# Iceland

RISK & COMPLIANCE REPORT

DATE: April 2018

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| Executive Summary - Iceland | |
|---|---|
| **Sanctions:** | None |
| **FAFT list of AML Deficient Countries** | No |
| **Medium Risk Areas:** | Non - Compliance with FATF 40 + 9 Recommendations<br>Corruption Index (Transparency International & W.G.I.)<br>World Governance Indicators (Average Score)<br>Failed States Index (Political Issues)(Average Score) |

**Major Investment Areas:**

**Agriculture - products:**

potatoes, green vegetables; mutton, chicken, pork, beef, dairy products; fish

**Industries:**

fish processing; aluminum smelting, ferrosilicon production; geothermal power, hydropower, tourism

**Exports - commodities:**

fish and fish products 40%, aluminum, animal products, ferrosilicon, diatomite

**Exports - partners:**

Netherlands 30.1%, Germany 12.9%, UK 9.8%, Norway 5%, US 4.5%, France 4.4% (2012)

**Imports - commodities:**

machinery and equipment, petroleum products, foodstuffs, textiles

**Imports - partners:**

Norway 16.6%, US 10.1%, Germany 9.2%, China 7.1%, Brazil 6.6%, Netherlands 5.7%, Denmark 5.6%, UK 4.7% (2012)

**Investment Restrictions:**

The government has stated its desire to attract foreign direct investment (FDI) in certain sectors and has pledged to draft new policies to facilitate such investment.

Foreign ownership of businesses is generally unrestricted, but limited in the fishing, energy and aviation sectors.

Icelandic law also restricts the ability of non EEA-citizens to own land, but this may be waived by the Ministry of Interior

Foreign investors are permitted to participate in the privatization of government-owned businesses, subject to restrictions imposed by the government

## Contents

## Section 1 - Background

Settled by Norwegian and Celtic (Scottish and Irish) immigrants during the late 9th and 10th centuries A.D., Iceland boasts the world's oldest functioning legislative assembly, the Althing, established in 930. Independent for over 300 years, Iceland was subsequently ruled by Norway and Denmark. Fallout from the Askja volcano of 1875 devastated the Icelandic economy and caused widespread famine. Over the next quarter century, 20% of the island's population emigrated, mostly to Canada and the US. Denmark granted limited home rule in 1874 and complete independence in 1944. The second half of the 20th century saw substantial economic growth driven primarily by the fishing industry. The economy diversified greatly after the country joined the European Economic Area in 1994, but Iceland was especially hard hit by the global financial crisis in the years following 2008. Literacy, longevity, and social cohesion are first rate by world standards.

## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Iceland is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Iceland was undertaken by the Financial Action Task Force (FATF) in 2018. According to that Evaluation, Iceland was deemed Compliant for 5 and Largely Compliant for 13 of the FATF 40 Recommendations. It was deemed Highly effective for 0 and Substantially Effective for 1 of the Effectiveness & Technical Compliance ratings.

**Key Findings**

Iceland has taken initial steps to understand its ML/TF risks, with the completion of its first national risk assessment (NRA) in January 2017. Nevertheless, this assessment appears to be based on assumptions or a theoretical understanding of general ML/TF risks rather than information on factual ML/TF vulnerabilities and threats specific to Iceland. Similarly, there is limited evidence that this national assessment was coordinated with previous targeted risk assessments conducted by the National Police Commissioner.

Co-ordination in the context of AML/CFT is relatively recent and largely limited to preparation of the NRA. Although co-ordination has been discussed and may occur informally and on an ad hoc basis, there is not yet an overarching strategy or functioning mechanism to ensure domestic co- ordination at the ministerial level or among competent authorities. This lack of co-ordination negatively affects Iceland's entire AML/CFT regime.

Iceland has a good legal framework for investigation and prosecution of ML and investigative and prosecutorial authorities have developed expertise in investigating financial crimes following the 2008 bank crisis. Financial investigations are conducted in many cases and multidisciplinary teams are formed to investigate more complex cases. However, ML has not been a priority for Icelandic authorities. The lack of resources allocated to identifying, investigating and prosecuting ML results in a lower level of effectiveness in pursuing ML.

There is evidence that financial intelligence is being used to some extent to successfully develop and prosecute major cases related to tax evasion, drug smuggling, and to a lesser extent ML/TF. Feedback from prosecutors and law enforcement authorities (LEAs) also suggests that the quality of financial intelligence has improved since 2015. Nevertheless, there are several impediments to the effective use of financial intelligence more generally, including (i) limited STR filing outside of the main commercial banks and payment institutions and (ii) lack of information sharing among competent authorities in relation to cross-border movement of currency and assets, information on NPOs and beneficial ownership information.

There have not been any criminal investigations or prosecutions of TF in Iceland. This may be due in part to the size, culture, geographical location and other circumstances of the country. Iceland has demonstrated effective co-operation with other countries' security services, particularly the other Nordic countries. Intelligence was shared with other countries in which active investigations were initiated. Nevertheless, there appears to be a lack of consideration of the TF vulnerabilities in Iceland by LEAs. Limited financial investigative expertise allocated to TF matters within the Icelandic police may hamper Iceland's ability to put appropriate emphasis on CFT measures.

While the large commercial banks have some understanding of the ML risk to which they are exposed (and to a lesser extent TF), other financial institutions (FIs) and DNFBPs appear not to assess the ML/TF risk to which they are exposed and have not demonstrated an understanding of any such risks. Similarly, while the commercial banks demonstrated a reasonable understanding of their AML/CFT obligations, this understanding was much lower among other FIs and DNFBPs.

Iceland generally has a comprehensive licencing and registration framework in place to prevent criminals and their associates from holding or being the beneficial owner of a significant or controlling interest in FIs and to a lesser extent DNFBPs. While the FSA has begun to identify some areas of risk, inspections and other supervisory measures are not yet conducted using a comprehensive risk-based approach. DNFBP supervisors, including self-regulating bodies (SRBs), have limited understanding of the risks facing their sectors, are not fully aware of their responsibilities as AML/CFT supervisors. Generally, DNFBP supervisors have not begun AML/CFT supervision of their respective sectors.

Iceland has not assessed or identified how legal persons or foreign legal arrangements can be misused. Iceland recognises that legal persons may be misused; however, it is generally assumed that the misuse is for tax evasion. Iceland has implemented some preventative measures designed to prevent the misuse of legal persons for ML and TF, including the collection of basic and legal ownership information. In practice, it is not clear that such information is accurate and kept up-to-date and the authorities face challenges in obtaining timely access to beneficial ownership information.

Iceland has a good legal and procedural framework for international co- operation and assistance has been provided in a timely manner in both ML and TF cases. There is, in various areas and between different authorities, effective co-operation between Iceland and the other Nordic countries. LEAs actively seek informal and formal international co-operation and legal assistance in a wide range of cases when intelligence, information or evidence is needed from other countries or when assets can be seized or frozen. However, the instances when these mechanisms have been used in relation to ML/TF are limited by the low number of ML/TF investigations.

**Risks and General Situation**

Between 2008 and 2015, Iceland focused its investigative and prosecutorial resources almost exclusively on the financial crimes that contributed to the 2008 banking collapse. During that time, competent authorities demonstrated effective co-operation and co-ordination and were able to successfully prosecute many of those whose activities contributed to the crisis. Although these investigations and prosecutions were highly successful, the dedication of resources to this issue has led to a backlog of other cases. AML/CFT preventive measures were not prioritised as part of Iceland's focus on investigating and prosecuting financial crimes related to the banking crisis.

Iceland had strict capital controls in place between 2008 and March 2017, which largely limited the flow of money into and out of Iceland. Any permitted cross border transactions were scrutinised by the Central Bank. These controls were lifted in March 2017 and the authorities have not considered the impact which this may have on the ML/TF risk situation in the country.

Iceland acknowledges in the country's NRA that organised crime (including drug related offences and human trafficking offences) has been on the increase in recent years and estimates that hundreds of millions of ISK go through the hands of organised crime groups in Iceland annually. However, Iceland typically associates reports of suspicious transactions with tax fraud, including tax evasion, customs fraud and VAT fraud. Icelandic authorities believe tax offences are the largest proceeds generating crimes in Iceland. It is not clear that this is accurate, or that the current priority given to tax offences over other forms of financial crime is warranted.

Iceland considers the risks of TF from within Iceland to be low. Authorities base this assessment on the lack of confirmed cases, as well as information from foreign intelligence agencies and a variety of factors related to Icelandic society (e.g. low number of immigrants from conflict zones). Although there have been a small number of investigations related to terrorism, including cases of foreign terrorist fighters transiting through Iceland, there have been no TF investigations and the authorities are not aware of any Icelandic citizens travelling abroad for terrorism purposes.

**Overall Level of Effectiveness and Technical Compliance**

Iceland's AML/CFT regime has undergone important reforms since the last assessment in 2006. In particular, steps were taken to address identified technical deficiencies in Iceland's supervisory regime for money or value transfer service (MVTS) providers and amendments were made to the AML/CFT Act with respect to correspondent banking. The technical compliance framework is particularly strong regarding international co- operation and law enforcement powers, but less so regarding transparency of legal persons and arrangements, supervision of DNFBPs and outreach to non-profit organisations.

In terms of effectiveness, Iceland achieves substantial results in international co-operation and moderate results in terms of collection and use of financial intelligence, investigation and prosecution of ML and confiscation of assets and instrumentalities of crime. More significant improvements are needed in other areas listed below.

## US Department of State Money Laundering assessment (INCSR)

Iceland was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

**Perceived Risks:**

Iceland is not considered a regional financial center. Criminal proceeds tend to derive from domestic organizations with some linkages to foreign groups. Money laundering in Iceland is related primarily to tax evasion, narcotics trafficking, fraud and other economic crimes, and underground casinos. Over the years, very few cases have been registered as pure money laundering cases, mainly due to the unavailability of statistical data. Financial crimes concerning market manipulation have been prosecuted, but the scale of money laundering involved in such activities is not clear. The Economic Crime Unit, which transferred from the National Commissioner of the Icelandic Police (NCIP) and merged with the Office of the Special Prosecutor (OSP) in 2012, continues to investigate criminal actions in connection with the 2008 collapse of Iceland's financial system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: NO

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO KYC covered entities: Banks; currency exchanges; attorneys; trust, safekeeping, and company service providers; life insurance companies and pension funds; insurance brokers and intermediaries; securities brokers; and dealers of vessels or high-value items

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 316: January 1 - November 11, 2015
Number of CTRs received and time frame: Not available
STR covered entities: Banks; currency exchanges; attorneys; trust, safekeeping, and company service providers; life insurance companies and pension funds; insurance brokers and intermediaries; securities brokers; and dealers of vessels or high-value items

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Iceland is a member of the FATF.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

The Government of Iceland has improved its AML/CFT regime through the implementation and enforcement of existing laws. Iceland does have a legal framework that allows authorities to freeze terrorist assets in a timely manner; however, all orders to freeze assets must have prior judicial approval. The country does not have asset sharing capabilities.

The NCIP's Financial Intelligence Unit (FIU), which oversees AML/CFT matters, merged with the Office of the Special Prosecutor (OSP) in 2015 under law 47/2015. It will again undergo changes when the OSP, which was initially founded to investigate the banking crisis in 2008, shuts down on December 31, 2015, in accordance with new legislation. The projects of the OSP will be transferred to a newly established Office of the District Prosecutor, which will open on January 1, 2016. The person in charge of the OSP will also be in charge of the new office. The District Prosecutor's office will take over responsibility for the investigations and prosecution of economic crimes currently under the OSP, as well as excess cases from the Directorate of Tax Investigations and the FIU. The 2016 budget bill has allocated 774 million ISK (approximately $6 million) to set up the District Prosecutor's office.

The FIU participates in the interagency committee on measures against money laundering. The FIU reports that until July 15, 2015, the FIU was not actively functioning, primarily due to the shortage of staff, expertise, and lack of funding. In addition, a lack of special infrastructure prevented it from registering and analyzing suspicious transaction reports (STRs). Additional staff members have been hired and a decision was made to register all money laundering allegations or tips into a special intelligence database that is connected to an analytical software program. The FIU continues to work with commercial banks, life insurance companies, and securities brokers to educate staff on AML matters. According to the FIU, even though considerable progress has been made in this area and most reporting parties now understand their obligations, non-financial institutions appear to lag in meeting the reporting requirements. The FIU has not conducted specific typology analyses on STRs.

The investigative police and prosecutors lack sufficient expertise in money laundering. In 2015, the Icelandic Police Academy implemented a course intended to improve enforcement of AML laws. The course will be taught for detective inspectors and prosecutors of money laundering and its predicate offenses.

Under Icelandic law, real estate agents and auditors are not subject to supervision by a public authority. The Government of Iceland should appoint supervisory authorities to effectively monitor these service providers, and they should be required to file STRs. The FIU should continue educating reporting entities regarding measures against money laundering. The government should continue to enhance policies and procedures and implement a domestic mechanism to allow designation of terrorists at a national level, as well as to give effect to designations and asset freeze requests from other countries.

### Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Iceland does not conform with regard to the following government legislation: -

**Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

### EU White list of Equivalent Jurisdictions

Iceland is on the EU White list of Equivalent Jurisdictions

### World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

### Failed States Index

To view Failed States Index Ctrl + Click here

### Offshore Financial Centre

Iceland is not considered to be an Offshore Financial Centre

## Reports

### US State Dept Narcotics Report

No report available

### US State Dept Trafficking in Persons Report 2016 (introduction):

Iceland Is classified a Tier 1 country - is a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards.

Iceland is a destination and transit country for women subjected to sex trafficking and men and women subjected to labor trafficking. Women from Eastern Europe, the Baltics, West Africa, and Brazil are subjected to sex trafficking, often in nightclubs and bars. Men and women from Africa, Eastern Europe, South America, and South and East Asia are subjected to forced labor in construction, tourism, restaurants, fish factories, and as au pairs in private houses. Foreign "posted workers" are at particular risk of forced labor as the traffickers pay them in their home countries and contract them to work for up to 183 days in Iceland to avoid taxes and union fees, limiting tax authorities' and union officials' ability to monitor their work conditions and pay. Traffickers also subject women to domestic servitude, forced labor, and sex trafficking and men to forced labor, sometimes through forced marriage; NGOs report these cases are rarely reported to the police. Traffickers reportedly exploit the visa-free regime in the Schengen Zone and the European Economic Area to bring victims to Iceland for up to three months and move them out of the country before they must register with local authorities.

The Government of Iceland fully meets the minimum standards for the elimination of trafficking. The government increased investigations of suspected trafficking and identified more victims. However, for the third consecutive year there were no prosecutions or convictions of suspected traffickers. The government worked with NGOs to publish and distribute updates to its victim identification, assistance, and referral procedures, focusing educational efforts on professionals likely to come into contact with potential victims. Unlike the previous reporting period, several victims identified in 2015 cooperated with law enforcement efforts. The government maintained prevention efforts by holding 11 awareness-raising sessions across the country for officials and professionals on identifying and referring victims.

### US State Dept Terrorism Report

The Government of Iceland stated in its most recent terrorist threat assessment, conducted by the National Police Commissioner in 2008, that the likelihood of terrorist activities occurring in Iceland is low. In the same assessment, however, the government concluded that the potential consequences of such activities were severe enough to merit a high level of vigilance. The government, therefore, continued its efforts to strengthen domestic border security and counterterrorism capabilities during the year. Notably, the Government of

Iceland passed legislation in December that clarified the legal definition of terrorism and strengthened penalties against money launderers.

The National Police Commissioner has primary responsibility for counterterrorism efforts in the country. The Viking Squad, Iceland' s counterterrorism unit, is considered the first line of defense in Iceland's efforts against terrorism. The paramilitary unit is comprised of approximately 40-50 members who are trained in active counterterrorism response by U.S. and other European police and military counterterrorism units. The National Security Unit, which also falls under the jurisdiction of the National Police Commissioner, gathers intelligence, drafts threat assessments, and exchanges information with foreign counterparts with the aim to prevent or reduce the likelihood of terrorism.

The Icelandic Coast Guard (ICG) is responsible for Iceland's coastal defense and monitors the ocean around Iceland, both within and outside of territorial waters. The ICG served as the Chair of the North Atlantic Coast Guard Forum in 2009 and hosted the organization's annual conference in September. Also in September, the ICG hosted Northern Challenge 2009, a NATO- supported exercise focusing on explosive ordnance disposal and counterterrorism scenarios. The explosive ordinance team was called upon in December when a Lufthansa flight heading to Detroit made an emergency landing in Iceland after the aircraft was found to be carrying luggage for a passenger who had not boarded the plane. The explosive ordinance team found nothing suspicious and the flight was released in short order. The EOD team has served in international peacekeeping missions in Iraq and Afghanistan.

The Icelandic government supported multilateral counterterrorism efforts. Iceland continued its deployment of personnel at Kabul International Airport and International Security Assistance Force (ISAF) Headquarters in Afghanistan in support of NATO operations.

## International Sanctions

None applicable

## Bribery & Corruption

| Index | Rating (100-Good / 0-Bad) |
|---|---|
| Transparency International Corruption Index | 77 |
| World Governance Indicator – Control of Corruption | 96 |

The rule of law is strong in Iceland, and the tolerance for corruption is low. Although isolated cases of corruption do occur, it is not an obstacle to business. Iceland's General Penal Code (GPC) criminalises the acts of giving and receiving a bribe, abuse of office, trading in influence and fraud. It establishes criminal liability for individuals and companies, and forbids bribery between businesses and foreign public officials. While there is no distinction made between bribes and facilitation payments, the illegality of gifts and hospitality depends on their intent and the benefit obtained. Since the financial crisis, a number of fraud scandals have been uncovered in the financial sector, revealing conflicts of interest between businesses and political figures, as well as abuse of public funds. This has exposed institutional weaknesses and raised fundamental questions about the integrity of the governing institutions. The government has initiated a large number of investigations into the collapse, as well as legal and regulatory measures to counter abuses in its financial system.
**Information provided by GAN Integrity.**

## Corruption and Government Transparency - Report by US State Department

Isolated cases of corruption occur but are not an obstacle to foreign investment. In 2013, Iceland tied for 12th place out of 175 countries in Transparency International's Corruption Perceptions Index Ranking.

## Section 3 - Economy

Iceland's Scandinavian-type social-market economy combines a capitalist structure and free-market principles with an extensive welfare system. Except for a brief period during the 2008 crisis, Iceland has achieved high growth, low unemployment, and a remarkably even distribution of income. The economy depends heavily on the fishing industry, which provides 40% of merchandise export earnings, more than 12% of GDP, and employs nearly 5% of the work force. It remains sensitive to declining fish stocks as well as to fluctuations in world prices for its main exports: fish and fish products, aluminium, and ferrosilicon. Since 2010, tourism has become the main pillar of Icelandic economic growth, with the number of tourists expected to reach or exceed 4.5 times the Icelandic population in 2016.

Iceland's economy has been diversifying into manufacturing and service industries in the last decade, particularly within the fields of tourism, software production, and biotechnology. In fall 2013, the Icelandic Government approved a joint application by Icelandic, Chinese, and Norwegian energy firms to conduct oil exploration off Iceland's northeast coast, although no exploration has yet taken place. Abundant geothermal and hydropower sources have attracted substantial foreign investment in the aluminium sector, boosted economic growth, and sparked some interest from high-tech firms looking to establish data centres using cheap green energy, although the financial crisis has put several investment projects on hold.

Following the privatization of the banking sector in the early 2000s, domestic banks expanded aggressively in foreign markets, and consumers and businesses borrowed heavily in foreign currencies. Worsening global financial conditions throughout 2008 resulted in a sharp depreciation of the krona vis-a-vis other major currencies. The foreign exposure of Icelandic banks, whose loans and other assets totalled more than 10 times the country's GDP, became unsustainable. Iceland's three largest banks collapsed in late 2008. The country secured over $10 billion in loans from the IMF and other countries to stabilize its currency and financial sector, and to back government guarantees for foreign deposits in Icelandic banks. GDP fell 6.8% in 2009, and unemployment peaked at 9.4% in February 2009. Three new banks were established to take over the domestic assets of the collapsed banks. Two of them have majority ownership by the State, which intends to re-privatize them.

Since the collapse of Iceland's financial sector, government economic priorities have included stabilizing the krona, implementing capital controls, reducing Iceland's high budget deficit, containing inflation, addressing high household debt, restructuring the financial sector, and diversifying the economy. Iceland's financial woes prompted an initial increase in public support to join the EU and the euro zone, with accession negotiations beginning in July 2010, but negotiations were suspended under the 2013 centre-right government. Most macroeconomic indicators and employment have rebounded to pre-crisis levels, driven primarily by the unprecedented growth in tourism – averaging over 20% annually – following the well-publicised volcanic eruption in 2010.

**Agriculture - products:**

potatoes, carrots, green vegetables; mutton, chicken, pork, beef, dairy products; fish

**Industries:**

tourism, fish processing; aluminium smelting, ferrosilicon production; geothermal power, hydropower, tourism

**Exports - commodities:**

fish and fish products 40%, aluminium, animal products, ferrosilicon, diatomite (2010 est.)

**Exports - partners:**

Netherlands 26.1%, UK 11.6%, Spain 11.5%, Germany 7.4%, France 5.7%, US 5.7%, Norway 4.7% (2015)

**Imports - commodities:**

machinery and equipment, petroleum products, foodstuffs, textiles

**Imports - partners:**

Norway 10.1%, Germany 8.6%, US 7.9%, China 7.9%, Denmark 7.1%, Netherlands 5.9%, Brazil 5.8%, UK 5% (2015)

## Banking

The Icelandic State took control of the three largest Icelandic banks following the financial collapse in October 2008. Most of the domestic assets of these banks were moved to new entities established for this purpose. A deal was negotiated with the creditors of two of the old banks whereby they acquired majority ownership in the new banks as compensation for transferred assets; creditors of the third bank acquired a minority stake in its new bank. As of publication, the receivership committees of the old banks, on behalf of its creditors, control their stakes in the new banks while the recently established State Bank Shares Management Company controls the state's shares. The banks are run as profit-seeking companies and it is the policy of the government to ensure fair competition. A number of smaller banks and financial institutions are also active on the market.

## Stock Exchange

The OMX Nordic Exchange operates the market for securities in Iceland and trades various products. Activity has been limited since the crash, but the infrastructure is in place. In 2010 99% of all volume on the OMX exchange in Iceland was in bonds. Daily turnover was around $100 million in bonds and $1 million in equities. The Central Bank frequently issues and auctions ISK-denominated government bonds and welcomes foreign participation.

## Section 4 - Investment Climate

**Executive Summary**

Iceland is an island country located in the Atlantic Ocean near the Arctic Circle. The largest amount of foreign direct investment (FDI) in Iceland comes from the United States. Until recently, U.S. investment has been centered in the aluminum sector, (Alcoa, Century Aluminum operating plants.

Icelandic authorities have identified certain sectors in which they believe Iceland has a competitive advantage, such data processing, high tech development, and eco-tourism. IT startups are burgeoning, and foreign investors have expressed growing interest in Iceland's retail sector. Foreign investment in the fisheries sector, however, remains restricted, especially when it comes to investing in fishing companies that possess transferable quotas.

Tourism has grown by double digits in each of the last six years. There is a shortage of hotel rooms, with the projected number of tourists to exceed 1.6 million in 2016. Marriott is currently constructing the first 5-star hotel in Reykjavik. Many tourism- and hospitality-related investment opportunities exist. U.S franchise Dunkin Donuts opened its first stores in Reykjavik in 2015.

Iceland's economy suffered significantly in the 2008 financial crisis, resulting in a systemic collapse of all three banks, and government-imposed capital controls in an effort to preserve the balance of payments. In 2015 the government took final steps to resolve the estates of the three failed banks and announced it will ease capital controls gradually beginning in 2016. This return to an open economy should help attract further investment.

*Table 1*

| Measure | Year | Index or Rank | Website Address |
|---|---|---|---|
| TI Corruption Perceptions index | 2015 | 13 of 168 | transparency.org/cpi2014/results |
| World Bank's Doing Business Report "Ease of Doing Business" | 2016 | 19 of 189 | doingbusiness.org/rankings |
| Global Innovation Index | 2015 | 13 of 143 | globalinnovationindex.org/content/page/data-analysis |
| U.S. FDI in partner country ($M USD, stock positions) | 2015 | N/A | BEA/Host government |
| World Bank GNI per capita | 2013 | $46.350 | data.worldbank.org/indicator/NY.GNP.PCAP.CD |

### 1. Openness To, and Restrictions Upon, Foreign Investment

## Attitude toward Foreign Direct Investment

The Icelandic government welcomes FDI and operates an agency, "Invest in Iceland," that facilitates foreign investment by providing information to potential investors. www.invest.is

## Other Investment Policy Reviews

Iceland has been a World Trade Organization (WTO) member since 1995. Its last WTO Trade Policy Review was in November of 2012 (www.wto.org/english/tratop_e/tpr_e/tp373_e.htm ). The review notes that exports have exceeded and imports nearly recovered to pre-crisis levels in domestic currency terms. Overall, the structure of trade in goods has not changed significantly: predominantly fish/ fish products and aluminum to the European Union (EU) and to members of the European Free Trade Association (EFTA). Iceland has not had an Investment Policy Review conducted by U.N Cooperation for Trade and Development (UNCTAD) or the Organization for Economic Cooperation and Development (OECD).

## Laws/Regulations on Foreign Direct Investment

The government has stated its desire to attract FDI in targeted sectors and has pledged to draft new policies to facilitate such investment. Draft legislation that would address incentives for foreign investors is pending before the parliament, but has been stuck in ministerial review. The capital controls imposed in 2008 remain a hindrance to foreign investment; however, the government is moving towards their elimination in 2016.

Icelandic laws regulating and protecting foreign investments are consistent with Organization for Economic Cooperation and Development (OECD) and EU standards. As Iceland is a member of the European Economic Area (EEA), most EU commercial legislation and directives are in effect in Iceland. The major law governing foreign investment is the 1996 Act on Investment by Non-residents in Business Enterprises, which grants national treatment to non-residents of the EEA (including U.S. citizens). The law dictates that foreign ownership of businesses is generally unrestricted, except for limits in the fishing, energy, and aviation sectors. However, there are precedents of such restrictions being circumvented by non-EEA companies that establish holding companies within the EEA. Icelandic law also restricts the ability of non EEA-citizens to own land, but the Ministry of Interior may waive this. Foreigners own currently only 1.33 percent of total registered land in Iceland either fully or partially. The managers and the majority of the board of directors in an Icelandic enterprise must be domiciled in Iceland or another EEA member state, although exemptions from this provision can be granted by the Ministry of Interior.

Icelandic courts uphold the sanctity of contracts as a matter of course. Depending on the turnover of the companies in question, the Icelandic Competition Authority is notified of mergers and acquisitions. The Authority may annul mergers or set conditions with the objective of preventing harmful oligopolies and the restriction of competition.

### *Business Registration*

The Internal Revenue Service in Iceland runs also business registration. There is no online business registration process, and all applications need to be filed in paper to the business registrar. New business registration takes only a few business days to process, and is the only stop required to establish a company in Iceland. The website of the Business registry in

Iceland is https://www.rsk.is/fyrirtaekjaskra/ (Icelandic only) Iceland is not listed on www.ger.co

Iceland has an investment promotion agency to facilitate foreign investment. Its services are free of charge to all potential foreign investors looking to set up operations in Iceland. More information is available at www.invest.is

Micro, small, and medium enterprises (MSME) comprise 99 percent of all companies registered in Iceland. Around 90 percent of these are defined as micro-sized with 10 or less employees. Around 7% are defined as small enterprises with 10-50 employees and 2 percent are defined as medium-sized with over 250 employees. Post is not aware of any special services or preferences to facilitate investment and business operations by MSME´s.

Industrial Promotion

There is significant public debate regarding the appropriate types and level of FDI in Iceland, particularly within the energy sector and with regard to job creation and the environmental impact associated with certain projects. The majority of past foreign investment has been in energy-intensive industries, such as aluminum smelting, that take advantage of the country's abundant and cheap renewable energy resources. The current government has started to address zoning issues that may open new areas for further expansion of electricity production in Iceland. For further resources see www.invest.is/doing-business/incentives/for/fdi .

Limits on Foreign Control and Right to Private Ownership and Establishment

The major law governing foreign investment is the 1996 Act on Investment by Non-residents in Business Enterprises, which grants national treatment to non-residents of the EEA. The law dictates that foreign ownership of businesses is generally unrestricted, except for the limits currently imposed in the fishing, energy, and aviation sectors. Only entities with at least 51 percent Icelandic ownership can hold fishing rights. Non-EEA residents cannot hold hydro- and geothermal power harnessing rights, cannot manufacture or distribute energy, and cannot own more than 49 percent of aviation companies.

Privatization Program

There are no privatization programs in Iceland at the moment. However, the Icelandic State now owns two of the three largest commercial banks, and there is a commitment to privatize them again. A 30% stake in Landsbankinn hf has been authorized to be sold by the state to investors, but the terms on and process of the sale have yet to be disclosed. There is public demand for the sale to be transparent, non-discriminatory, and to allow all investors, including foreign ones, to have the right to bid on the stake.

Screening of FDI

There is no automatic screening process for foreign investors, although bidders in privatization sales may have to go through a pre-qualification process to verify that the bidder has the financial strength to participate. Privatization auction procedures are often ad hoc and with deadlines. Potential U.S. bidders in privatization auctions need to follow the specific process closely.

Competition Law

Competition Law No. 44/2205 is currently in place to promote competition and to prevent unreasonable barriers on economic operations. Depending on the turnover of the companies in question, the Icelandic Competition Authority is notified of mergers and acquisitions. The Authority may annul mergers or set conditions to prevent monopolies and limitations on competition.

**2. Conversion and Transfer Policies**

Foreign Exchange

In 2008, the Central Bank of Iceland imposed capital controls to prevent a massive capital outflow following the collapse of the financial sector. The capital controls were intended to be a temporary measure. The 1996 Act on Investment by Non-residents in Business Enterprises states that "non-residents who invest in Icelandic enterprises shall have the right to convert into any currency, for which the Central Bank of Iceland maintains a regular exchange rate, any dividends received or other profits and proceeds from sales of investments." Transactions involving imports and exports of goods and services, travel, interest payments, contractual installment payments and salaries are still permitted.

The Central Bank first published its Capital Controls Liberalization Strategy in 2009 and later updated it in 2011. The strategy stated that the controls would be lifted in stages. The first step, permitting the inflow of foreign currency for new investments and the outflow of capital derived from such investments, was implemented in November 2009. The second step was to conclude the resolution of the estates of the fallen banks, which occurred in February 2016 when all the estates of the failed banks agreed to the government plan for a stability contribution in exchange for exemptions from capital controls.

The final stage is the auction of the remaining offshore krona that were not included in the previous auctions. Entities holding such assets will be given the option of exchanging them for a long-term bond in either EUR or ISK. If neither option is taken, the offshore ISK will be locked into a non-interest bearing account at the Icelandic Central bank for an unspecified, but long, time. When final auction is concluded, capital controls will be lifted for the Icelandic public and businesses. It is unclear if the ISK will be completely free floating currency in the future. Indications from the Central Bank are that there will be some sort of stabilizing mechanism used to counter big swings in the currency due to its illiquidity; however, the exact terms have yet to be determined.

*Remittance Policies*

All new FDI that comes to Iceland must be reported to the Central Bank through a local bank in order to apply for an exemption from capital controls. Investors may then withdraw their investment, as well as any capital gains resulting from it, and transfer the money out of Iceland when needed, again working through a local bank. For further information on remittance policies of the Central Bank, see their website

http://www.cb.is/the-bank/foreign-exchange/questions-and-answers/investment-in-iceland/

Iceland's Financial Action Task Force (FATF) status is listed as monitored.

**3. Expropriation and Compensation**

The Constitution of Iceland stipulates that no one may be obliged to surrender their property unless required by the government to serve a public interest, and that such a measure shall be provided for by law and full compensation be paid. A special committee is appointed every five years to review and proclaim the legality of expropriation cases. If the committee proclaims a case to be legal, it will negotiate an amount of compensation with the appropriate parties. If an amount cannot be agreed upon, the committee determines a fair value after hearing the case of all parties.

As far as the U.S. Embassy is aware, the Icelandic government has never expropriated a foreign investment. However, some private investors have described actions by the Icelandic government before and during the October 2008 financial crisis (related to the takeover of three major banks) as a type of expropriation.

**4. Dispute Settlement**

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Icelandic civil law system enforces property rights, contractual rights, and the means to protect these rights. The Icelandic court system is independent from the parliament and government. Foreign parties must abide by the same rules as Icelandic parties, and they enjoy the same privileges in court; there is no discrimination against foreign parties in the Icelandic court system. When trade or investment disputes are settled, the settlement is usually remitted in the local currency.

The courts are generally divided into two classes: the lower courts, where most cases are heard, and the Supreme Court, which hears appeals from the eight lower courts, all of which hear public and private cases. The Landsdómur is a special high court or impeachment court established in 1905 with the mandate to handle cases where members of the Cabinet of Iceland are suspected of criminal behavior. The Landsdómur has 15 members — five supreme court justices, a district court president, a constitutional law professor, and eight people chosen by parliament every six years. In 2011, the court assembled for the first time to prosecute a former Prime Minister for alleged gross misconduct in the events leading up to the 2008 financial crisis. The accused was found guilty of not holding regular cabinet meetings during the crisis, but was not convicted of gross misconduct.

Iceland has ratified the major international conventions governing arbitration and the settlement of investment disputes. Iceland accepts binding arbitration of investment disputes.

Economic Surveillance Authorities under the European Free Trade Association (EFTA) agreement have ruled that the emergency laws put in place when the Icelandic banking sector collapsed were legal. The U.S. Embassy is unaware of any other cases of major investment disputes involving foreign investors in Iceland.

Bankruptcy

The Bankruptcy Act of 1991, No. 21, applies to a debtor who has a social security number and is domiciled in Iceland. The debtor can be a natural person, a company or an institution. The debtor has to apply for a license of financial reorganization or for composition with creditors. In the case of a registered company, its registered venue must be in Iceland. If the company is unregistered, then its venue must be in Iceland according to its articles of establishment. The same applies to institutions.

Bankruptcy is not criminalized in Iceland. In the case of resolving insolvency, Iceland ranks number 19 out of 189 countries in the World Bank´s Doing Business Report.

Investment Disputes

Investment disputes involving foreign investors are rare in Iceland and the Embassy is aware of no such cases in the past decade.

International Arbitration

Iceland and the United States signed a Trade and Investment Framework Agreement (TIFA) in January 2009, under which the two governments meet periodically to discuss issues of mutual interest.

Iceland is a member of EFTA, and has numerous free trade agreements with countries through that agreement. It has a bilateral free trade agreement with China and is negotiating one with Japan.

Iceland is a member of the EEA agreement, and has through it the legal obligation to adopt EU directives and law concerning the four freedoms of the EU: free movement of goods, services, persons, and capital. Iceland has, however, been granted temporary exemption from the free movement of capital due to the economic collapse of 2008 and the capital controls instated as a result of that collapse.

*ICSID Convention and New York Convention*

Iceland is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention), as well as a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention).

Duration of Dispute Resolution – Local Courts

The Embassy is unaware of any current or recent disputes, so there is no basis for assessment of duration. That said, the court system has a reputation for being timely and fair, and the lack of disputes is a reflection of productive business relationships, not lack of faith in the judicial system.

### 5. Performance Requirements and Investment Incentives

WTO/TRIMS

Iceland has been a member of the World Trade Organization (WTO) since January 1, 1995. The Embassy is not aware of any government measures that are inconsistent with the agreement on Trade-related Investment Measures (TRIMS) requirements.

Investment Incentives

Investment incentives are steered by Invest in Iceland, and subject to change. For the most up to date information on investment incentives offered by the Icelandic government, see the Invest in Iceland web page (all information can be found in English), http://www.invest.is/doing-business/incentives-for-fdi/

*Research and Development*

Subsidiaries of foreign companies are able to participate in subsidized research and development programs, but only to cover R&D costs that are borne in Iceland.

For further information see: http://en.rannis.is

Performance Requirements

Iceland is a member of the EEA, allowing residents from any EEA country to work in Iceland. For residents of third countries, a resident permit is required for anyone staying in Iceland for more than three months. Please see the Icelandic Directory of Immigration web page for further information: http://www.utl.is/index.php/en/

Data Storage

Iceland is working to expand its data storage sector. There are no impediments or performance requirements imposed currently on this sector, such as forced localization or demands for access to surveillance. Invest in Iceland has been active in trying to attract data storage companies to locate in Iceland. For more information, see Invest in Iceland webpage: http://www.invest.is/key-sectors/data-centers

**6. Protection of Property Rights**

Real Property

Generally no one may acquire the right to own or use real property in Iceland, including fishing and hunting rights, water rights, or other real property rights, whether by free assignation or enforcement measures, marriage, inheritance, or deed of transfer, unless strict Icelandic citizenship and domicile conditions are met. However, the Minister of Interior may grant exemption from these conditions based on application showing the need of ownership for business activities. The Minister's permission is not necessary if hiring real property for less than three years or when the party involved enjoys rights in Iceland under the rules of the EEA.

Intellectual Property Rights

Iceland adheres to key international agreements on property rights (e.g., Paris Union Convention for the Protection of Industrial Property). Trademarks, copyrights, trade secrets and industrial designs are all protected under Icelandic law. As with many other issues, Iceland follows the European lead in protection of property rights and adheres to the European Patent Convention of 1973. In 2005, Iceland signed the Patent Cooperation Treaty (PCT).

As a member of the EEA, Iceland accepts jurisdiction of the EEA Court. Property rights are recognized and protected in the Constitution of Iceland. Secured interests in property are bound by law, and enforced as such, and there is a reliable system which records such security interests. Iceland was not listed in either the Notorious Markets Report or the 2015 Special 301 Report.

The Icelandic Patent Office -- a government agency under supervision of the Ministry of Education, Science and Culture -- handles all patent disputes in Iceland. The legal framework concerning intellectual property rights (IPR) in Iceland is in all respects equivalent to that of other industrialized countries in Europe. Iceland is a World Trade Organization (WTO) member, and Icelandic legislation complies with WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. Iceland does not maintain a database on the number of and seizures of counterfeit goods, but the website -- www.falsanir.is -- allows rights holders, customs officials, and other stakeholders to report suspected goods. It is illegal to resell counterfeit goods, but not illegal for individuals to buy and import them for their own consumption. There has, however, been a recent crackdown on counterfeit goods in public offices.

As an EFTA state and member of the EEA, Iceland has implemented all relevant EU regulations and directives in the field of IPR. Iceland is also bound by bilateral EFTA free-trade agreements which include provisions on IPR.

Iceland is a member of the European Patent Organization, the World Intellectual Property Organization (WIPO), and a party to most WIPO-administered agreements. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/ .

*Resources for Rights Holders*

Contact at Mission:

Rebecca Owen
Economic Officer
+354-595-2295
OwenRP@state.gov

Website for Embassy's list of lawyers: http://iceland.usembassy.gov/attorney_list.html

**7. Transparency of the Regulatory System**

Icelandic laws regulating business practices are consistent with those of most OECD member states and are increasingly based on EU directives as a result of Iceland's EEA membership. Transparency in Iceland's financial regulatory system is occasionally a concern (i.e. in public procurement, and in privatization sales where the process is established by the government on an ad hoc basis). In response to the financial crisis of 2008, the government is working to increase transparency and its regulatory role in the financial sector.

The Competition Authority is responsible for the enforcement of anti-monopoly regulations and the promotion of effective competition in business activities. This includes eliminating unreasonable barriers and restrictions on freedom in business operations, preventing monopolies and limitations on competition and facilitating the access of new competitors to the market.

The Consumer Agency holds primary responsibility for market surveillance of business operators, transparency of the markets with respect to safety and consumers' legal rights, and enforcement of legislation concerning protection of consumers' health, legal, and economic rights.

The system as a whole is transparent, although bureaucratic delays can occur. All proposed laws and regulations are published in draft form for the public record and are open for comment.

The Icelandic Parliament (Althingi) consists of a single chamber of 63 members; a simple majority is required for ordinary bills to become law. All bills are introduced in the parliament in draft form. Drafts are open to the public and are published on the parliament's web page. Interested parties, including foreign investors, can comment on proposed law and regulations.

Iceland has invested in an information portal website that includes information on industry sectors, the business climate, and incentives. Foreign and national investors may find useful information by visiting http://invest.is

**8. Efficient Capital Markets and Portfolio Investment**

Iceland currently has capital controls in place, a legacy of the 2008 financial crisis. Generally, foreigners are not big players in the Icelandic capital market, except for those investors or depositors who were blocked from moving their assets in the wake of the 2008 financial crisis. These foreign legacy investors usually invested in short term bonds and securities in Iceland's biggest companies. While the Central Bank and the Icelandic government are reportedly preparing to lift controls, the environment for portfolio investments in Iceland remains unclear at present.

The estates of the former banks, after completing composition agreement with the Icelandic state in February 2016, have been transformed into holding companies. The creditors of the estates have taken full possession after agreeing to pay a stability contribution amounting to $3 billion USD to the Icelandic State to safeguard financial stability. The estates have now started distributing assets to creditors.

The OMX Nordic Exchange operates the market for securities in Iceland and trades various products. Activity has been limited since the crash, but the infrastructure remains in place. In 2013, 86 percent of all volume on the OMX exchange in Iceland was in bonds. Total turnover for the first nine months of 2015 was around $13 billion USD in bonds and equities.

Money and Banking System, Hostile Takeovers

All companies have access to regular commercial banking services in Iceland, even if it is likely that financing for large-scale investment projects will need to come from abroad. The ISK weakened by 10 percent in 2014, mostly due to the strong U.S. dollar, despite record inflows of foreign exchange related to increased tourism. Iceland has been running a positive trade surplus that has helped stabilize the ISK. There is ample demand for foreign currency, but selling large amounts of ISK in a single transaction is difficult. The Central Bank of Iceland has often intervened in the market since the collapse by buying ISK, and those permitted to sell ISK under capital controls have been able to do so.

The combined assets of Iceland's four largest banks and seven savings and loan institutions amounted to roughly 1.52 times Iceland's GDP in 2015. There are also a number of other smaller financial institutions active in Iceland. The tier one capital ratio of the three biggest banks is 25.3 percent. The Financial Supervisory Authority's (FME) suggested capital adequacy requirement is 16 percent, but 8 percent is the mandated minimum. The four largest banks in Iceland met this requirement by June 2015. At the end of the second quarter 2015, nonperforming loans in the Icelandic banking system were 2.1 percent, down 0.9 percent since 2014. Iceland's large financial institutions were leveraged at 5.35 times equity at the end of the second quarter 2013, a low ratio compared to international banks.

Hostile takeovers are rare in Iceland. If there were a case, the Competition Authorities would likely step in to block the deal if the takeover would result in a company holding too great a market share.

Establishing a bank account in Iceland requires a kennitala, or local identity number, similar to a social security number.

**9. Competition from State-Owned Enterprises**

Private enterprises are generally allowed to compete with state-owned enterprises (SOEs) under the same terms and conditions in all sectors except energy production and distribution. SOEs are most active in the banking, energy, health, and alcohol sectors. In some cases, politicians are on the boards of SOEs.

In the midst of the banking crisis, the state, through the Financial Supervisory Authority (Icelandic acronym FME), took over Iceland's three largest commercial banks that collapsed in October 2008, and subsequently took over several savings banks to allow for uninterrupted banking services in the country. In late 2009, the creditors of two of the three largest failed banks acquired the majority of shares in two of the newly re-established commercial banks, one of which in 2016 transferred shares back to the Icelandic state as part of the stability payment necessary to qualify for capital control exemptions. The Icelandic government owns 98 percent of the third re-established commercial bank, Landsbanki, and most of the government's cost associated with recapitalizing the banking system lies within this bank. The government has stated its intention to privatize these two banks, Islandsbanki and Landsbanki, in the near, albeit unspecified, future. The Bank Shares Management Company, established by the state in 2009, manages state-owned shares in financial companies.

The government of Iceland has acquired a considerable stake in many companies through its shares in the banks; however, it is the policy of the government not to interfere with internal or day-to-day management decisions of these companies. Instead, in 2009, the state established the Bank Shares Management Company to manage the state-owned shares in financial companies. The board of this entity, consisting of individuals appointed by the Minister of Finance, appoints a selection committee, which in turn chooses the State representative to sit on the boards of the various companies.

While most energy producers are either owned by the state or municipalities, there is free competition in the energy market. That said, FDI in critical sectors like energy are likely to meet with demands for Icelandic ownership, either formally or from overwhelming public opinion. For example, in 2008, Sudurnes Energy Company was split up into two separate companies, H.S Orka and H.S Veitur, with the former an energy production company and the latter a distribution company. In 2010, Canadian company Magma Energy acquired a 95 percent stake in the energy production company, H.S Orka, but sold a 33.4 percent stake to the Icelandic pension funds after considerable public pressure. In 2012, the company received an offer to buy out its stake, but negotiations were unsuccessful.

The universal healthcare system is mainly state-operated, although the Embassy is aware of plans to build private health tourism facilities in Iceland. Few legal restrictions exist; however, private clinics need an agreement with the Icelandic state, a foreign state, or an insurance company regarding payment for services.

The State Alcohol and Tobacco Company of Iceland (ÁTVR), has exclusive rights for the retail sale of all alcoholic beverages. Importers and wholesale companies are privately run.

Iceland is party to the Government Procurement Agreement (GPA) within the framework of the World Trade Organization (WTO).

Private enterprises have the same access to financing as SOEs through the banking system.

OECD Guidelines on Corporate Governance of SOEs

The Chamber of Commerce in Iceland and NASDAQ OMX have jointly issued a set of corporate governance guidelines for SOEs that mirror the OECD Guidelines on Corporate Governance. The State Auditor has also issued less comprehensive guidelines.

The line of command can become blurred between a Minister, the board of the SOE, and the head of the SOE when the head of an SOE is appointed or engaged by the Minister with purview over the sector in which the SOE operates. Often these positions are filled by political appointees who are sometimes former politicians. For SOEs operating in a competitive environment, the general guideline from the Icelandic government is that all decisions of the board of the SOE should ensure a level playing field and spur competition in the market.

There has been public criticism of the SOE ISAVIA (which runs the Keflavik International Airport) and how it has tendered retail space within the airport. Media discussion has focused on accusations of opacity in the tendering process. Companies that lost their space at the airport in 2015 are suing ISAVIA for the documents related to the last tender of retail space. The results are still pending.

Sovereign Wealth Funds

Iceland does not have a Sovereign Wealth Fund.

**10. Responsible Business Conduct (RBC)**

There is a general awareness in Iceland of corporate social responsibility among both producers and consumers. The Promote Iceland agency has signed the UN Global Compact and pledges to promote discussion of the subject. In the aftermath of the 2008 financial collapse, Iceland's main banks have also adopted social charters. Iceland's National Contact Point for the OECD Guidelines for Multinational Enterprises can be contacted through this website: www.atvinnuvegaraduneyti.is/verkefni/serverkefni/leidbeinandi-reglur-oecd-fyrir-althjodlega-fyrirtaeki/

Reykjavik University additionally runs a Center for Corporate Social Responsibility, and Iceland's Ministry of Foreign Affairs participates in the Nordic Business Outreach effort to direct private sector resources for development purposes. A NGO affiliated with Transparency International is active in Iceland and is a voice against corruption and for RBC.

**11. Political Violence**

Iceland experienced political protests during the October 2008 financial crisis, resulting in the dissolution of the government and the formation of a new coalition prior to elections in spring 2009. In early 2014, frustration among voters dissatisfied with the current government's reluctance to hold a referendum on EU accession led to the most notable protests since the financial collapse. Although sizable, these protests did not lead to any violence. There have been limited cases of politically motivated vandalism of foreign holdings in recent years, directed primarily at the aluminum industry.

**12. Corruption**

Isolated cases of corruption do occur, but are not an obstacle to foreign investment in Iceland or a recognized issue of concern in the government. In 2015 Iceland tied for 13th place out of 168 countries in Transparency International's Corruption Perceptions Index.

In the wake of the financial collapse in Iceland in 2008, a code of conduct was established and ratified for public employees in 2013.

*UN Anticorruption Convention, OECD Convention on Combatting Bribery*

UN Convention against Corruption: Iceland has signed the convention and is in the accession process.

OECD Convention on Combatting Bribery: Iceland is a member of the convention on combatting bribery.

*Resources to Report Corruption*

Contact at government agency or agencies are responsible for combating corruption:

Ministry of Interior
Solfholsgata 7, 101 Reykjavik
+354-545-9000
postur@irr.is

Contact at "watchdog" organization (international, regional, local or nongovernmental organization operating in the country/economy that monitors corruption, such as Transparency International):

-Jenny Stefania Jensdottir
-Chairwoman
-Gagnsæi (Icelandic chapter of Transparency International)
-Gimli, Haskolatorg
-jenny.stefania@gagnsaei.is

**13. Bilateral Investment Agreements**

Bilateral Taxation Treaties

The United States has neither a bilateral investment treaty (BIT) nor a Free Trade Agreement with Iceland. The United States signed a Trade and Investment Framework Agreement (TIFA) with Iceland in January 2009. Discussions are ongoing to complete a Social Security Totalization Agreement, which would eliminate the need for individuals holding dual citizenship to pay into social security in both countries.

An intergovernmental agreement implementing the Foreign Account Tax Compliance Act (FATCA) in Iceland was signed May 26, 2015. The U.S. and Iceland have a double taxation treaty.

**14. Foreign Trade Zones/Free Ports/Trade Facilitation**

Under the EEA agreement, free ports or foreign trade zones are not allowed in Iceland.

**15. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

*Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy*

| | Host Country Statistical source* | | USG or international statistical source | | USG or International Source of Data:<br>BEA; IMF; Eurostat; UNCTAD, Other |
|---|---|---|---|---|---|
| Economic Data | Year | Amount | Year | Amount | |
| Host Country Gross Domestic Product (GDP) ($M USD) | 2014 | $15,600 | 2014 | $17,040 | www.worldbank.org/en/country |
| Foreign Direct Investment | Host Country Statistical source* | | USG or international statistical source | | USG or international Source of data:<br>BEA; IMF; Eurostat; UNCTAD, Other |
| U.S. FDI in partner country ($M USD, stock positions) | 2014 | $2,523 | 2014 | $N/A | BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm |
| Host country's FDI in the United States ($M USD, stock positions) | 2014 | $29 | 2014 | $N/A | BEA data available at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm |
| Total inbound stock of FDI as % host GDP | 2014 | 16.17% | 2014 | N/A | |

*Central Bank of Iceland

*Table 3: Sources and Destination of FDI*

| Direct Investment from/in Counterpart Economy Data | | | | | |
|---|---|---|---|---|---|
| From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)* | | | | | |
| Inward Direct Investment | | | Outward Direct Investment | | |
| Total Inward | 11,801 | 100% | Total Outward | 12,360 | 100% |
| Luxembourg | 7,515 | 64% | Netherlands | 2,695 | 22% |
| Netherlands | 2,615 | 22% | Switzerland | 2,361 | 19% |
| Bermuda | 2,331 | 20% | U.K | 1,757 | 14% |
| Switzerland | 407 | 3% | U.S.A | 1,649 | 13% |
| Denmark | 373 | 3% | Luxembourg | 913 | 7% |
| "0" reflects amounts rounded to +/- USD 500,000. | | | | | |

*Table 4: Sources of Portfolio Investment*

| Portfolio Investment Assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Top Five Partners (Millions, US Dollars) | | | | | | | | |
| Total | | | Equity Securities | | | Total Debt Securities | | |
| All Countries | 10,445 | 100% | All Countries | 6,033 | 100% | All Countries | 4,411 | 100% |
| USA | 2,727 | 26% | Luxembourg | 1,747 | 29% | U.S.A | 1,509 | 34% |
| Luxembourg | 1,747 | 17% | Ireland | 1,520 | 25% | U.K | 874 | 20% |
| Ireland | 1,529 | 15% | U.S.A | 1,218 | 25% | Norway | 549 | 12% |
| U.K | 1,239 | 12% | U.K | 365 | 6% | Germany | 532 | 12% |
| Norway | 719 | 7% | France | 227 | 4% | France | 449 | 10% |

## Section 5 - Government

## Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

## Legal system:

civil law system influenced by the Danish model

## International organization participation:

Arctic Council, Australia Group, BIS, CBSS, CD, CE, EAPC, EBRD, EFTA, EU (candidate country), FAO, FATF, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, NATO, NC, NEA, NIB, NSG, OAS (observer), OECD, OPCW, OSCE, PCA, Schengen Convention, UN, UNCTAD, UNESCO, UPU, WCO, WHO, WIPO, WMO, WTO

## Exchange control

Foreign exchange transactions have been subject to capital controls ever since the banking system collapsed in the autumn of 2008.

## Treaty and non-treaty withholding tax rates

Iceland has signed **83 agreements** (**35 DTC** and **48 TIEA** agreements) providing for the exchange of information.

| Jurisdiction | Type of EOI Arrangement | Date Signed | Date entered into Force | Meets standard | Contains paras 4 and 5 |
|---|---|---|---|---|---|
| Andorra | TIEA | 24 Feb 2010 | 14 Feb 2011 | Yes | Yes |
| Anguilla | TIEA | 14 Dec 2009 | not yet in force | Yes | Yes |
| Antigua and Barbuda | TIEA | 19 May 2010 | not yet in force | Yes | Yes |
| Aruba | TIEA | 10 Sep 2009 | 1 Jan 2012 | Yes | Yes |
| Bahamas, The | TIEA | 10 Mar 2010 | 15 Oct 2012 | Yes | Yes |
| Bahrain | TIEA | 14 Oct 2011 | 15 Aug 2012 | Yes | Yes |
| Barbados | DTC | 3 Nov 2011 | 14 Feb 2012 | Yes | Yes |
| Belgium | DTC | 23 May 2000 | 19 Jun 2003 | Yes | No |
| Belgium | DTC Protocol | 15 Sep 2009 | not yet in force | Yes | Yes |
| Belize | TIEA | 15 Sep 2010 | 3 Nov 2012 | Yes | Yes |
| Bermuda | TIEA | 16 Apr 2009 | 2 Apr 2011 | Yes | Yes |
| Botswana | TIEA | 20 Feb 2013 | not yet in force | Unreviewed | Yes |
| Brunei Darussalam | TIEA | 27 Jun 2012 | not yet in force | No | Yes |
| Canada | DTC | 19 Jun 1997 | 30 Jan 1998 | Yes | No |
| Cayman Islands | TIEA | 1 Apr 2009 | 30 May 2010 | Yes | Yes |
| China | DTC | 3 Jun 1996 | 5 Feb 1997 | Yes | No |
| Cook Islands | TIEA | 16 Dec 2009 | 25 Jun 2012 | Yes | Yes |
| Costa Rica | TIEA | 29 Jun 2011 | not yet in force | Yes | Yes |
| Croatia | DTC | 6 Jul 2010 | 15 Dec 2011 | Unreviewed | Yes |
| Curaçao | TIEA | 10 Sep 2009 | 1 Jan 2012 | Yes | Yes |
| Czech Republic | DTC | 18 Jan 2000 | 28 Dec 2000 | Yes | No |
| Denmark | TIEA | 7 Dec 1989 | 9 May 1991 | Yes | No |
| Dominica | TIEA | 19 May 2010 | 7 Nov 2011 | No | Yes |
| Estonia | DTC | 16 Jun 1994 | 10 Nov 1995 | Yes | No |
| Faroe Islands | TIEA | 7 Dec 1989 | 9 May 1991 | Unreviewed | No |

| Jurisdiction | Type of EOI Arrangement | Date Signed | Date entered into Force | Meets standard | Contains paras 4 and 5 |
|---|---|---|---|---|---|
| Finland | TIEA | 7 Dec 1989 | 8 May 1991 | Yes | No |
| France | DTC | 29 Aug 1990 | 1 Jun 1992 | Yes | No |
| Germany | DTC | 18 Mar 1971 | 2 Nov 1973 | Yes | No |
| Gibraltar | TIEA | 16 Dec 2009 | 18 Apr 2012 | Yes | Yes |
| Greece | DTC | 7 Jul 2006 | 7 Aug 2008 | Yes | No |
| Greenland | TIEA | 7 Dec 1989 | 9 May 1991 | Unreviewed | No |
| Grenada | TIEA | 19 May 2010 | not yet in force | Yes | Yes |
| Guatemala | TIEA | 15 May 2012 | not yet in force | No | Yes |
| Guernsey | TIEA | 28 Oct 2008 | 26 Nov 2009 | Yes | Yes |
| Hungary | DTC | 23 Nov 2005 | 7 Feb 2006 | Yes | No |
| India | DTC | 23 Nov 2007 | 21 Dec 2007 | Yes | No |
| Ireland | DTC | 17 Dec 2003 | 17 Dec 2004 | Yes | No |
| Isle of Man | TIEA | 30 Oct 2007 | 28 Dec 2008 | Yes | Yes |
| Italy | DTC | 10 Sep 2002 | 14 Oct 2008 | Yes | No |
| Jamaica | TIEA | 4 Dec 2012 | not yet in force | Yes | Yes |
| Jersey | TIEA | 28 Oct 2008 | 3 Dec 2009 | Yes | Yes |
| Korea, Republic of | DTC | 15 May 2008 | 23 Oct 2008 | Yes | No |
| Latvia | DTC | 19 Oct 1994 | 1 Jan 1996 | Unreviewed | No |
| Liberia | TIEA | 10 Nov 2010 | 30 Dec 2012 | Yes | Yes |
| Liechtenstein | TIEA | 17 Dec 2010 | 31 Mar 2012 | Yes | Yes |
| Lithuania | DTC | 13 Jun 1998 | 1 Jan 2000 | Yes | No |
| Luxembourg | DTC | 4 Oct 1999 | 19 Sep 2001 | Yes | Yes |
| Macao, China | TIEA | 29 Apr 2011 | 20 Jan 2012 | Yes | Yes |
| Malta | DTC | 8 Apr 2013 | not yet in force | Yes | Yes |
| Malta | DTC | 23 Sep 2004 | 19 Apr 2006 | Yes | No |
| Marshall Islands | TIEA | 28 Sep 2010 | not yet in force | Yes | Yes |
| Mauritius | TIEA | 1 Dec 2011 | not yet in force | Yes | Yes |
| Mexico | DTC | 11 Mar 2008 | 10 Dec 2008 | Yes | Yes |
| Monaco | TIEA | 23 Jun 2010 | 23 Feb 2011 | Yes | Yes |
| Montserrat | TIEA | 22 Nov 2010 | 26 Nov 2012 | Yes | Yes |
| Netherlands | DTC | 25 Sep 1997 | 27 Dec 1998 | Yes | No |
| Niue | TIEA | 16 Oct 2013 | not yet in force | Unreviewed | Yes |
| Norway | DTC | 7 Dec 1989 | 9 May 1991 | Yes | No |
| Panama | TIEA | 12 Nov 2012 | not yet in force | Yes | Yes |
| Poland | DTC | 19 Jun 1998 | 1 Jan 2000 | Yes | Yes |
| Portugal | DTC | 8 Feb 1999 | 4 Nov 2002 | Yes | No |
| Portugal | DTC Protocol | 16 May 2012 | not yet in force | Yes | Yes |
| Qatar | TIEA | 6 Sep 2013 | not yet in force | Unreviewed | Yes |
| Romania | DTC | 19 Sep 2007 | 1 Jan 2009 | Unreviewed | No |

| Jurisdiction | Type of EOI Arrangement | Date Signed | Date entered into Force | Meets standard | Contains paras 4 and 5 |
|---|---|---|---|---|---|
| Russian Federation | DTC | 26 Nov 1999 | 1 Jan 2004 | Yes | No |
| Saint Kitts and Nevis | TIEA | 24 Mar 2010 | not yet in force | Yes | Yes |
| Saint Lucia | TIEA | 19 May 2010 | 2 Nov 2012 | Yes | Yes |
| Saint Vincent and the Grenadines | TIEA | 24 Mar 2010 | not yet in force | Yes | Yes |
| Samoa | TIEA | 16 Dec 2009 | 23 May 2012 | Yes | Yes |
| San Marino | TIEA | 12 Jan 2010 | 3 Nov 2011 | Yes | Yes |
| Seychelles | TIEA | 30 Mar 2011 | not yet in force | Yes | Yes |
| Sint Maarten | TIEA | 10 Sep 2009 | 1 Jan 2012 | Yes | Yes |
| Slovakia | DTC | 15 Apr 2002 | 19 Jun 2003 | Yes | No |
| Slovenia | DTC | 4 May 2011 | 11 Sep 2012 | Yes | Yes |
| Spain | DTC | 22 Jan 2002 | 2 Aug 2002 | Yes | No |
| Sweden | TIEA | 7 Dec 1989 | 9 May 1991 | Yes | No |
| Switzerland | DTC | 3 Jun 1988 | 20 Jun 1989 | No | No |
| Turks and Caicos Islands | TIEA | 16 Dec 2009 | 22 Apr 2012 | Yes | Yes |
| Ukraine | DTC | 8 Nov 2006 | 9 Oct 2008 | Unreviewed | No |
| United Kingdom | DTC | 30 Sep 1991 | 1 Jan 1992 | Yes | No |
| United States | DTC | 23 Oct 2007 | 15 Dec 2008 | Yes | Yes |
| Uruguay | TIEA | 14 Dec 2011 | 14 Nov 2012 | Yes | Yes |
| Vanuatu | TIEA | 13 Oct 2010 | not yet in force | No | Yes |
| Viet nam | DTC | 5 Apr 2002 | 1 Jan 2009 | Unreviewed | No |
| Virgin Islands, British | TIEA | 18 May 2009 | 20 Jul 2011 | Yes | Yes |

## Methodology and Sources

**Section 1 - General Background Report and Map**

(Source: CIA World Factbook)

**Section 2 - Anti – Money Laundering / Terrorist Financing**

| | **Lower Risk** | **Medium Risk** | **Higher Risk** |
|---|---|---|---|
| FATF List of Countries identified with strategic AML deficiencies | Not Listed | AML Deficient but Committed | High Risk |
| Compliance with FATF 40 + 9 recommendations | >69% Compliant or Fully Compliant | 35 – 69% Compliant or Fully Compliant | <35% Compliant or Fully Compliant |
| US Dept of State Money Laundering assessment (INCSR) | Monitored | Concern | Primary Concern |
| INCSR - Weakness in Government Legislation | <2 | 2-4 | 5-20 |
| US Sec of State supporter of / Safe Haven for International Terrorism | No | Safe Haven for Terrorism | State Supporter of Terrorism |
| EU White list equivalent jurisdictions | Yes | | No |
| International Sanctions<br>UN Sanctions / US Sanctions / EU Sanctions | None | Arab League / Other | UN , EU or US |
| Corruption Index (Transparency International)<br>Control of corruption (WGI)<br>Global Advice Network | >69% | 35 – 69% | <35% |
| World government Indicators (Average) | >69% | 35 – 69% | <35% |
| Failed States Index (Average) | >69% | 35 – 69% | <35% |
| Offshore Finance Centre | No | | Yes |

**Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

**Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

**Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

**Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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