

16th October, 2008

Temporary Currency Restrictions

As stakeholders may have noticed, there have been problems with payments and settlements of international transfers due to the recent events in Iceland. Currently the Central Bank of Iceland has implemented restrictions on foreign exchange transactions with the Icelandic krona. Due to these conditions, Icelandic banks have been operating under the following restrictions:

1. Measures have been taken in order to limit foreign transactions through domestic credit cards. The banks need to determine the appropriate limit of foreign exchange sold to travellers, based on their foreign currency reserves.
2. Foreign exchange transactions due to commercial and service trading are supposed to be of highest priority. The Central Bank recommends that banks monitor larger transactions (no amount specified) and evaluate the importance of each transaction. The banks' executives will have to evaluate and confirm whether the transactions are due to important commercial and service trading. When in doubt, the executives should seek approval from the Central Bank.
3. Priority products and services are e.g. groceries, pharmaceutical products, oil products and public expenditure abroad.
4. Foreign currency received by the banks should not be used in any transactions involving financial instruments of any kind.
5. Banks are obligated to give the Central Bank itemized report on every foreign exchange transaction on a daily basis.

On Monday the Central Bank made the following announcement:

There have been delays in foreign exchange transactions at the three commercial banks as they commence operations after the recent changes in ownership. These difficulties have begun to diminish, however.

Landsbanki has begun operations under new ownership and was able to carry out a portion of its foreign exchange business today. When the formal changes at the other banks are complete, they will begin to carry out foreign exchange business as well. The Central Bank of Iceland's instructions from last Friday, concerning limitations on foreign exchange transactions, remain in effect. It is appropriate to emphasize

that these instructions are guidelines. The appropriate parties, both in the Central Bank and in other financial institutions, continue their efforts to reinstate normal foreign exchange business.

On Wednesday the Central Bank made the following announcement:

The Central Bank of Iceland has come to an agreement with market makers in the foreign exchange market, as well as with several other financial undertakings, concerning temporary foreign exchange arrangements designed to facilitate international trade.

Foreign exchange transactions will take place in accordance with the Central Bank's guidelines concerning modifications in currency outflow. The foreign exchange arrangements will involve daily auctions that will be indicative of the exchange rate of the Icelandic krona with respect to foreign currencies. The exchange rate in the auction will be determined by supply and demand for currency.

For further information about matters concerning foreign exchange transactions and international payments and settlements, please contact the Central Bank of Iceland (Tel: +354 569 9600).

On Thursday the Central Bank made the following announcement:

In view of the extraordinary circumstances surrounding banking operations at present, we have reason to believe that some payments from foreign parties to Icelandic banks are being stopped in transit.

If any foreign parties are uncertain whether their payments are being routed to the proper parties, or if they fear that they will be held liable for non-delivery of such payments, the Central Bank of Iceland has declared to foreign credit institutions that it will guarantee that all payments routed through the Central Bank's accounts to the accounts of Icelandic credit institutions will be delivered to the credit institutions concerned, for the benefit of the relevant account holders in those institutions.

Iceland Chamber of Commerce announcement:

As can be seen from this information Icelandic companies are facing quite hectic circumstances. These issues are, however, being resolved and hopefully foreign transactions payment and settlement system will soon be fully functional. Until then, Iceland Chamber of Commerce kindly requests that foreign suppliers and other stakeholders show patience and flexibility if possible.

There is no reason for foreign stakeholders to be concerned with the infrastructure in Iceland or the legal framework in relation to imports. The same commercial terms are recognized in Iceland as in EU countries, both Incoterms or other terms. The Icelandic Customs Authority is a member of the World Custom Control (WCO). Icelandic customs control is in line with customs control in other countries.



In addition, Iceland has ratified the United Nations Convention on Contracts for the International Sale of Goods (CISG). Parties in international trade with Icelandic companies have therefore at their disposal numerous remedies for a potential breach of contract by Icelandic buyers. The Icelandic legal framework is in line with that of other countries as Iceland is a member of the WTO and the EEA-agreement, which provides Iceland with access to the EU's internal market.

For further information, please contact Iceland Chamber of Commerce (Tel: +354 510 7100).