



FJÁRMÁLAEFTIRLITIÐ  
THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

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## RULES

### **Rules on Credit provided by a Financial Undertaking to Directors, a Managing Director, Key Employees or Parties with a Qualifying Holding in the Undertaking or Closely Connected to the Afore-mentioned**

#### Art. 1

These Rules shall apply to any credit, cf. the definition of the concept in Art. 2, provided by a financial undertaking to directors, a managing director, key employees or parties with a qualifying holding in the undertaking, or parties closely connected with the afore-mentioned, including a financial undertaking's group, its subsidiaries and a financial conglomerate.

The state and central banks of member states of the European Economic Area are not included within the scope of these Rules.

#### Art. 2

For the purposes of these rules, the following definitions shall apply:

*Credit (an exposure in the sense of Art. 29 a of the Act on Financial Undertakings):* Granting of loans, securities assets, holdings, guarantees granted by a financial undertaking, derivative contracts and other obligations towards the financial undertaking. In addition, the definition includes loans granted to third parties secured by financial instruments issued by one or more of the parties listed in the first paragraph of Art. 1 of these Rules.

*Managing director:* The person whom the Board of Directors hires to direct its operations in accordance with the provisions of the Act on Public Limited Companies or Act on Financial Undertakings, regardless of his/her actual title.

*Key employee:* An individual in a management position, other than the managing director, who is authorised to take decisions which can affect the future development and performance of the undertaking.

*Close connections:* Close connections are considered to exist when:

- a. there are direct ownership ties or direct control of up to 20% of the shares or voting rights of an undertaking, or
- b. there is control or the parties are acting in concert.

*Concert:* Parties are considered to be acting in concert if they have concluded an agreement for one or several of them to obtain a qualifying holding in a company, whether this agreement is formal or informal, written, oral or otherwise. Parties shall always be considered to be acting in concert when the following connections exist unless the opposite is demonstrated:

- a. Married couples, registered or co-habiting partners, and children of married couples or registered or co-habiting partners. Parents and children are also regarded as parties acting in concert.
- b. Connections between parties which directly or indirectly involve control by one party of the other, or if two or more companies are directly or indirectly under the control of the same party. Regard shall be had for connections between parties as referred to in subparagraphs a, c and d.
- c. Companies in which a party directly or indirectly owns a significant holding, i.e. a party owns directly or indirectly at least 20% of the voting rights in the company in question. A company, its parent company, subsidiaries and associates are considered to be acting in concert. Regard shall be had for connections between parties as referred to in subparagraphs a, b and d.
- d. Connections between a company and its directors and managing director.

*Control:* Connections between a parent company and subsidiary, as defined in the Act on Annual Financial Statements, or a comparable relationship between a natural or legal person and a company.

*Qualifying holding:* A direct or indirect holding in a company which represents 10% or more of its equity capital, guarantee capital or voting rights or other holding which enables the exercise of a significant influence over the management of the company concerned.

### Art. 3

A financial undertaking may not grant a director, managing director, key employee or party who owns a qualifying holding in it, or party with close connections to the aforementioned, credit in the understanding of these rules except against solid collateral. The amount of credit may not exceed 1% of its equity base or ISK 100 million, whichever is the lower. Extension or renewal of a contract is regarded as new credit.

In assessing whether credit provided to each of the parties referred to in the first paragraph of Art. 1 of these Rules exceeds the authorised limits provided for in the first paragraph, regard shall be had for the total credit to this party and parties closely connected to it.

### Art. 4

In calculating the amount of credit, the amount of loans granted, securities assets, holdings and guarantees granted by a financial undertaking, derivative contracts and other obligations towards the financial undertaking shall be added together. In addition, credit provided to a third party secured by financial instruments issued by parties listed in the first paragraph of Art. 1 of these rules shall be included in the calculation.

The amount of derivative contracts shall be the base amount, cf. the amount which is multiplied with a risk weighting in calculating the credit equivalent.

Collateral shall not be deducted in calculating the amount of credit.

### Art. 5

Credit may only be provided against the following collateral:

- a. First or second lien rights on residential property. The mortgaging may not exceed 80% of official property assessment or market value, whichever is the lower.
- b. Listed government bonds and government-backed bonds. Pledging may not exceed 90% of the market value of the securities.
- c. Listed liquid equities which fulfil the requirements of the Financial Supervisory Authority to be classified as such when calculating capital requirements for the trading book, cf. Art. 35 of Annex 1 to Directive 2006/49/EC, or bonds issued by the same parties. Pledging may not exceed 50% of the value of such bonds on the market.
- d. Deposits with a financial undertaking. Pledging may not exceed 100% of the deposit.
- e. Precious metals as referred to in Act No. 77/2002, on Goods Produced from Precious Metals. Pledging may not exceed 60% of the value of the precious metal.
- f. Motor vehicles Pledging may not exceed 70% of the reference value of the Motor Dealers' and Services Federation. The aggregate credit provided on the basis of collateral in a motor vehicle may not however amount to more than ISK 10 million.

Notwithstanding the first paragraph, unsecured credit may be provided to a maximum of ISK 2 million. The pledge percentage must always be within the prescribed limits. When credit is granted the pledge percentage shall be recorded formally. The value of collateral must be calculated quarterly for subparagraphs a and f. Other items shall be calculated daily.

#### Art. 6

If credit exceeds the limits provided for in Art. 3, or if the percentage limits for pledges as provided for in Art. 5 are exceeded, the financial undertaking concerned must immediately notify the Financial Supervisory Authority which may, if special circumstances so warrant, grant the undertaking a specified time limit to comply with the limits in effect.

#### Art. 7

A financial undertaking must have at its disposal sound management and information systems, and internal control mechanisms which allow all credit to directors, the managing director, key employees or parties with a qualifying holding in the undertaking, or parties closely connected to the above, and changes in such credit to be traced so that this can be monitored.

#### Art. 8

A financial undertaking shall each quarter, i.e. as of the end of March, June, September and December, send a report on credit provided to directors, the managing director, key employees or parties with a qualifying holding in the undertaking, or parties closely connected with the above, to the Financial Supervisory Authority. Reports must be received by FME not later than 30 days from the cut-off date.

Art. 9

These Rules, which are issued based on the authorisation in the third paragraph of Art. 29 a of Act No. 161/2002, on Financial Undertakings, as subsequently amended, shall enter into force immediately.

*Financial Supervisory Authority, 21 February 2011*

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