, *Althingi* shall, as soon as practicable following the entry into force of this Act, elect a Supervisory Board and alternates for the Central Bank of Iceland. As of that same time, the mandates of those persons currently sitting on the Supervisory Board shall be nullified.

#### **II.**

Upon the entry into force of this Act, the Board of Governors of the Central Bank shall be abolished, together with the positions of the three Governors currently sitting on the Board, including the position of Chairman of the Board of Governors. The Prime Minister shall, as soon as practicable, in an advertisement invite applications for the new positions of Governor and Deputy Governor of the Central Bank of Iceland, as provided for by this Act.

Notwithstanding the provision of the first paragraph, of Art. 23 of the Act, the Prime Minister shall, upon the entry into force of this Act, designate persons who fulfil the conditions of this Act to serve as acting Governor and acting Deputy Governor of the Central Bank of Iceland in the interim. The provisions of Point 4 of Art. 6 and the first paragraph of Art. 7 of the Act on the Rights and Obligations of State Employees shall not apply to these temporary positions. The acting Governor and acting Deputy Governor of the Central Bank shall fulfill their positions until appointments have been made to the positions of Governor and Deputy Governor of the Central Bank pursuant to an advertisement as provided for in the Act.

#### **III.**

Notwithstanding the provision of the first paragraph of Art. 23 of the Act, the Prime Minister shall, in appointing for the first time a Deputy Governor pursuant to an advertisement after the entry into force of the Act, appoint him/her for a four-year

rather than a five-year term, as provided for in that provision.

Notwithstanding the provision of the first paragraph of Art. 24 of the Act, the Prime Minister shall, in appointing for the first time experts to the Monetary Policy Committee, appoint one expert for a three-year term and the other for a four-year term, rather than for five-year terms as provided for in that provision.