

A large, abstract graphic in the top right corner consists of a network of blue squares and lines, resembling a globe or a complex web structure, set against a light blue background.

Iceland

Regulation

FUNDS AND FUND MANAGEMENT 2009

2.0 Regulation

The Financial Supervisory Authority (FME), Suðurlandsbraut 32, 108, Reykjavík, is the principal regulator of the funds industry in Iceland.

2.1 Type of funds

The following types of funds may be formed under Icelandic funds law from 2003 lög um verðbréfasjóði og fjárfestingarsjóði ([Act on Undertakings for Collective Investment in Transferable Securities \(UCITS\) and Investment Funds](#)):

- Mutual funds (UCITS), named verðbréfasjóðir. The Icelandic legislation according to these types of funds is based on the EU Directive UCITS.
- Investment funds issuing share certificates hlutdeildarskírteinasjóðir: These funds can be designed as hedge funds, venture funds, or in many other ways: These kinds of funds issue shareholding declarations.
- Investment fund issuing shares hlutabréfasjóðir. These funds can be designed as hedge funds, venture funds, or in other way: These kinds of funds are not obligated to be managed by a special management company. This type of fund will be established as a public limited liability company that issues shares instead of shareholding declarations. The company must be approved by the FME.
- Investment funds only entitled to raise money from professional investors, but not from public. These funds can either issue share certificates or shares.

2.2 Laws

Funds are principally organized and supervised in Iceland under the following:

- Lög um verðbréfasjóði og fjárfestingarsjóði, Act 30/2003 ([Act on Undertakings for Collective Investment in Transferable Securities \(UCITS\) and Investment Funds](#)).

- Reglugerð nr. 792/2003 um verðbréfasjóði og fjárfestingarsjóði ([Regulation on Undertakings for Collective Investment in Transferable Securities \(UCITS\) and Investment Funds](#)).
- Lög um verðbréfavíðskipti, Act 108/2007 (Securities Transaction Act), based on EU Directives.
- Icelandic Corporate law, 2/1995 or 138/1994.
- EC UCITS Directive.

2.3 Managers, trustees, and custodians

Primarily it is resident banks or registered branches of foreign banks that may act as a custodian of funds or any other financial institution approved by the FME.

The funds shall be managed by a management company which has to be approved by the Financial Supervisory Authority (FME) and must be established as a public limited liability company with legal residence in Iceland. Its sole activity must be the management of funds.

Authorized activities of a management company shall always include the operation of funds for collective investment. A management company shall also be authorized to pursue the following activities:

- Asset management
- Investment Advice
- Custody and management of financial instruments in collective investment

The share capital of a management company must amount to at least ISK 11 million, but never less than the equivalent of EUR 125,000.

The FME requires that the manager and the custodian be independent of each other.

There are no stated quantitative limits on the fees charged by the administration.

2.4 Investment restrictions

There are a number of legal restrictions on the fund's investment activities.

In general, the funds are allowed to invest in the following:

- Transferable securities admitted to the official list of a stock exchange or which are traded on a regulated, liquid, recognized market which is open to the public, and operates regularly.
- Recently issued transferable securities. The securities must be committed to be listed on stock exchanges or other regulated open markets in EEA Member States or in other exchanges, within one year after subscription.
- The fund may deposit its capital in banks, invest in money market instruments, options, forwards, and future contracts with marketable securities as underlying objects, and in units in a UCITS fund.

As a general rule, ordinary investment funds may invest up to 10 percent of the assets of the fund in other securities than those listed above.

The funds may not invest in precious metals.

2.5 Borrowing

The only case where a UCITS may borrow is short-term credit in order to meet redemption of unit shares. Such credit must not exceed the equivalent of 10 percent of the asset of the UCITS or its individual divisions. UCITS's are prohibited from providing credit, pledging, borrowing/issuing, or guaranteeing its own assets as security for debt.

However, investment funds are allowed to borrow up to 25 percent of the value of the fund.

2.6 Accounts and prospectus

The board of directors of a fund and its management company shall compile financial statements for each accounting year in accordance with law and their articles of association.

A certified public accountant or an audit firm shall audit these financial statements.

A management company shall publish a prospectus for each fund under its management, which offers units to the public. The prospectus shall include the necessary information for the customer to be able to evaluate the benefits of investing in the unit shares in a fund.

A prospectus must be published by an investment fund (hlutabréfasjóður) owned by a limited liability company.

2.7 Supervision

The supervisory authority for funds in Iceland is the Financial Supervisory Authority (FME), Suðurlandsbraut 32, 108, Reykjavik, Iceland.

2.8 Fund ownership

There are no restrictions on the number of units which one person or a related group of persons may hold in a fund. A UCITS fund must promote the sale of its units to the public.

The UCITS fund must have assets at its disposal of a minimum of ISK 50 million (EUR 300,000) or a minimum of ISK 10 million (EUR 60,000) shared among at least 50 parties in such a way that each share amounts to a minimum of ISK 10,000 (EUR 56) and is designated to a named owner.

2.9 Fund structure

Funds are permitted to invest in other funds. The investment in other funds must not exceed 20 per cent.

Hedge funds can be established under the regulations governing investment funds. Most of the same regulatory requirements apply to hedge funds as to other funds. Hedge funds can borrow monies, lend, and borrow stocks, sell stocks short, etc.

2.10 Stock exchange

A stock exchange quote on the Icelandic Stock Exchange is available to Icelandic and foreign funds, but there are no provisions exempting them from the full requirements relating to obtaining a listing. A fund's prospectus may double as its listing particulars (provided that certain additional information is included).

2.11 Bank secrecy

Icelandic banks are obliged to supply certain information to the Icelandic Tax Authorities regarding deposits in the banks. The EU Directive regarding money laundering has been incorporated into Icelandic legislation.

2.12 Fund set-up

A fund can usually be established in Iceland within a period of 9 to 12 weeks, depending on complexity. The cost, including professional fees, is likely to be in the range of ISK 1.5 million to ISK 3 million, or EUR 10,000 to EUR 20,000.

2.13 Foreign funds

Foreign investment funds are allowed to market themselves to the Icelandic investors provided that the marketing activity is based on an international agreement approved by FME. Others will need a prior approval from the FME.

The overall rules are as follows; For UCITS licensed in and operating from EU Member State there are, in principle, no restrictions. A number of documents will have to be sent to the FME including a prospectus in an authorized Icelandic translation and a statement from the authorities in the home country of the fund. If the FME submits no objections within a period of two months, the UCITS may start its activities in Iceland.

Investment funds must apply to the FME for a license to market their units.

2.14 Bearer shares

The units may not be issued as bearer shares.

2.15 Use of the internet

There are no specific regulations for marketing investment funds on the internet. However, there is a regulation applying to the marketing of foreign investment funds in Iceland in general. Furthermore, the marketing must comply with ordinary Icelandic marketing legislation.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.