

Iceland

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Corporate governance legislative framework in Iceland

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Iceland is a member of the European Economic Area (EEA), which includes the European Union (EU) states and three of the four EFTA states (Iceland, Norway and Lichtenstein). Through its membership of the EEA, Iceland has adopted numerous directives and regulations relating to commerce, competition, financial markets, the securities market, and company law and has implemented the same basic principals regarding the unrestricted movement of goods, labour, services and capital as the EU.

The regulatory framework of the Icelandic financial market is broadly in line with other European countries, particularly the Nordic countries.

The Iceland Stock Exchange (ICEX) has been a member of the Federation of European Stock Exchanges since 1997 and a partner of the Norex Alliance since June 2000.

Anybody acquainted with the EU's legislative framework for business and corporate finance should have no trouble understanding and adopting to the legal framework of the Icelandic financial market and business environment.

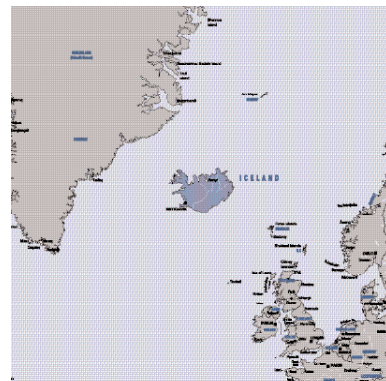
This article addresses the latest developments regarding the adoption of rules and regulations relating to corporate governance in Iceland.

Major negotiations relating to corporate governance have taken place in recent years in Iceland, as they have elsewhere. Although Iceland has not been faced with any large corporate scandals such as Enron and Parmalat, a few problems have emerged and raised discussions on the matter. Both public and private institutions have led the negotiations.

The legal principles relating to corporate governance can be found in the Icelandic companies acts. These include responsibilities of the board, appointment of board members, and division of responsibilities between the board and managing directors. The companies acts are to a large extent based on EU directives and are thus comparable to other European countries laws on corporate governance. Apart from the companies acts there is no special legislation relating to corporate governance that applies to all companies.

The Icelandic Stock Exchange has led discussions on corporate governance for listed companies and issued rules in 2003 regarding disclosure of information on executive remuneration. These rules require listed companies to disclose detailed information of remuneration to individual directors and senior executives and information on stock options agreements. Disclosure is also required on extraordinary agreements of employment, termination of services and pension rights. The ICEX publishes (on its website) information on the activities undertaken and reports issued by it on corporate governance.

Furthermore, the Icelandic Financial Supervisory Authority (the FSA) has been concerned with the issue of corporate finance and implementation of principles relating to



corporate finance. The FSA has issued several guidelines addressing the issue. The FSA's guidelines do of course only apply to the financial institutions regulated by the FSA, that is, banks, securities companies, mutual funds, the stock exchange, pension funds, and insurance companies.

A committee organized by the Ministry of Commerce is in the process of reviewing the Icelandic business environment in general including issues relating to corporate governance.

In March 2004 the Iceland Chamber of Commerce, the SA-Confederation of Icelandic Employers and the Icelandic Stock Exchange issued general corporate governance guidelines. These organizations aim to create broad principles of good corporate governance by clarifying the role and work of the board of directors and managers of Icelandic businesses. The guidelines provide an answer from the Icelandic business community to the international development in the field of corporate governance in recent years.

The guidelines are set out on a comply-or-explain basis – in other words, they do not have any legal or regulatory status but provide a basis for companies to improve their corporate governance. The guidelines are broadly divided into two categories, one focusing on the board of directors and the other on subcommittees. They address the board of directors' qualifications and the independence of the board. Emphasis is also placed on the disclosure of information from both the company to the board and the board to the company. Establishing subcommittees is suggested where appropriate, to make the work of the board of directors more efficient. The subcommittees specially recommended in the guidelines are audit committees and compensation committees.

Future developments of regulations on corporate governance will depend upon the effectiveness of the guidelines and the results of the committee of the Ministry of Commerce.

Banking

Recommended firms

Jonsson & Hall

Lex Law Offices

Logos Legal Services

AM Praxis

Landslog Law Offices

Landwell

LM Attorneys

Capital markets

Recommended firms

Jonsson & Hall

Lex Law Offices

LM Attorneys

Logos Legal Services

AM Praxis

Landslog Law Offices

Landwell

Mergers and acquisitions

Recommended firms

Jonsson & Hall

Lex Law Offices

Logos Legal Services

AM Praxis

Landwell

GAJ Law Firm

Landslog Law Offices

Reykjavik Law Office

AM Praxis

Although intellectual property seems to be a key area for AM Praxis, an old established firm that traces its roots back to Jonsson & Associates, it also has the capabilities to handle the full range of banking, securities, mergers and acquisitions and general corporate work.

In 2002 the firm's numbers were boosted with the hire of Thórarinn Thórarinsson, former director of the Icelandic Telecommunications Corporation and managing director of the Federation of Icelandic Employers, who joined the firm as a partner. The firm now boasts five partners and four associates working out of the Reykjavik office.

Jonsson & Hall

Jonsson & Hall is traditionally considered by peers and clients to be one of Iceland's leading firms for corporate and commercial work, and praise from the market this year once again supports this reputation. The four-partner and two-associate firm, headed by founding partner and "excellent lawyer" Gestur Jonsson, is described as "a genuine one-stop shop" that is "very good – what they do, they do well." Gestur Jonsson is a respected individual in the Icelandic legal market, as is fellow partner Gunnar Jonsson, who, in addition to his work for Jonsson & Hall, is the president of the Icelandic Bar Association.

Jonsson & Hall counts numerous domestic and international companies among its clients, ranging from small start-ups to Fortune 500 companies, banks and government institutions. In recent times the firm has advised Shell Iceland on a large competition matter and Opin Kerfi (Hewlett Packard's Icelandic operation) on its \$20 million acquisition of UK company Datapoint, and was involved in a potential takeover bid for a New York Stock Exchange-listed client.

Jonsson & Hall is a member of the State Capital Global Law Firm Group.

Leading lawyers

Gestur Jonsson
Gunnar Jonsson

Landslog Law Offices

With eight lawyers, one of whom (Jon Sveinsson) is the former assistant to Iceland's prime minister, this mid-sized Icelandic firm is well respected in the legal market, particularly for banking and capital markets work. Sveinsson came in for praise again this year, being described as a "very capable banking lawyer," while his colleague Vilhjalmur Vilhjalmsson is singled out for his expertise in insurance matters.

The firm has proved itself to be a solid performer over the past few years, and "definitely deserves to be there" among the country's leading firms. Landslog has long-standing relationships with private and public sector clients, including Iceland's largest contractor, Icelandic Prime Contractor, and electricity wholesaler Landsvirkjun – an obvious plus when those organizations

are involved in dealings that require corporate legal advice. The Keflavic Savings Bank, one of the largest in Iceland, has remained a loyal client for the past 30 years.

The firm's international reputation has been enhanced by the recent due diligence deal it completed for pharmaceutical company Merck International, when it acquired a leading Icelandic pharmaceutical wholesaler.

Leading lawyer

Jon Sveinsson

Landwell

Landwell's two partners and two associates handle a large amount of corporate and finance work that has an Icelandic element and, although some in the market feel that the firm's status "could still improve a little," it does have a good reputation among peers and clients. All those interviewed agreed that Landwell's ranking is justified.

The finance practice has had a busy year, advising KB Banki, Iceland's largest bank, on €35 million (\$43.4 million) senior, mezzanine and subordinated loan facilities in connection with the leveraged buyout of a seafood business from the Bakkavör Group, and acting for Farice (a joint venture between Iceland Telecom, Vodafone, the Icelandic state and FøroyaTele) on the €34.5 million project financing in connection with the completion and operation of a submarine transmission cable linking Iceland to Scotland through the Faroe Islands. At the time of writing the firm is handling two more finance deals – Baldvin Haraldsson is representing Landsbankinn, Iceland's third largest bank, on the €2 million acquisition financing of Marcel Baey, a French seafood company, and Asgeir Ragnarsson is advising Uppspretta Capital Venture on refinancing issues.

The firm appears in the capital markets rankings for the first time this year, following recommendations from the market and after winning roles on some of Iceland's leading transactions. Ragnarsson is Landwell's capital markets expert, and he has worked on every one of the firm's key capital markets deals over the year. In July 2003 he advised KB Bank and the Bakkavör Group on legal issues relating to bonds issued by the Bakkavör Group listed on the Iceland stock exchange and regulated OTC markets, and in November 2003 acted for New York Stock Exchange-listed ResMed, in its capacity as the second largest shareholder of Medicare Flaga, on that company's €13.7 million initial public offering on the Icelandic stock exchange. Before these two deals, Ragnarsson advised Lehman Brothers and Morgan Stanley on Icelandic regulations governing foreign securities offerings.

M&A activity in Iceland continues to bring in plenty of high-end work for the firm. In July 2003 the firm acted for KB Bank and Fram Foods on the leveraged management buyout of the Bakkavör Group's seafood business, and a few months later advised KB Bank again, this time on its €62.6 million acquisition of a majority stake in Novestia, a publicly listed Finnish investment bank. Most recently, Asgeir Ragnarsson, Einar Arnason and Katrín Hallgrímsdóttir acted

for Hampidjan (a leading manufacturer of fishing equipment) on its acquisition of Otter Ultra-Low-Drag, the owner of self-spreading trawl technology. Landwell is also working with the Icelandic Privatization Committee, on an ongoing basis, on the due diligence of Icelandic Telecom in connection with its potential privatization.

Key contact partners

Baldvin Haraldsson
Asgeir Ragnarsson

Leading lawyer

Asgeir Ragnarsson

Lex Law Offices

Established in 1960, Lex is Iceland's second largest law firm, with a team of 13 partners and six associates. It is also one of the country's most respected outfits, with, among other attributes, "a definite top-tier banking practice". In Adalsteinn Jonasson, Lex has a "very able lawyer" who one peer "would be comfortable recommending to clients" in the event of a conflict. Jonasson received more plaudits than any other lawyer in the market; in the words of one peer, "he comes immediately to mind ... he is the closest you get to what you would call a star lawyer." Jonasson is a former senior lawyer for a major bank, and also lectures in law at Reykjavik University.

The firm is strong on the regulatory side, having earlier this year advised Straumur on its application for a licence as an investment bank, and having prepared a report on international developments in corporate governance, and how those developments impact on, and relate to, Icelandic law. The report was put before parliament by the Minister of Industry and Commerce. In 2003 Lex was active in the syndicated lending sector, acting as Icelandic legal advisor to the Royal Bank of Scotland, BNP Paribas and Fortis Bank on the \$185 million refinancing of Nordural Aluminium Smelter, a corporation owned by Columbia Ventures Corporation, and advising a syndicate of banks that granted telecom operator Islandssimi a \$53 million term loan facility.

The firm's corporate practice was kept busy throughout the year too. It acted as legal advisor to Bechtel International on the construction of an aluminium smelter in Reydarfjörður, acting for Shell in the company's divestment of its shares in Skeljungur, and advising Straumur when it sold a large share in Eimskip, in a deal that led to substantial changes in the ownership of many of Iceland's biggest corporations. And in the mergers and acquisitions sector, Lex assisted Elkem when it took over Jarnblendifelag, once again advised Straumur on its takeover of Islenska hugbunadarsjodinn and acted for Sjóva Almennar when the company merged with Islandsbanki.

At the time of writing Adalsteinn Jonasson and Birgir Már Ragnarsson are working on research into the Icelandic securities market for the Bankers' and Securities Dealers' Association of Iceland, with the aim of identifying legal

implications for sophisticated foreign investors investing in securities issued by Icelandic issuers. Icelandic government bonds have just recently been accepted for settlement in Clearstream, so a substantial part of the research involves clearing and settlement issues, and possible bridges from the Icelandic system to Clearstream and Euroclear.

Key contact partners

Thorunn Gudmundsdottir
Adalsteinn Jonasson

Leading lawyer

Adalsteinn Jonasson

Logos Legal Services

Iceland's largest law firm, with 11 partners and 14 associates, Logos Legal Services is a member of two leading international legal networks, Lex Mundi and TerraLex. The personnel has changed slightly since last year; in July 2003 the firm hired Olafur Sigurdsson, the former head of legal affairs at the Iceland stock exchange, and in January 2004 Johannes Sigurdsson left the firm to become a university professor.

In M&A, Logos was struck a blow by the departure of Thorolfur Jonsson, who was snatched up by KB Bank. According to the market, he was "a very promising lawyer" who "worked for Logos' biggest clients on some of the biggest deals." But his departure does not necessarily mean that the practice will be adversely affected, particularly considering the hire of Olafur Sigurdsson and the established reputations of managing partner Gunnar Sturluson and Petur Gudmundarson. And the market says that the firm has been "quite active in advising companies on acquiring firms overseas". Also singled out by peers is Helga Ottarsdottir, who is described as "strong on the regulatory side and on clearances from the competition authority," while Ottar Palsson is "getting more and more involved ... he is a promising young lawyer."

The firm also has a strong reputation in banking and is "definitely seen" on the high-end deals in the sector. Meanwhile, two partners and three associates comprise the team handling capital markets work, which over the past year has advised the buyer of a large stake in Flugleidir, and acted for Pharmaco in connection with its acquisition of Fako. Gunnar Sturluson led the team on both of these deals. In September 2003 the firm also worked on Norvik's acquisition of shares in Kaupás.

Key contact partners

Petur Gudmundarson
Helga Ottarsdottir
Gunnar Sturluson

Leading lawyers

Petur Gudmundarson
Helga Ottarsdottir
Ottar Palsson
Gunnar Sturluson