

# Iceland

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## Remuneration policies

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In October 2006 important amendments were made to the Icelandic Act on Limited Liability Companies in the field of corporate governance. The amendment requires Icelandic companies that meet certain minimum size standards to adopt a remuneration policy. Following the amendment, the listed Icelandic companies have in 2007 adopted remuneration policies.

The amended Act requires the board of directors of all limited liability companies that are required to elect an auditor under the Act to approve a remuneration policy concerning wages and other payments to chief executive officers and other supreme officers of the company as well as its directors. The remuneration policy shall contain the basic items concerning the remuneration of officers and directors and a company's policy concerning agreements with the same.

It shall also reveal whether, and under which circumstances, and within which framework, it is permissible to pay or compensate officers and directors in addition to basic wages. Such payments may include delivery of shares, performance-linked payments, put and call options, loan agreements, pension agreements and retirement agreements. The policy is binding as regards payments linked to shares or the development of the price of shares in the company. In other respects the policy serves as guidance, unless otherwise approved in the company's Articles of Association.

Before the amendment the Icelandic stock exchanges had, like other stock exchanges, adopted rules for listed companies stipulating that wages and other kinds of remuneration of directors and executives

should be revealed in the company's annual accounts.

### Better results

The Icelandic market has in recent years, like other European and American markets, been subject to discussions on executive remuneration.

The purpose of the amendment was, among other things, to clarify the provisions of Icelandic law relating to the responsibilities and role of the board of directors and decisions on remuneration for directors and officers. The amendment further aims to reinforce the Icelandic market, as companies complying with such rules and subject to good corporate governance were in general considered to give better results.

The amendments also originate from the European Commission, which adopted Recommendation no 2004/213 in December 2004. The Recommendation aimed to encourage appropriate arrangements regarding remuneration of directors in listed companies. It proposed that member states of the EU and the European Economic Area adopt appropriate measures to ensure that companies comply with the Recommendation.

The scope of the Icelandic amendments is wider than those proposed in the Recommendation. Instead of applying only to listed companies the Icelandic Act also applies to limited liability companies that are of the size that makes them bound to elect an auditor.

According to the Act, the board of directors must approve the company's remuneration policy. The policy must then be approved at the company's annual general meeting. At the annual general meeting the board of directors shall also give an account of the estimated costs relating to the right of share purchase options and explain the implementation of the previously approved policy.

As the amendments apply as of October 1 2006 most of the Icelandic listed companies approved their remuneration policies at their annual general meetings in spring 2007. In

2008 the listed companies will for the first time have to explain the implementation of the policies approved in 2007.

Although the amended Act does not provide for a strict framework as it does not set any limits on amounts, it serves as a guide for good corporate governance as it requires companies to adopt rules, decide on a policy and explain the implementation of the policy to their shareholders.

## Financial and corporate

### Recommended firms

#### Tier 1

BBA Legal  
Logos Legal Services

#### Tier 2

Fulltingi Legal Services  
Jonsson & Hall  
Landslog Law Offices  
Lex Law Offices

#### Tier 3

AM Praxis  
LM Attorneys  
Reykjavik Law Firm

The small and isolated nation of Iceland found itself suddenly in the spotlight of the global financial crisis drama when the collapse of all three major banks - Kaupthing, Glitnir and Landsbanki - brought the country to the brink of bankruptcy.

In September 2008 Glitnir and Landsbanki were taken under direct control of the Financial Supervisory Authority (FME) and soon after that Iceland's biggest bank, Kaupthing, suffered the same fate. The banks' difficulty in refinancing their short-term debt and a run on deposits, notably in the United Kingdom, led to disaster for this once prosperous island.

The financial crisis led to the freefall of Iceland's currency and in October 2008 the country came close to national bankruptcy. Total costs of the crisis are estimated to exceed 70% of the country's 2007 GDP and, outside Iceland, over half a million depositors (more than the entire population of Iceland) lost their money when their bank accounts were frozen. "It is a difficult environment," says a law firm partner. "People do not get paid or your client constantly risks bankruptcy."

Given the dramatic scale of events, political casualties were unavoidable: Prime Minister Geir Haarde announced his resignation in January 2009.

Meanwhile, these developments had huge implications for Iceland's small legal community. Corporate firms, used to strong economic growth that promoted successful M&A deals and big banking transactions, had to undergo a sudden transformation that would see them as R&I practitioners and advisors on emergency bankruptcy legislation.

"Lots of new legislation has been introduced in the last six months, all in the light of the credit crisis," says a senior partner. "On top of that there are a lot of new IMF and currency exchange rules which are rather strict."

As a result, many firms are in fact conducting a thriving business owing to the crisis. "Since the fall of the Icelandic banking system, the last six months have proved to be very good," says a leading lawyer. "We get new clients every day."

BBA Legal and Logos Legal Services dominate the market and managed to adapt swiftly to the new demands and types of clients. "To tell you the truth, the crisis keeps us very busy. For our firm it means continued growth," says one senior partner. "We are hiring people, instead of laying anyone off."

Indeed, there may even be insufficient firms on the island to handle the work. "There is a lack of financial experts," says a senior partner. "Take a look at Reykjavik Law Firm. They normally just do serious criminal cases - rape and murder - and now they are acting for the board of Landsbanki, just because they are not in conflict with other clients."

### **BBA Legal**

"I have nothing but positive things to say about them. They have been involved in highly complicated transactions and have tackled every project with enthusiasm, great professionalism and dedication," says one client. "They had to work under very tight time restraints and have always managed to deliver on time. The company has excellent business lawyers and it is good to have them in my corner during complex negotiations."

One of their biggest deals this year was, not surprisingly, for a bank. Ásgeir Ragnarsson was counsel to Barclays Bank in December 2008 in relation to an Icelandic accession and amendment to a £700 million multicurrency revolving credit facility agreement for an Icelandic group. "I have nothing but high praise for his work," says a client.

Managing partner Katrín Helga Hallgrímsdóttir worked with Höskuldur Eiríksson as advisors to Straumur-Burdaras Investment Bank in relation to the takeover of West Ham United. The value of the deal was not disclosed, but an agreement was reached in 2009.

Einar Baldvin Árnason represented the nationalised Landsbanki in selling Iceland's biggest newspaper, which the bank had owned, and he also acted for Glitnir bank in relation to refinancing of a South American holding company for \$55 million in early 2009.

Baldvin Haraldsson advised the Icelandic ministry of industry and the National Energy Authority in preparations for the first licensing round for exclusive exploration and production licences for oil and gas in Iceland. The value of the deal has not been made public but the negotiations were finalised in October 2009.

"Baldvin easily sees the core of the matter and does not waste time on trivial things. He always has the bigger picture in mind," says a client. "His energy drives projects onwards and he fills his people with enthusiasm. He has the capability to think outside of the box, which is a great asset for a business lawyer."

The client continues: "He constantly brings new possibilities to the table when it looks like negotiations are breaking down. In my view he is the finest business lawyer in the country."

Together with a team from Slaughter and May, Haraldsson is counsel to HM Treasury in the UK and the UK guarantee fund in relation to negotiations with the Icelandic state over Landsbanki's Icesave depository accounts.

"The firm is not too big, but very good," says a rival partner. Another client declares: "There is no one that rivals BBA Legal in financial and corporate law."

### **Leading lawyers**

Einar Baldvin Árnason  
Katrín Helga Hallgrímsdóttir  
Baldvin Björn Haraldsson  
Ásgeir Ragnarsson

### **Logos Legal Services**

"I worked with Logos and think they are great," says a client. "They are very responsive, quick and stand out. I think their service is excellent and they give you the feeling you are not a number, but a personal client."

Logos was a beneficiary of the economic crisis, seeing its work-load increase enormously. Accordingly, the firm recruited a banking lawyer from the nationalised Kaupthing Bank - Thórólfur Jónsson - as partner in April 2009. Jónsson had previously worked for Logos before he went to work for the bank in 2004.

After the financial system collapse the firm advised the resolution committees of all three major banks in relation to their disposal and management of assets. Logos also acted as legal advisor in the financial restructuring of troubled financial institution Askar Capital and advised Glitnir bank on its financial restructuring of Sjóvá insurance.

Another mandate was advising New Kaupthing (as the facility agent), Old Glitnir, Íslandsbanki, Straumur and Nordic Investment Bank as the lenders on an Ikr34 billion (€190 million) amended and restated facilities agreement for Skipti, a company with investments in the telecoms industry. And corporate department co-head Olafur Arinbjörn Sigurdsson advised Marel Food Systems on its new €116 million facility from the new banks, Íslandsbanki, National Bank of Iceland (NBI) and New Kaupthing.

On the M&A side, partner Guðmundur Oddsson, head of the London office, was counsel to Exista in its successful public offer for Iceland Telecom when changed owner in April 2008 for almost Ikr49 billion (€270 million). Oddsson also represented Marel Food Systems when it acquired Dutch company Stork Food Systems in May 2008 for €400 million.

Additionally, Thórólfur Jónsson is acting for Alta Food Holding in its attempt to take over Alfesca. At the time of writing, the deal (which is expected to have a value of €150 million) was not yet closed.

"The result of their work was well beyond my expectations," says a client. "The firm is very professional. They showed a keen interest in preparing themselves and [proved their worth during negotiations]."

### **Leading lawyers**

Pétur Guðmundarson  
Guðmundur Oddsson  
Helga Óttarsdóttir  
Gunnar Sturluson