MINISTRY OF FINANCE

The Pension Act, No. 129/1997

Jump directly to the Pension Act (#Act)

An Introduction

The Act on mandatory insurance of pension rights and on activities of pension funds – otherwise known as the Pension Act – was passed into law in 1997 and is intended to provide a comprehensive legal framework for all general pension funds whereby the rights of pension fund members are clearly defined, the obligations of pension funds, both as payers of pensions and investors, are spelled out and the transfer of members from one fund to another are facilitated without a loss of accumulated rights. In addition to the Pension Act, several pension funds – notably the Government Employees Pension Fund – are subject to special legislation.

The Pension Act greatly improves the rights of individuals for a protected pension, even if they change jobs and membership in pension funds throughout their working lives. It sets a framework for the operation of pension funds that should ensure their financial soundness and provide for a pension fund system that will carry the bulk of pension needs in Iceland for years to come.

A summary of each Chapter follows with the possibility of going on to the actual legal text:

Chapter I provides for compulsory pension fund membership of all employed persons. A minimum pension premium shall be 10% of wages. Membership in a pension fund may be determined in a collective bargaining agreement, by special legislation or through a hiring contract. Along with a compulsory membership, a minimum benefit right is defined. Individuals are accorded the right to establish individual retirement accounts, either with the pension fund where they pay thei compulsory minimum premium or with any other qualified financial institution.

Chapter II of the Act stipulates that all employed persons aged 16 to 70 years may establish individual retirement contracts with banks or other financial institutions for supplemental pensions. The premiums may accumulate in a blocked account or be use to purchase an annuity life insurance.

In Chapter III, rules on pension rights are defined, where all mandatory pensions go into a common pool in each pension fund, and the right to an old-age pension may start at the age of 60 and will be life-long. The minimum rights to disability, spouse's and children's benefits are also defined.

Chapter IV deals with qualifications for pension funds. They must reach a critical minimum size, based on the number of pension fund members and their ability to provide a financial base for their commitments.

Chapter V stipulates that funds must be licensed whereas previously they only operated on the basis of a regulation issued by the Minister of Finance. Funds must have a Board of Directors, an auditor and actuary and rules are set out for the structure of a fund's statutes.

Chapter VI deals with the operations and internal auditing of a fund. Rules are set out for the tasks of the Board of Directors, an annual meeting, the tasks of the Manager and staff and the rights of appeal of a fund member who disagrees with the decisions of the Board.

Chapter VII is addressed to the investment policy of pension funds. It sets rules on which investments a pension fund can make, which securities qualify for investment (principally securities registered on exchanges) and in what proportion each class of investments may be in relation to total assets. Finally, the discounted present value of a pension fund must always equal or exceed its commitments. If an actuarial assessment shows that the present value falls below commitments by more than 10% the Board of Directors is obligated to take appropriate action to correct the imbalance.

Chapter VIII deals with annual accounts and auditing requirements. It stipulates that the accounts shall be audited by a certified public accountant and conform to rules of good accounting practice.

In Chapter IX, the oversight of the activities of pension funds and the accumulation of data on the pension fund sector is entrusted to the Financial Inspectorate where it is invested with considerable powers to initiate investigations and surveillance of fund activities.

Chapter X deals with the appointment of a supervisory party, winding up and mergers of pension funds.

Chapter XI contains provisions on pension funds that already are in operation at the time the Act entered into force. Pension funds that operate under special laws are exempted from this legislation.

Chapter XII contains miscellaneous provision, for instance on penalties of violating this Act and the authority of the Minister of Finance to set Regulations for further detail of the Act's implementation. The Chapter is followed by two Temporary Provisons, the latter of which is that in the year 2001 the Minister of Finance shall present a report on the development of pension affairs with a special reference to choices available to pension fund members in combining their pension benefits.

Act on Mandatory Insurance of Pension Rights

and on Activities of Pension Funds, No. 129/1997

Entered into force 1 July 1998, with the exception of the third paragraph of Article 14, which entered into force on 1 May 1999. **Amended by** Act No. 84/1998 (entered into force 1 Jan. 1999), Act No. 148/1998 (entered into force on 1 Jan. 1999), Act No. 11/2000 (entered into force 28 April 2000), Act No. 56/2000 (entered into force 26 May 2000), Act No. 65/2002 (entered into force 17 May 2002), Act No. 141/2002 (entered into force 30 Dec. 2002), Act No. 72/2003 (entered into force 10 April 2003) and Act No. 70/2004 (entered into force 18 June 2004; *EEA Agreement:* Annex VI, Directive 98/49/EC).

CHAPTER I

Mandatory insurance, contributions

and insurance benefits

Article 1

This Act shall apply to all pension funds and agreements on insurance benefits, as provided for in detail in the Act.

Pension funds shall refer to any entity or institution which accepts contributions towards the payment of life-long old-age pensions, disability pensions or death pensions, in accordance with the detailed provisions of this Chapter and Chapters II and III.

Mandatory insurance of pension rights implies the obligation of membership in a pension fund and of payment of contributions to a pension fund and, as appropriate, to other parties pursuant to an agreement on supplementary insurance benefits.

All employees and employers or self-employed persons are obliged to ensure their pension rights through membership of a pension fund from the age of 16 years until 70 years of age.

Article 2

Contributions towards pension benefits shall be determined in special legislation, in collective bargaining agreements, in an employment contract, or by other comparable means. Minimum pension contributions shall amount to at least 10% of the contribution base. [The contribution decided upon by an employee or employer or self-employed person shall go towards increasing pension rights as provided for in Chapter II or III.][1]

Membership in a pension fund, payment of pension contributions and the division of the contributions between the employee and employer respectively shall be as prescribed in the collective bargaining agreement which determines the minimum terms of employment in the occupation concerned, or in a specific Act, as appropriate. Should no collective bargaining agreement apply to the occupational field concerned, or if the specific terms of employment are not based on a collective bargaining agreement, the individual in question shall select a pension fund in accordance with the rules of individual funds. Pension fund membership shall be specified in a written contract of employment.

Anyone for whom payment of a contribution is made, who pays or has paid a contribution to a pension fund and is entitled to benefits from it, as prescribed in detail in this Act, is a pension fund member. No one may be refused membership of a pension fund for reasons of health, age, marital status, family size or gender.

1. *Act No. 148/1998, Art. 2.*

Article 3

The minimum contribution to a pension fund, as referred to in Article 2, shall be calculated from the total of wages paid plus remuneration for any type of work, task or service. The contribution base shall be comprised of all types of wages or compensation for work which is subject to income tax pursuant to the first paragraph of Point 1 of Section A, Article 7, of Act No. 75/1981 on Income and Net Worth Tax. The contribution base shall not, however, include benefits paid in kind, such as clothing, food or accommodation, or payments which are intended to cover expenses paid, e.g. vehicle allowances, per diem and food allowances. Furthermore, retirement and pension benefits paid by the State Social Security Institute or pension funds, other benefits paid by the State Social Security Institute, accident and sickness benefits paid by health insurance funds of trade unions, and benefits paid by insurance companies for loss of earnings resulting from injury shall be excluded from the contribution base. The contribution base shall include unemployment benefits as provided for in the Unemployment Insurance Act. The contribution base of an individual for employment in his/her own business operations or self-employment [or for employment operating a business which he/she controls through ownership or membership of the Board][1] shall be equivalent to an amount provided for in the second paragraph of Point 1 of Section A, Article 7, of Act No. 75/1981 on Income and Net Worth Tax, cf. Article 59 of the same Act..

Pension contributions shall be allocated for minimum insurance benefits, cf. Article 4, and, as appropriate, for supplementary insurance benefits, cf. Articles 8–10.

1. *Act No. 65/2002, Art. 4.*

Article 4

The minimum insurance benefits provided by a pension fund, based on a 40-year contribution period, shall amount to 56% of the monthly wages for which contribution is paid, as a monthly old-age pension for the duration of life from such time as the pension is first paid, but no later than from 70 years of age, cf. Article 14, and 56% of the monthly wages for which contribution is paid, as a monthly disability pension based on full rights to adjustment of benefit, cf. Article 15. Minimum insurance benefits shall, furthermore, provide for the equalisation among pension fund members of costs due to spouses' pensions pursuant to Article 16 and costs due to children's pensions pursuant to Article 17.

The pension fund shall, in accordance with Article 24 of this Act, specify the contribution needed to bear the cost of the minimum insurance benefits it provides.

A pension fund may, in accordance with an actuarial assessment, determine its minimum insurance benefits in such a way that a contribution be devoted in part to acquiring pension rights in individual pension accounts, in accordance with Chapter II, and in part to acquiring pension rights in mutual pension funds, in accordance with Chapter III.

Article 5

A pension fund member may decide to turn over that portion of his/her contribution which is to be devoted to an individual pension account, in accordance with the third paragraph of Article 4, and that portion which is to be devoted to supplementary insurance benefits, to a party other than the pension fund which accepts his/her contributions.

The employer or pension fund concerned shall transfer payments in accordance with a decision by a pension fund member pursuant to the first paragraph to another party without additional charge to the pension fund member.

Should a pension fund member fail to inform his/her employer or pension fund with suitable notice as to where the contribution which he/she is entitled to dispose of in accordance with the first paragraph shall be directed, this shall be credited as provided for in the Statutes of the pension fund concerned.

A pension fund which determines minimum insurance benefits as provided for in the third paragraph of Article 4 or party who accepts contributions towards individual pension accounts or supplementary insurance benefits must ensure that the part of his/her operations which concerns the custody and management of insurance contributions, which beneficiaries may dispose of directly in accordance with the first paragraph, is kept financially separate and is not subsidised by other operations.

Article 6

The Directorate of Internal Revenue shall be responsible for ensuring that pension contributions are paid for each individual subject to mandatory insurance of pension benefits.

[Pension funds and parties listed in the third paragraph of Article 8 are required to provide the Directorate of Internal Revenue, at the end of each income year, with information on the contributions towards pension rights which have been paid to the fund for each pension fund member during that year.][1]

Employers and business operators or self-employed persons, as well as others who make payments subject to contributions, must, at the conclusion of the income year, specify on their wage payment slips, or by other means prescribed by the Directorate of Internal Revenue, the amount upon which each person's contributions were based, together with the total amount of contributions paid to a pension fund [and parties listed in the third paragraph of Article 8].[1]

[Everyone who is obliged to be a member of a pension fund pursuant to this Act, and is required to submit an income tax return in accordance with the Act on Income and Net Worth Tax, must on his/her tax return, or by other means decided upon by the Directorate of Internal Revenue, specify the pension contributions he/she has paid during the year and the party listed in the third paragraph of Article 8 to which contributions were paid.][1]

After the conclusion of the income year, the Directorate of Internal Revenue shall send each individual pension fund a statement for each person who is a member of the fund according to the information which the Directorate has received pursuant to this Article. The statement shall indicate the contribution base and contributions paid by each person and the corresponding employers' contributions. If no pension fund is specified on the tax returns or breakdown sheets submitted by employers and pension funds, the statement shall be sent to the General Pension and Insurance Fund, which shall then collect the contributions.

The Minister shall, in a Regulation,[2] lay down detailed provisions for the implementation of this Article.

1. *Act No. 148/1998, Art. 3.*

2. *Reg. 391/1998, cf. 742/1998 and 224/2001.*

Article 7

Pension fund contributions, for both minimum insurance benefits and supplementary insurance benefits, shall be paid regularly each month, cf. the second to fourth paragraphs.

The contribution payment period shall not exceed one month and payment shall fall due on the tenth day of the following month. The deadline for payment shall be the last day of the month in which the contribution falls due. In other respects payment of contributions shall be subject to the rules laid down in the Statutes of the pension fund in question or in accordance with an agreement between the parties listed in Article 8.

Rights accruing from additional contributions to pension funds exceeding regular contributions shall be calculated as of the date of payment.

All employers are required to deduct pension contributions from their employees' wages and submit them to the respective pension funds together with their corresponding contributions. The same responsibility rests on the employer with regard to the collection and forwarding of contributions to the parties listed in Article 8.

Employers and persons operating their own businesses must notify the pension funds and parties in accordance with Article 8 if they are not longer responsible for submission of pension fund contributions due to the termination of their activities or if their employees have left their employment.

Article 8

Employees and persons operating business or self-employed may conclude an agreement with parties listed in the third paragraph for insurance benefits based on contributions which they may dispose of directly pursuant to the first paragraph of Article 5.

The contribution or portion of a contribution provided for in such contract shall go towards the acquisition of pension rights in individual pension accounts, in accordance with Chapter II, or in mutual pension funds, in accordance with Chapter III.

A beneficiary as referred to in the first paragraph may not transfer, mortgage or in any other manner dispose of his/her deposit or rights pursuant to an agreement for supplementary pension benefits or pension rights in individual pension accounts except by agreement as provided for in Points 1–3 of the third paragraph of Article 14. Rights arising from such an agreement shall not be subject to execution and no creditor of a deceased's estate or bankruptcy estate shall be entitled to encroach upon them in any manner.

[The following parties may operate activities in accordance with Chapter II and accept contributions under a contract for supplementary insurance benefits pursuant to this Act:

1. commercial banks, savings banks and securities undertakings, cf. the Act on Financial Undertakings;
2. life insurance companies, cf. the Act on Insurance Activities;
3. pension funds which fulfil the requirements of Articles 4 and 5.][1]

[Foreign commercial banks, savings banks and securities undertakings, which are established and licensed in another state of the European Economic Area or member state of the European Free Trade Association treaty, may carry out activities as provided for in Chapter II of this Act, by establishing a branch in this country, cf. Article 31 of Act No. 161/2002, on Financial Undertakings, or without the establishment of a branch, cf. Article 32 of that same Act. The provisions of Articles 31, 32, 34 and 35 of that Act shall apply to authorisations to commercial banks, savings banks and securities undertakings to carry out activities as provided for in Chapter II of this Act as applicable.

Foreign life insurance companies, which are established and licensed in another state of the European Economic Area or member state of the European Free Trade Association treaty, may carry out activities as provided for in Chapter II of this Act, by establishing a branch in this country, cf. Article 64 of Act No. 60/1994, on Insurance Activities, or without the establishment of a branch, cf. Article 65 of the same Act. The provisions of Articles 64-70 of the Act shall apply to authorisations to life insurance companies to carry out activities as provided for in Chapter II of this Act as applicable.

The Minister of Finance may set more detailed rules as to the manner in which beneficiaries shall be ensured information on the terms and conditions of contracts on pension savings and supplementary pension benefits, concerning for instance the contents, form and rights acquired.][1]

[1] *Act No. 17/2004, Art. 1.*

Article 9

An agreement for supplementary insurance benefits and individual pension savings shall include the name and personal identification number of the contributor, the monthly contribution, and the Rules which apply to payment of benefits and rights in other respects. All conditions applying to the supplementary insurance benefits must be stated in the agreement. Payment of contributions pursuant to the agreement shall commence no later than two months following the conclusion of the agreement. The agreement may be terminated with six months' notice. Notice of termination is not, however, valid until the party terminating the agreement has verifiably given notice of such to the pension fund which receives his/her contributions for minimum insurance benefits. Termination does not convey the right to withdrawal of the deposit or rights, but the rules on insurance benefits may make provision for the deposit or rights to be transferred between the parties listed in Article 8.

A pension fund which fulfils the requirements of Articles 4 and 5 may, in the same manner as other parties listed in [Points 1 and 2][1] of the third paragraph of Article 8, only accept contributions from specific pension fund members in accordance with an agreement on supplementary insurance benefits. The fund must, however, confirm the membership of the employee concerned in the pension fund which accepts his/her contributions for minimum insurance benefits.

[1] *Act No. 70/2004, Art. 2.*

Article 10

Commercial and savings banks, insurance companies, securities undertakings and pension funds, desiring to offer agreements on supplementary insurance benefits and individual pension savings as provided for under the provisions of this Act, must in advance seek confirmation from the Minister of Finance that their Rules concerning insurance benefits are in accordance with the provisions of this Act. Any amendments to these Rules must also be notified to the Minister of Finance and shall not take effect until the Minister has ratified them after receiving the opinion of a public supervisory authority. A decision shall be issued on Rules and amendments to them in writing no later than three months from the time the final application is received by the Minister. The Minister of Finance may, in a Regulation, lay down detailed formal requirements for agreements on supplementary insurance benefits and individual pension savings.

CHAPTER II

Pension savings

Article 11

The first withdrawal of a deposit may be made, or a special withdrawal agreement concluded, two years after the first payment of contributions to acquire pension rights in individual pension accounts, but not before the beneficiary has fulfilled special additional requirements in accordance with the second to fourth paragraphs of this Article.

Once a beneficiary has reached 60 years of age payment of his/her pension savings and interest may commence in the form of equal annual instalments over a period of not less than seven years, or the length of time remaining until the beneficiary will reach the age of 67 years.

Should a beneficiary become an invalid, and suffer 100% disability, he/she shall have the right to have his/her pension savings and interest paid out in equal annual instalments over a period of seven years. Should the disability be less than 100%, the annual payment shall be reduced in direct proportion with the reduction in disability and the period of withdrawal lengthened accordingly.

Should a beneficiary die before the deposit is fully paid out, it shall become the property of his/her heirs and be divided amongst them in accordance with the rules of the Inheritance Act. Any portion accruing to a child under the age of 13 years shall be divided into equal payments to be made each year until the child reaches the age of 18 years. Should a child have reached 13 years of age at the time of death of a beneficiary its portion shall be paid out over a period of five years. Any portion accruing to a surviving spouse shall be divided into equal payments to be made over a period of seven years or the time remaining, at the time of the beneficiary's demise, until the spouse reaches the age of 67 years. Should a beneficiary have neither spouse nor children the deposit shall accrue to his/her estate, in which case the limitation in the second sentence of the second paragraph of Article 8 shall not apply.

Provision shall be made in a Regulation for a shorter withdrawal period in the case of moderate amounts.

Article 12

Equal instalments, as provided for in Article 11, refers to payments equalled out over the number of years of payment in such a way that the beneficiary shall receive, each year, that portion of the deposit plus interest resulting when the total is divided by the number of years remaining of the repayment period.

Notwithstanding the provisions of the first paragraph, a special agreement may be concluded providing for a monthly payment of a specific sum. In such case, the payment shall be altered in accordance with the consumer price index. This agreement may be, partially or wholly, for a specified period, cf. the requirements of Article 11 on minimum length of time, or until the end of the beneficiary's life.

CHAPTER III

Pension rights in pension funds

Article 13

Through contributions to acquire pension rights in mutual pension funds, a pension fund member shall obtain the right to old-age pension, disability pension and spouses' and children's pensions, for him-/herself, his/her spouse, and children, as appropriate, which may not be less extensive than as provided for in this Chapter. The Statutes of a pension fund must provide in detail for the acquisition of rights, which may vary depending upon whether contributions are made towards minimum or supplementary insurance benefits and, as the case may be, depending upon age.

The right to pension in accordance with this Act is calculated from the time the contributions are received by the pension fund. Contributions of an employee, which an employer has demonstrably collected but not submitted to a pension fund, as well as the employer's portion, shall, however be fully assessed in calculation of rights from the deadline for payment of contributions, provided the fund has received information on the obligation to pay contributions within 60 days from the date of the statement referred to in Article 18.

Pension funds shall not, however, be responsible for rights of fund members arising from contributions which are lost through bankruptcies and for which the wage guarantee fund is not responsible in accordance with the Act on a Wage Guarantee Fund for Bankruptcies.

Article 14

A pension fund shall begin the payment of old-age pension in accordance with the detailed provisions of its statutes once a pension fund member has reached the age of 65–70 years. A pension fund may give fund members the option of deferring or advancing the commencement of their pensions by up to five years. The Statutes shall make provision as to the effect which deferment or advancement shall have on the pension amount.

Old-age pension shall be paid in equal payments on a monthly basis until the end of life. The monthly payments shall be inflation-indexed and change in accordance with changes in the consumer price index. Detailed provisions for the amount of old-age pensions, their calculation and requirements for payment shall be made in the Statutes.

A pension fund member may, on the basis of an agreement between the fund member and his/her spouse, decide on an arrangement as referred to in Points 1-3 of this paragraph. This agreement should include, as appropriate, old-age pension payments, the value of old-age pension rights or the old-age pension rights of both parties, and provide for mutual and equal division of rights acquired during the period the marriage, consensual union or recognised cohabitation has existed or may exist.

1. Up to one-half of old-age pension payments accruing to a pension fund member shall accrue to his/her spouse or former spouse. The pension fund concerned shall in such case divide payments in accordance with the decision by the fund member, but they shall cease upon his/her demise. Should a spouse or former spouse receiving such payments predecease the pension fund member, the payments in their entirety shall accrue to the fund member.
2. No later than seven years prior to the earliest possible commencement of old-age pension, and if illness or health problems do not reduce life expectancy, up to one-half of the value of a fund member's accumulated old-age pension rights shall be used to provide independent old-age pension rights for his/her spouse or former spouse, with a corresponding reduction to the rights of the fund member. The total obligations of the pension fund shall not be increased by such a decision by the pension fund member.
3. Up to one-half of contributions on a fund member's behalf which are used to form old-age pension rights shall be used to form independent rights for his/her spouse. In allocating contributions for minimum insurance benefits and supplementary insurance benefits, the contribution base of the pension fund member shall be regarded as having been divided between him/her and his/her spouse in the same proportion as the contribution.

Article 15

A pension fund member shall be entitled to disability pension if he/she should suffer loss of ability assessed at 50% or more, has contributed to a pension fund for at least two years and has suffered loss of income due to the loss of ability.

Disability pension shall be adjusted in accordance with rules prescribed in detail in the Statutes, provided a fund member has contributed to the pension fund for at least three of the previous four years, and for at least six months during the most recent twelve month period, and his/her loss of ability cannot be traced to abuse of alcohol, pharmaceuticals or illicit drugs.

Should the right to adjustment [of benefit] acquired by a fund member have lapsed due to temporary absence from the employment market due to work abroad, study, leave of absence, maternity/paternity, or comparable reasons, his/her right to adjustment shall become effective once more no later than six months from the time he/she recommences work and the payment of contributions to a pension fund.

If a pension fund member does not have the right to adjustment, the amount of the disability pension shall be based on rights acquired.

Provision may be made that the payment of disability pension will not be provided during the first three months following the loss of ability. The same shall apply if the loss of ability has lasted for less than six months.

Further provisions on disability pension, such as concerning assessment of disability, the amount of disability pension, its calculation and conditions for its payment, shall be laid down in the Statutes of a pension fund.

Article 16

A pension fund shall pay a pension to the spouse of a deceased fund member if the fund member contributed to the pension fund for at least 24 of the previous 36 months prior to his/her demise, had been receiving old-age or disability pension at the time of demise, or had acquired the right to adjustment pursuant to the third paragraph of Article 15.

Full spouses' pension shall always be paid for a period no shorter than 24 months; if the spouse supports a child under the age of 18 years, who was previously supported by the pension fund member, or if the spouse is at least 50% disabled and younger than 67 years of age, full spouses' pension shall be paid while this situation prevails. Full spouses' pension shall amount to a minimum of 50% of the disability pension to which the pension fund member was entitled in case of 100% disability.

For the purposes of this Article, a spouse shall be a man or woman who was married to, or lived in recognised cohabitation or a consensual union with, the deceased pension member upon his/her demise, provided their estate in common had not been dissolved prior to the demise of the fund member. A consensual union means a union between a man and woman who live together at a common domicile, who have common issue or where the woman is pregnant, or whose union has lasted without interval for at least two years. The right to spouses' pension shall lapse if the spouse remarries, establishes a union which may be equated with marriage, or enters a recognised cohabitation, unless otherwise provided for in the Statutes.

Further provisions on spouses' pension, such as concerning the amount of pension, rules on its adjustment and conditions for its payment, shall be laid down in the Statutes of a pension fund.

Article 17

Upon the demise of a pension fund member who has contributed to a pension fund for at least 24 of the previous 36 months, had been receiving old-age or disability pension at the time of demise, or had acquired the right to adjustment pursuant to the third paragraph of Article 15, his/her children and adopted children younger than 18 years of age shall be entitled to pension until reaching 18 years of age. Children born or adopted prior to the loss of ability of a pension fund member receiving full disability pension have the same right to pension. If the disability is assessed at less than 100%, the children's pension shall be proportionally lower.

Full children's pension shall amount to a minimum of ISK 5 500 per month for each child of a recipient of disability pension. In the case of the demise of a pension fund member, children's pension shall amount to a minimum of ISK 7 500 per month for each child. These amounts shall change each year in proportion with changes to the consumer price index and based on a basic index of 173.5.

Further provisions on children's pension, such as concerning rules on its calculation and conditions for its payment, and on its amount in cases where spouses' pension is not paid for a child, shall be laid down in the Statutes of a pension fund.

Article 18

Each pension fund must keep a register of the persons who have contributed to the fund and of those who have acquired the right to pension payments from the fund by other means than through the payment of contributions. The register shall contain the names and personal identification numbers of these persons. In addition, the register must contain information on the amount of each person's contributions, payment periods and rights acquired, as well as other information which could affect rights to pensions. A pension fund member shall have access to the information concerning him-/herself. In addition, the Directorate of Internal Revenue shall have access to necessary information from the register for purposes of its supervision pursuant to Article 6.

The pension fund must, at the same time as it sends a statement of contributions and no less frequently than once each year, send information on acquired and projected pension rights of pension fund members, on the operations and financial situation of the fund, and on changes to its Statutes. The same information shall be sent to pension fund members who have reached pension age.

[Pension funds must send their members a summary of contribution payments no less frequently than at six-month intervals. The summary shall be accompanied by a request that fund members raise objections without delay if contributions verifiably collected have not been received by the fund.][1]

A pension fund member shall have the right to demand that the pension fund justify in writing any decision concerning him-/herself. The reasoned decision must make mention of the right of a pension fund member to refer the decision to a board of arbitration, cf. Article 33.

Provision may be made in a Regulation for systematic registration of information on contributions and pension rights, as well as for the provision of information from such a register to the taxation authorities and other supervisory authorities.

[1] *Act No. 56/2000, Art. 1.*

Article 19

Provision may not be made in the Statutes for pension rights acquired to be reduced or lost if a pension fund member ceases his/her contributions to a pension fund.

It must not make any difference whether a person has pension rights in one or more pension funds and persons may not lose rights nor acquire greater rights as a result of their contributions being divided between two or more funds. Detailed provision shall be made in a Regulation on the division of contributions between funds when pension rights have been formed in more than one fund, on how rights may be combined and on the implementation of this provision in other respects.

Contributions and, in consequence, the rights arising from them, may be transferred between pension funds when the receipt of pension commences for the purpose of facilitating the implementation of this Article.

Pension contributions of foreign nationals emigrating from Iceland may be reimbursed, provided such is not prohibited in accordance with international agreements to which Iceland is a party. Reimbursement may not be limited to a specific portion of the contributions except on proper actuarial premises.

Provision may be made in [the Statutes][1] for payment of lump-sum pensions in the case of small amounts.

[1] *Act No. 56/2000, Art. 2.*

[Article 19a

An employee, coming to work in Iceland from headquarters in the European Economic Area or a member state of the European Free Trade Association treaty, shall be entitled to contribute to a pension scheme in the same manner as he/she would be entitled if the income were acquired in the country in which the headquarters are located and the pension scheme is not covered by Regulation No. 1408/71/EEC. If the payment of contributions to such a pension scheme is continued, as provided for in the first sentence, the employee working away from headquarters and his/her employer shall be exempt from all obligation to pay contributions to a comparable pension scheme in Iceland.
Employers, pension funds and depositories of pension savings must have information available to fund members moving to other member states of the European Economic Area, or to member states of the European Free Trade Association treaty, on their acquired pension rights from pension schemes as referred to in the first paragraph, by what means they will be preserved, whether they can be transferred to foreign funds and where they should turn when benefits fall due.][1]

[1] *Act No. 70/2004, Art. 3*

CHAPTER IV

General conditions for pension fund operations

Article 20

The operations of pension funds shall involve the receipt, preservation and investment of contributions and the payment of pensions. The contributions and other disposable assets of pension funds shall be pooled and invested by deposit in banks and savings banks or in negotiable securities, having regard to spreading of risk and following an investment policy announced in advance.

A pension fund shall not engage in other activities than those required to achieve its objectives as referred to in the second paragraph of Article 1 and the first paragraph of this Article. A pension fund may not pay out contributions for any other purpose.

Article 21

Pension funds may not operate without a fully valid operating permit in accordance with Chapter V or

Chapter XI.

As a rule, a pension fund shall have at least 800 fund members who make regular contributions each month, unless the fund ensures risk spreading with regard to its obligations by other means commensurate with an actuarial assessment.

A pension fund may ensure spreading of risk with regard to its pension obligations, in whole or in part, through insurance companies, cf. the Insurance Services Act. In addition, it may purchase specific insurance benefits from insurance companies or other pension funds for individual fund members. Furthermore, pension funds may co-operate on individual aspects of insurance benefits. Detailed provisions on these aspects shall be laid down in a Regulation.

Article 22

Pension funds are obliged to use, and have the exclusive right to use, the designation "pension fund", either standing alone or in compounds with other words, or as a further explanation of their activities. Pension funds which are already in operation at the time of entry into force of this Act may, however, retain their names unaltered.

Article 23

Pension funds shall use their assets to guarantee their obligations. Contributors are not responsible for other obligations of the fund beyond the payment of their contributions.

Article 24

The directors of a pension fund shall have an annual actuarial assessment of the financial situation of the fund carried out in accordance with Article 39 and the provisions of a Regulation issued by the Minister. The Regulation shall prescribe the general actuarial premises, for instance, concerning the risk of mortality, the real interest rate to be used as a basis for the investigation and the required rate of return to be used in discounting future contributions, and the expected pensions to be paid by the fund. Provisions on assessing the net assets for payment of pensions in actuarial assessments shall also be laid down in a Regulation. Such Regulation shall also specify possible deviations from the assessment of asset items on the balance sheet, in accordance with Article 40, for instance, to allow the value of registered shares and comparable securities to be based on a weighted market value during a specified period, which may not, however, be longer than six months.

The assessment provided for in the first paragraph shall be carried out by an actuary or other person who has been recognised by the [Financial Supervisory Authority][1] for such a task, cf. the Insurance Services Act.

The actuarial assessment referred to in the first paragraph shall be forwarded to the [Financial Supervisory Authority][1] no later than 1 July each year.

1. *Act No. 84/1998, Art. 7.*

CHAPTER V

Operating permits of pension funds

Article 25

The Minister of Finance shall issue a pension fund with an operating permit if it fulfils the following conditions:

1. It is demonstrated that the fund will, within three years, fulfil the conditions of the second paragraph of Article 21.
2. The Statutes are in accordance with the provisions of Article 27.
3. A Board of Directors has been elected.

4. A certified public accountant has been chosen.
5. An actuary has been chosen.

The application for an operating licence shall be made in writing. It shall be accompanied by the Statutes of the fund together with other information and data as determined by the Minister. Before a decision is taken on a licence, the application shall be referred to the [Financial Supervisory Authority][1].

Notification of operating permits granted to pension funds shall be published in the *Legal Gazette*.

[1.] *Act No. 84/1998, Art. 7.*

Article 26

The decision on an operating licence shall be reasoned and forwarded to the applicant in writing no later than three months after the Minister's receipt of a complete application.

If the pension fund for which an operating permit is sought does not fulfil the conditions of this Act it shall be refused a permit.

Article 27

The Statutes of a pension fund shall be so devised that the fund will be able to fulfil its obligations.

In the Statutes of a pension fund shall be provide, for instance, for the following points:

1. the name, address and role of the fund;
2. who the pension fund member shall be;
3. general conditions for membership in the fund and for cessation of membership;
4. the annual meeting, how it is to be announced, what issues are to be presented there, who shall have voting rights there, and how voting rights are to be determined;
5. the role of the Board of Directors, the number of directors and their alternates, their term of office, and how the election of directors and auditor shall be carried out;
6. whether the assets administered by the fund shall be preserved as a single whole or in financially separate departments and how the assets of the fund are to be invested;
7. how contributions to the fund shall be determined and how they are to be paid;
8. the rights of fund members and their family members to pensions, how these rights shall be calculated and the detailed conditions for pension rights. Provision shall also be made as to how payment of pensions is to be made;
9. the implementation of regular actuarial assessment of the finances of the fund and when such investigation is to take place, cf. Articles 24 and 39;
10. how amendments are to be made to the Statutes of the fund;
11. the obligation of the pension fund to provide members with information;
12. the role and composition of a board of arbitration.

Article 28

[Any changes to pension fund Statutes must be notified to the Minister of Finance and shall not take effect until the Minister has confirmed that they satisfy the provisions of this Act and the provisions of the Statutes currently applicable to the Fund, upon receiving the opinion of the Financial Supervisory Authority.][1] An association of pension funds may give notice of changes in its Statutes on behalf of its member funds. Announcements of changes to pension funds' Statutes must be published in the *Legal Gazette.* In addition, the [Financial Supervisory Authority][2] must be notified of changes to a pension fund's Board, managing director, auditor and actuary.

[1.] *Act No. 56/2000, Art. 3.*

[2.] *Act No. 84/1998, Art. 7.*

CHAPTER VI

Operations and internal control

Article 29

The Board of Directors of a pension fund is responsible for the fund's activities in accordance with this Act, Regulations issued by virtue of it, and Statutes of the fund. The Board of Directors of a pension fund is also to see to general supervision of its operations, accounting and management of fund assets. The Board shall adopt its own rules of procedure and make proposals on amendments to the Statutes at the annual meeting.

[The Board of Directors of a pension fund may amend the fund's Statutes without submitting this to an Annual General Meeting for approval, as provided for in Article 30 and, as the case may be, in the Statutes of individual funds, if the amendments are the result of mandatory provisions of Acts or Regulations.][1]

The tasks of the Board of Directors of a pension fund include, for instance, the following:

1. to hire the managing director(s), determine his/her or their salary and terms of employment in accordance with a special formal statement of duties;
2. to hire a director of auditing, or reach an agreement with an independent supervisory party;
3. to formulate the investment policy of the pension fund, cf. Chapter VII;
4. to adopt rules on the reporting of information by the managing director to the Board on operations, contributions, acquisition of rights and disposal of the fund's assets;
5. [to adopt rules of procedure on the securities trading of the pension fund, its Board members and employees. The rules must be ratified by the Financial Supervisory Authority;][2]

[6.][2] to decide who shall represent the pension fund on the board of an institution or commercial enterprise, unless otherwise provided for by law;

[7.][2] to have an actuarial assessment carried out of the fund's financial situation, cf. Article 24.

1. *Act No. 56/2000, Art. 4.*

2. *Act No.11/2000, Art. 18.*

Article 30

The Board of Directors shall announce the fund's annual meeting no later than by the end of June each year. All pension fund members have the right to attend annual meetings and to speak and make proposals. Voting rights shall be as provided for in the Statutes of the pension fund in question, cf. Article 27.

The announcement of the annual meeting shall be made in a reliable manner.

At the annual meeting the report of the Board, annual accounts, actuarial evaluations, investment policy and proposals for amendments to the Statutes shall be presented.

Article 31

Members of a pension fund Board of Directors must be of legal majority, be competent to manage their own finances, and may not, during the last five years, have been convicted of an offence connected with a commercial activity which is punishable under the Criminal Code or Acts on limited-liability companies, private limited-liability companies, bookkeeping, annual accounts, bankruptcy or public levies. [Members of the Board must be residents of Iceland, of another Member State of the European Economic Area or of a member state of the European Free Trade Association treaty.][1]

The provisions of Chapter II of the Public Administration Act shall apply concerning the eligibility of directors of pension funds to deal with a question.

The managing director shall handle the day-to-day operations of the fund, following the policy and instructions provided by the fund's Board of Directors. Any major or extraordinary actions may only be undertaken in accordance with an authorisation from the Board of Directors.

The managing director may not take part in business operations except with the permission of the Board of Directors. Ownership of shares in an undertaking is deemed to constitute participation in business operations except in the case of an insubstantial holding conferring no direct influence on its management.

[The educational qualifications, work experience and previous career of the managing director shall be such as to ensure that he/she can fulfil his/her position in a satisfactory manner. In other respects, the provisions of the first and second paragraphs shall apply concerning the eligibility of the managing director.][2]

[1.] *Act No. 72/2003, Art. 18.*

[2.] *Act No. 56/2000, Art. 5.*

Article 32

The Board of Directors, managing director and other staff, as well as the auditors of a pension fund, shall be bound by obligations of confidentiality concerning any information which they may acquire through their employment and which is subject to professional secrecy in accordance with law or the nature of the case. The obligation of confidentiality shall remain after employment ceases.

A record the minutes of meetings of the Board of Directors shall be kept. All members of the Board of Directors attending meetings shall sign the minutes.

Article 33

A pension fund member who refuses to accept a ruling of the Board in a matter which he/she has referred to it may refer this to a board of arbitration which shall be comprised of three persons, one appointed by the fund member in question, one appointed by the pension fund concerned and a third person appointed by the [Financial Supervisory Authority][1] or another party as specified in the Statutes of the fund in question. A ruling by the board of arbitration shall be binding for both parties. The cost of arbitration shall be divided between the parties of the case, with the fund member, however, never paying more than 1/3 of the cost of arbitration. Proceedings before the board of arbitration shall be subject to the Act on Contractual Arbitration.

[1.] *Act No. 84/1998, Art. 7.*

Article 34

An auditing department or independent supervisory body shall provide internal control for a pension fund, cf. Point 2 of the [third][1] paragraph of Article 29. Internal control shall be part of the structure of a pension fund and an aspect of its supervisory system.

The independent supervisory body may be a certified public accountant or other party recognised by the [Financial Supervisory Authority][2].

A pension fund must notify the [Financial Supervisory Authority][2] of any change in supervisory body as referred to in the first paragraph.

[A pension fund must employ a person suitably qualified through education and experience to manage the assets of the fund's securities portfolio.
Pension funds offering two or more options for investment of pension contributions or acquiring pension rights must have at their service employees capable of providing advice in this regard. Care must be taken to ensure that such advice is presented objectively and professionally, based on the interests of each fund member. A pension fund shall, furthermore, have presentational materials prepared explaining the advantages and disadvantages of individual options based on different assumptions. In its advertisements and other promotional activities, pension funds must take care to provide correct and detailed information on their activities and services.][1]

[1.] *Act No. 56/2000, Art. 6.*

[2.] *Act No. 84/1998, Art. 7.*

Article 35

An auditing department or supervisory body of a pension fund, as referred to in the first paragraph of Article 34 shall, for instance, carry out the following tasks:

1. ascertain that the recording of contributions and pension rights is carried out as provided for by law and in the Statutes of the fund;
2. ascertain that the calculation of pension rights is carried out as provided for by law and in the Statutes of the fund;
3. make proposals to the Board on the organisation of internal control and carry out special assessments of the effectiveness of such internal control;
4. ensure that remuneration is made for all transactions with the assets of the pension fund within normal time limits;
5. check that the investment policy is complied with and the return on investments is normal;
6. ascertain that contributions and other disposable assets of a pension fund are disposed of as provided for by law and in the Statutes of the fund.

The [Financial Supervisory Authority][1] shall lay down detailed rules[2] on the tasks of the auditing departments and supervisory bodies for pension funds.

[1.] *Act No. 84/1998, Art. 7.*

[2.] *Reg. 68/2001.*

CHAPTER VII

Investment policy of pension funds

Article 36

The Board of Directors of a pension fund shall formulate its investment policy and invest the assets of the fund on the basis of the best terms available at any time, having regard to the return on investment and risk. The Board of a pension fund may formulate a specific investment policy for each department of a multi-department fund. Pension funds may invest their assets in the following manner:

1. in Treasury bills, Treasury bonds and bonds guaranteed by the Treasury;
2. in bonds of local authorities;
3. in mortgage debentures amounting to a maximum of 65% of the assessed market value of real estate, except in the case of specialised commercial facilities, in which case the maximum shall be 35%;
4. on deposit in banks and savings banks;
5. in bonds and bills of exchange issued by banks, savings banks and other credit institutions under the supervision of [a public supervisory authority][1];
6. in equities;
7. [in unit share certificates or shares collective investment undertakings (UCITS) or investment funds, as provided for in Act No. 30/2003, on UCITS and Investment Funds; the securities portfolio behind the certificates or shares shall be divided between the other points of this paragraph, having regard to the restrictions of the second to sixth paragraphs;][2]

[8. in unit share certificates or shares of other funds for collective investment;][2]

[9.][2] in other securities;

[10.][2] through the conclusion of derivative contracts which reduce the fund's exposure to risk.

The securities referred to in [Points 1, 2 and 5-9][2] of the first paragraph must have a registered buying and selling rate on a regulated market. A regulated market shall mean a regulated securities market in a Member State of the OECD [and Liechtenstein][3] which operates on a regular basis, is open to the public and is recognised in a manner deemed valid by the [Financial Supervisory Authority][4]. If the market is outside of the OECD [or Liechtenstein][3] the [Financial Supervisory Authority][4] must have approved it.

[Notwithstanding the provisions of Article 2, up to a total of 10% of the net assets of a fund may be invested in securities covered by [Points 1, 2, 5, 6, 8 and 9][2] of the first paragraph which are not registered on a regulated market, provided the securities are issued by parties in OECD states [or Liechtenstein][3]. Investments in unlisted equities are only authorised, however, if there are no restrictions on trading in the equities and if the annual financial statements of the limited companies are accessible to the general public.][1]

[The assets of a pension fund in each type of security referred to in Points 2, 5, 6, 8 and 9][2] of the first paragraph may not comprise more than 50% of the net assets of the fund.][1]. [The total assets referred to in Points 6 and 8 of the first paragraph, however, may not exceed 50% of the fund's net assets. Assets of a pension fund, as referred to in Point 8 of the first paragraph, in funds not subject to public supervision, may never exceed 10% of the fund's net assets.][2]

[The total assets of the pension fund in securities as referred to in Points 2-9 of the first paragraph, issued by the same party or parties belonging to the same group, may not comprise more than 10% of the net assets of the fund. This limit shall be 5% in the case of securities referred to in Point 9. The total assets of the pension fund in securities as referred to in the first sentence and deposits as referred to in Point 4 of the first paragraph may not exceed 25% of the fund's net assets. A pension fund may not own more than 15% of the shares in any one undertaking or in the unit share certificates or shares of other funds for collective investment, nor more than 25% of the unit share certificates or shares of other funds for collective investment or unit share certificates or shares issued by any one UCITS or investment fund or individual division of the fund. A pension fund may, however, own more than 15% in an undertaking which handles exclusive services for the pensions funds themselves. A pension fund may not tie up more than 25% of its net assets in deposits with the same commercial bank or savings bank.][2]

A pension fund must limit its total foreign currency exposures to [50%][1] of the fund's net assets.

Net assets as referred to in the third to sixth paragraphs shall mean the net assets of the pension fund for payment of pensions according to the latest audited annual accounts. The limits provided for in the third to sixth paragraphs must be complied with at all times.

[Notwithstanding the provisions of the third paragraphs, pension funds which purchased unlisted securities linked to housing mortgages of the State Housing Fund (*Byggingarsjóður ríkisins*) and Workers' Housing Fund (*Byggingarsjóður verkamanna*) from 1972 to 1994 may classify these as listed securities as referred to in Point 1 of the first paragraph.][1]

[Pension funds may not invest or own holdings in investment funds, as referred to in Point 7 of the first paragraph, which finance themselves through borrowing or short sale.][2]

[1]. *Act No. 56/2000, Art. 7.*

[2]. *Act No. 70/2004, Art. 4.*

[3]. *Act No. 65/2002, Art. 5.*

[4]. *Act No. 84/1998, Art. 7.*

Article 37

[A pension fund's investment policy shall be based on classification of deposits and securities, [cf. Points 1-10 of the first paragraph of Article 36.][1] In addition, for each type of deposit or security a breakdown shall be provided as appropriate to indicate the currency risk and size of individual depositors or securities issuers. Pension funds must send information on their investment policy for the coming year to the Financial Supervisory Authority no later than 1 December each year.
The Financial Supervisory Authority shall set rules[2] on the form and content of pension funds' investment policy reports and how they are to be submitted to the Authority.][3]

[1]. *Act No. 70/2004, Art. 5.*

2. *Reg. 966/2001.*

3. *Act No. 56/2000, Art. 8.*

Article 38

[A pension fund may not invest in real estate nor chattels except to the extent that such is necessary for the activities of the fund.
Notwithstanding the provision of the first paragraph, a pension fund may without restriction appropriate assets to secure settlement of claims. Such assets must be sold no later than within 18 months of their appropriation. Further deferral of sale is, however, authorised if such clearly serves the interests of the fund. Such deferral of the sale of assets must be notified to the Financial Supervisory Authority, which may demand that the sale be made within an appropriate period.][1]

A pension fund may not take out a loan except for investment in real estate which is necessary for the activities of the fund. A pension fund may, however, take advantage of normal trade credit in purchasing securities or take a short-term loan to equalise cash flow.

A pension fund may not make loans to directors, their alternates, staff of the pension fund, auditors, supervisory bodies, those persons carrying out actuarial assessments of the financial situation of the fund, or the spouses of these parties, unless they are members of the pension fund in question; in such case this must be in accordance with the rules which apply to loans to pension fund members in general.

1. *Act No. 56/2000, Art. 9.*

Article 39

The net assets of a pension fund for payment of pensions, together with the present discounted value of future contributions, shall be equal to the present discounted value of expected pensions arising from contributions already paid and future contributions. A schedule of future contributions and expected pensions shall be based on pension fund members at the time of reference used by an actuarial assessment. Net assets for payment of pensions shall at all times be evaluated in accordance with the provisions of Article 24.

Should an actuarial assessment in accordance with Article 24 reveal a difference of more than 10% between asset items and pension obligations in accordance with the first paragraph, the pension fund in question must make the necessary changes to the Statutes of the fund. The same shall apply if the difference, according to an actuarial assessment, between asset items and pension obligations has been over 5% for a continuous five-year period.

The Board of a pension fund must seek the opinion of an actuary as to how changes to the Statutes of a pension fund may affect its ability to pay pensions. An actuary of a pension fund must report to the Board of the fund immediately if an actuarial assessment reveals that the fund is not capable of fulfilling its obligations. He/She shall submit proposals for improvements and notify the [Financial Supervisory Authority][1].

The actuary of a pension fund may not sit on its Board of Directors, be a member of its staff, or perform other work for it apart from the actuarial assessment and advice connected to it.

1. *Act No. 84/1998, Art. 7.*

CHAPTER VIII

Annual accounts and auditing

Article 40

The Board of Directors and managing director of a pension fund shall draw up the annual accounts for each accounting year. Annual accounts shall include a balance sheet, cash flow statement, summary of changes in net assets for the payment of pensions and explanations. Furthermore, a report of the Board of Directors shall be compiled which, together with the annual accounts shall form a comprehensive whole. The accounting year of a pension fund shall be the calendar year.

The annual accounts shall be signed by the Board of Directors of a pension fund and its managing director. A member of the Board of Directors or a managing director who contests the annual accounts shall sign them with a reservation, the nature of which shall be explained.

Annual accounts shall give a clear picture of the financial situation of the pension fund and changes in net assets for the payment of pensions. They shall be drawn up in accordance with Acts, Rules and sound accounting practices.

The [Financial Supervisory Authority][1] shall ensure, in consultation with the Icelandic Accounting Standards Board, that a definition as to what comprises sound accounting practices for annual accounts of a pension fund is available at all times.

The [Financial Supervisory Authority][1] shall issue Rules,[2] in consultation with the Icelandic Accounting Standards Board, on the structure of annual accounts, the contents of individual items, the statement of changes in net assets for the payment of pensions, the cash flow statement and explanations, and assessment of individual items.

[Pension funds' annual financial statements shall be accompanied by a statement of the investment policy they follow. In addition, they shall be accompanied by an assessment of the return on their portfolio during the past year. The Financial Supervisory Authority shall set detailed rules on the form and contents of these reports.][3]

1. *Act No. 84/1998, Art. 7.*

2. *Reg. 55/2000, cf. Reg. 765/2002.*

3. *Act No. 56/2000, Art. 10.*

Article 41

The report of the Board of Directors shall contain a summary of the activities of the pension fund during the year, together with information on matters relevant to an assessment of the fund's financial position and operating performance during the accounting year which are not presented elsewhere in the annual accounts.

The report of the Board of Directors must, furthermore, provide information on the following:

1. events taking place after the settlement date which are of substantial importance,
2. the expected development of the fund, and
3. actions which are of importance for its future development.

The report of the Board shall provide information on the number of paying fund members during the year, the number of active fund members, i.e. fund members who as a rule contribute to the pension fund in a regular manner each month, the number of pension recipients, the average number of staff during the accounting year, the total amount of salaries, remuneration or other payments made to staff, the Board of Directors, and others in the service of the fund.

Article 42

Auditing of a pension fund's accounts shall be done by a certified public accountant.

The auditor of a pension fund may not sit on its Board of Directors, be a member of its staff, or perform other work for it apart from auditing and internal control, cf. Article 35.

Chapter VII of the Act on Annual Accounts, shall apply *mutatis mutandis* to auditing of pension funds, unless otherwise indicated in the present Act.

If an auditor becomes aware of substantial flaws in the operation of a pension fund, or in aspects of its internal control, collection of contributions, security for payment of loans granted, handling of financial resources, or other matters which could weaken the financial position of the pension fund, and if the auditor has reason to believe that Acts, Regulations or Rules applicable to its activities have been violated, he/she shall immediately inform the Board of Directors of the fund and the [Financial Supervisory Authority][1]. The provisions of this Article shall not infringe the auditor's obligations of confidentiality pursuant to Article 32 of this Act or the provisions of other Acts.

The [Financial Supervisory Authority][1] shall ensure, in consultation with the Association of Certified Public Accountants and other relevant parties, that a definition as to what comprises sound auditing practices for auditing the annual accounts of a pension fund is available at all times. The [Financial Supervisory Authority][1] shall set Rules[2] on the auditing of pension funds.

1. *Act No. 84/1998, Art. 7.*

2. *Reg. 685/2001.*

Article 43

The audited annual accounts of a pension fund, together with the report of the Board of Directors, shall be forwarded to the [Financial Supervisory Authority][1] directly upon their signing and no later than four months after the conclusion of each accounting year. The principal results of the annual accounts shall be made public in a co-ordinated format as decided upon by the [Financial Supervisory Authority][1]. These principal results shall be available for inspection at the place of business of the pension fund in question and be accessible to fund members.

1. *Act No. 84/1998, Art. 7.*

CHAPTER IX

Supervision

Article 44

The [Financial Supervisory Authority][1] shall see to it that activities of pension funds comply with the provisions of this Act, Regulations and Rules issued in accordance with it, and the ratified Statutes of the pension funds. The [Financial Supervisory Authority][1] shall have access to all documents and information from the pension funds which it considers necessary for such supervision. ?[2]

The [Financial Supervisory Authority][1] may instruct the Board of Directors of a pension fund to have an actuarial assessment of the financial situation of the fund carried out based on premises other than those used in the fund's regular assessments if the [Authority][1] is of the opinion that the fund's financial situation gives grounds for such.

Should the [Financial Supervisory Authority][1] receive notification as referred to in the fourth paragraph of Article 42 or if it has, for other reasons, grounds to suspect that the operations of the pension fund and its financial situation are substantially deficient, it shall demand the necessary data from the directors and auditors immediately; this must be turned over within two weeks of their receipt of such demand.

If the [Financial Supervisory Authority][1] deems the activities of a pension fund to be in violation of the provisions of this Act, or Regulations or Rules issued in accordance with it, or the ratified Statutes of the pension fund, or to be otherwise irregular, unsound, or unstable, it may grant the fund concerned a suitable period during which to rectify the situation, except in the case of a serious violation.

[The Financial Supervisory Authority may demand any sort of documentation or information from pension funds’ subsidiaries or affiliates, which the Financial Supervisory Authority regards as necessary in the course of its supervision of the pension fund concerned.][2]

[1] *Act No. 84/1998, Art. 7.*

[2] *Act No. 11/2000, Art. 19.*

Article 45

[The Act on Public Supervision of Financial Activities shall apply to supervision by the Financial Supervisory Authority as appropriate. Provisions of the Act on daily fines, administrative fines, and searching and seizure of data may be applied to gather information and carry out supervision as provided for in this Act.][1]

[1] ***Act No. 11/2000, Art. 20.*** (/altext/stjt/2000.011.html)

CHAPTER X

Supervisory party, winding up and mergers

Article 46

Should a pension fund no longer satisfy the conditions of this Act for an operating permit, cf. Chapter V, if a pension fund is no longer solvent in the assessment of the [Financial Supervisory Authority][1], if it violates the provisions of this Act or Regulations or Rules issued in accordance with it or ratified Statutes of the pension fund, or if its operations are deficient and demands made by the [Financial Supervisory Authority][1], as referred to in Article 44, are not responded to, the Minister may, acting upon proposals of the [Financial Supervisory Authority][1], appoint a supervisory party for a specified period.

The Board of Directors and managing director of the pension fund shall be relieved of their duties during the period in which the supervisory party operates. The supervisory party shall assume the rights and obligations of these parties in accordance with the detailed provisions of a formal statement of his/her duties issued by the Minister. Costs arising from the work of a supervisory party shall be paid by the pension fund concerned.

[1] *Act No. 84/1998, Art. 7.*

Article 47

Reasons shall be given for the appointment of a supervisory party, which shall be notified to the pension fund concerned in writing. In addition, a notice of the appointment shall be published in the *Legal Gazette* and advertised in the mass media.

The obligation for paying contributions to the pension fund in question is suspended as of the date a notification of the appointment of a supervisory party is published in the *Legal Gazette*. If payment of contributions to the fund ceases, the insurance obligations shall be fulfilled through membership of and payment of contributions to the General Pension and Insurance Fund or other pension fund approved by the Minister of Finance.

The Minister may, acting upon a proposal from the supervisory party, decide to wind up a pension fund. In such case the Minister shall appoint a three-member board to handle the winding up of the pension fund or the transfer of its activities to another pension fund. The liquidation board shall assume all the competencies of the Board of Directors, which shall be suspended from that time forth The liquidation committee shall decide whether the fund shall be wound up by merging it with another fund or by other means, cf. the second and third paragraphs of Article 49.

Article 48

A decision on the winding up of a pension fund, whether by merger or other means, shall be taken by its

Board of Directors, unless otherwise provided for in the Statutes of the fund or unless the provisions of Article 47 apply.

A decision on the winding up of the pension fund shall be immediately notified to the Ministry of Finance and the [Financial Supervisory Authority][1].

If an agreement is reached to merge the pension fund completely with another fund, a notice to creditors shall be issued in accordance with the second paragraph of Article 49 and their assets shall be kept separate until the time limit has expired and claims submitted have been satisfied. The assets do not, however, have to be kept separate if all the creditors agree to the move or are provided with satisfactory guarantees.

The assets of the pension fund shall become the property of the pension fund with which it is merged. Care shall be taken in transferring and determining pension rights to ensure that none of the individual members of either fund shall suffer a loss in rights as the result of the merger. The Minister may, in a Regulation, make detailed provision for the assessment of pension rights in this connection.

[1.] *Act No. 84/1998, Art. 7.*

Article 49

The directors of the fund or the party who, in accordance with the Statutes of the fund, has decided that it shall be wound up, shall immediately appoint a three-member liquidation committee, which shall assume the duties of the Board of Directors and managing director of the fund, provided a liquidation committee has not already been appointed in accordance with the third paragraph of Article 47.

The liquidation committee shall have an invitation to the creditors of the fund published twice in the *Legal Gazette*, inviting them to present their claims within two months of the first publication of the invitation; it shall have the same legal effect as the notice to creditors in bankruptcy proceedings.

The assets of a pension fund remaining when its debts have been discharged shall accrue to the General Pension and Insurance Fund. The rights of fund members and pension recipients shall, in addition, be equated with rights in the General Fund in direct proportion to the relationship between the assets of the fund accruing to the General Fund and the total pension obligations of the fund, as evaluated in accordance with the provisions of this Act. The Minister may, in a Regulation, make detailed provision for the assessment of pension rights in this connection.

CHAPTER XI

Pension funds in operation

at the time of entry into force of this Act

Article 50

Pension funds operating in accordance with special legislation shall be exempt from the provisions of Article 21 and of Chapters V and X. They shall, in addition, be exempt from the provisions of Article 3 and Chapter III, provided the legislation concerned provides for the contribution base and rights. The provisions of the third paragraph of Article 14 shall, however, apply to these funds.

Article 51

[Pension funds which are guaranteed by the national or local authorities or banks shall be exempt from the provisions of Articles 21, 23 and 39.][1]

[1.] Act No. 56/2000, Art. 12.

Article 52

Pension funds which intend to continue to receive contributions after the entry into force of this Act must, within one year of its entry into force, send an application for an operating permit to the Ministry of Finance. The application shall be accompanied by the Statutes of the fund, an actuarial assessment, together with other information determined by the Minister. If a fund does not have a sufficient number of fund members as provided for in Article 21, the application shall indicate when and how the fund intends to comply with the requirement of the Article, cf. Article 25. In other respects, the provisions of Chapter V, on operating permits, shall apply to the granting of an operating permit.

If a pension fund has not submitted an application for an operating permit, together with the required documentation, within the time limit prescribed in the first paragraph, the fund shall be regarded as not complying with the provisions of this Act to acquire an operating permit and its case shall be handled in accordance with the provisions of Chapter X.

Article 53

Pension funds in operation upon the entry into force of this Act which intend only to pay pensions for rights already acquired, shall notify the Ministry of Finance of such intention within one year of the entry into force of the Act; they shall be granted operating permits for this purpose, upon receipt of the opinion of the [Financial Supervisory Authority][1]. [The regulations of the funds concerned which were applicable upon the entry into force of this Act shall apply concerning rights of fund members to pension payments from those funds. Provisions on members' rights may, however, be altered to accord with an agreement between employees' and employers' organisations, provided such change neither violates Chapter III of the Act nor is deemed to illegitimately curtail the relative rights acquired by individual members or others enjoying rights, nor to have a significant financial impact with regard to the funds' assets and pension obligations. In assessing this regard shall be hand, for instance, to the opinion of the actuary of the fund in question, which must accompany any request for changes. Changes to provisions on rights must be indicated in the approved Statutes for the funds concerned. In other respects, this Act shall apply *mutatis mutandis* to the funds concerned.][2]

[1]. *Act No. 84/1998, Art. 7.*

[2]. *Act No. 56/2000, Art. 12.*

Article 54

Pension funds operating in accordance with an official Regulation issued in accordance with Act No. 55/1980 and guaranteed by national or local authorities or [banks, or which enjoyed such guarantees as of 31 December 1997, may continue to operate on an unchanged basis with regard to contributions and][1] rights provided with respect to those persons who are members upon the entry into force of this Act. [Pension funds guaranteed by the state or local authorities choosing to continue to operate on an unchanged basis with regards to rights may, however, change their references concerning drawing of a pension on the basis of successor, cf. the funds' regulations, so that their pensions will change in accordance to average changes to daytime salaries of public servants in accordance with Statistics Iceland's wage index, while pension funds guaranteed by banks may use other wage indices published by Statistics Iceland, provided the partners to the collective bargaining agreements of the fund member concerned have reached agreement thereto.][2]

The pension fund must notify the Ministry of Finance of such intention within one year of the entry into force of this Act and shall be granted an operating permit for such purpose.

Should the fund choose to receive contributions from new fund members, these persons shall be members of a special department of the fund, the Statutes of which shall comply with the requirements of this Act. An application for an operating permit for such a department must be made within the same time limits as prescribed in the first paragraph.

For at least one year following the entry into force of this Act, those persons who are members of a pension fund covered by the provisions of this Article shall be given the option of membership of a system of rights or other pension fund which complies with the requirements of this Act, [if such a option has not been offered prior to the entry into force of the Act.][1]

1. *Act No. 148/1998, Art. 4.*

2. *Act No. 141/2002, Art. 1.*

CHAPTER XII

Miscellaneous provisions

Article 55

Violation of the provisions of this Act shall be liable to fines or imprisonment for a term of up to one year, if no greater penalties are stipulated for such infringements under the General Penal Code. In the event of violations on behalf of legal entities, the above-mentioned penalties may be imposed on their management and, in addition, the legal entities may be fined.

Article 56

The Minister of Finance is responsible for the implementation of this Act and may make detailed provision for such implementation in a Regulation.[1]

1. *Reg. 391/1998, cf. 742/1998, 224/2001 and 293/2003; Reg. 698/1998, cf. 9/1999; Reg. 589/2000, Reg. 590/2000, Reg. 830/2000, Reg. 882/2001, Reg. 523/2002, Reg. 357/2003.*

Article 57

The cost of publishing announcements under this Act shall be borne by the pension fund concerned.

Article 58

This Act shall enter into force 1 July 1998. ...

Temporary provisions

I

Until such time as operating permits in accordance with Chapter XI are granted, the activities of a pension fund shall be governed by the official regulation which applied upon the entry into force of this Act, provided that the authorisation for the operation of the pension fund has remained valid.

II

The Minister of Finance shall have a report prepared in the year 2001 on developments in pension affairs proceeding from the adoption of this Act. They shall examine, in particular, how pension funds have altered their Statutes and offered fund members additional options in the composition of their pension rights, cf. Article 4, as increasing the options open to fund members is one of the objectives of this Act. Should it become apparent that pension funds have not, in general, offered additional options, taking into consideration the minimum requirements as provided for in Article 4, the Minister of Finance shall, in consultation with interested parties, prepare a draft bill amending this Act in order to achieve this objective.

[III. Notwithstanding the provisions of Article 36, pension funds in operation upon the entry into force of Act No. 129/1997 are not required to sell assets in order to satisfy the requirements provided for in that Article.

Pension funds, which have acquired unlisted securities on the basis of Point 9 of the first paragraph and the third paragraph of Article 3 of Article 36 of Act No. 129/1997, are not required to sell unlisted securities acquired prior to the entry into force of this Act.

A bond, as referred to in the third paragraph of Article 33 of Act No. 1/1997, which the Pension Fund for

State Employees has accepted, as well as a bond which the Pension Fund of Employees of the City of Reykjavík has accepted, as payment of obligations prior to the entry into force of Act No. 129/1997, are exempt from the limits of the second paragraph of Article 36.][1]

[1] *Act No 56/2000, Temporary Provisions.*

[**IV.** Without prejudice to the provisions of the third and sixth paragraphs the fifth paragraph of Article 36, a pension fund may own or tie up a higher proportion of its net assets in deposits and securities than provided for therein until 1 January 2006.][1]

1. Act No., 70/2004, Art. 6.

Ministry of Finance - ***Arnarhvoll vid Lindargotu*** *(http://government.is/Locations/nr/164)* - *150 Reykjavik - Iceland*
Tel. (+354) 545 9200 - Fax (+354) 562 8280 - ***Map*** *(http://government.is/Locations/nr/164)* - ***postur@fjr.stjr.is*** *(mailto:postur@fjr.stjr.is)* -