Rules on the financial restructuring of companies
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1. Introduction
These rules are set in accordance with Art. 3 of Act No. 107/2009 on measures to assist individuals, households, and businesses due to extraordinary circumstances in the financial market, and shall apply to the same extent as that provision of the Act. The rules apply to the legitimate claims of financial companies, i.e. claims that enjoy legal protection by Icelandic or internationally recognized laws. If a borrower deems the claim of a financial company to be unlawful or unwarranted, he/she shall provide detailed rationale for his/her arguments to the relevant financial company. If the financial company concludes that the claim is unwarranted or unlawful it shall be cancelled to the applicable extent. The financial companies use the rules as a reference when restructuring the finances of companies, in order to ensure that issues are resolved in a consistent manner. The rules reflect the perspectives expressed in comments to the bill that became Act No. 107/2009 on equality and transparency when treating individual issues, in addition to the general requirement for proper and sound business procedures. The aim of the work to restructure companies' finances is to maximize the recovery rate of financial companies, taking into account the conditions and perspectives described in these rules and Act No. 107/2009.

As well as adhering to these rules, financial companies work pursuant to other laws concerning their activities, cf. Act No. 161/2002 on Financial Undertakings, Act No. 87/1998 on Official Supervision of Financial Operations and other laws. On the basis of these laws, all financial companies governed by these rules have set themselves internal rules on lending and write-offs which address execution and decision-making in specific lending cases. In addition, financial companies need to comply with general laws, such as the Competition Act No. 44/2005, Act No. 77/2003 on data protection and the handling of personal information and Act No. 64/2006 on measures against money laundering and terrorist financing.

2. Conditions for financial restructuring
Below is a list of the conditions that companies generally need to fulfil in order to qualify for financial restructuring. In this context, financial restructuring is restructuring that may lead to bad debt write-offs or other concessions from agreements:

- **2.1.** The financial company recovers more of its claims as a result of the company's debt restructuring than if it were dissolved, in the opinion of a financial company.
- **2.2.** The company can demonstrate that its cash flow will cover debt payments following restructuring. Estimation of the debt amount following restructuring shall be made with view of the company's expected liquidity, total value and asset value.
- **2.3.** The business relationship between the company and the financial company shall be based on trust and confidentiality. The history of the company's payments, owners and management are seen as indicators in this respect.
- **2.4.** The company expresses a will to cooperate and provides the financial company all information necessary to assess the basis for financial restructuring.
- **2.5.** The company grants the financial company permission to perform financial restructuring of the company in collaboration with other creditors, when applicable.
- **2.6.** The company grants the financial company permission to perform due diligence of the company if deemed warranted.
- **2.7.** It is not deemed likely that other creditors will petition for a bankruptcy declaration.

3. Valuation of the company
When estimating if conditions for financial restructuring are fulfilled, the financial company

evaluates various factors concerning the company's operations, management, finances and the business environment. including:

3.1. Debts and assets including an estimate of:

3.1.1. The value of the company's collateral and major assets.

3.1.2. The possibility of rationalization, e.g. whether it is possible to sell unprofitable assets.

3.1.3. The company's debts and liabilities, including guarantees.

3.1.4. The company's collateral position, including an assessment of the useful life of assets and collateral backing debts.

3.2. Liquidity, including an assessment of:

3.2.1. The operating budget, cash flow and key assumptions.

3.2.2. An estimate of rationalization, e.g. whether operating costs can be cut.

3.3. The company's value with respect to estimated cash flow.

3.4. The reputational risk posed to the company and financial company due to financial restructuring.

3.5. Related parties are assessed comprehensively where appropriate.

4. Review of the continuing participation of the company's owners and management

A financial company's review of the continuing participation of owners and management in companies' operations following financial restructuring is largely based on their business history, will to cooperate in financial restructuring and their importance for the companies' future. Assessment of these factors includes consideration of the following factors:

4.1. A review of the business history of owners and management includes consideration of the following factors:

4.1.1. Has the company generally honoured its agreements with its clients and the financial company?

4.1.2. Has its reporting of information been of a good standard?

4.1.3. Have dividends and salaries been proportionate to the size of the business?

4.1.4. Does the company have a good business history despite the financial difficulties?

4.1.5. Have any agreements or laws been breached during the holding and sale of the company's assets?

4.2. An assessment of the will to cooperate in financial restructuring includes consideration of the following factors:

4.2.1. Has all necessary information been provided?

4.2.2. Has the company cooperated with creditors where applicable?

4.2.3. Do the parties generally have confidence in one another?

4.3. When assessing whether the participation of owners and management will increase debt recovery, the following elements are taken into account:

4.3.1. Do they have skills and/or knowledge that are valuable to the business in question?

4.3.2. Do they have business contacts which are valuable to the business?

4.3.3. Do they hold licences valuable to the business?

4.3.4. Will the recovery rate be impaired without the owners and managers?

5. The terms of agreements on restructuring

With respect to agreements on financial restructuring, the financial company may demand further terms and restrictions on a company as applicable. Such terms could for example stipulate:

5.1. That owners provide an equity injection into the business and/or pay off the company's debts to the financial company.

5.2. A ban on dividend payments and restrictions on the withdrawal of capital by the owners.

5.3. Caps on salaries and other benefits to owners and management.

5.4. Restrictions on changes to the company's board of directors or purpose without the prior consent of the financial company.

5.5. The demand of further collateral to secure the company's debt, including collateral in the company's assets and cash flow and/or the owners' shareholding in the company.

5.6. Authorization to appoint an administrator, advisor and/or independent board member to the company.

5.7. Demand for regular information on income statement, balance sheet and cash-flow.

5.8. Demand that debt is converted into equity and/or financial instruments are issued with conversion rights into share capital.

6. Methodology and standpoint

The methodology used to restructure debts will mostly be modelled on the views of business and competition along with the demand for transparency.

6.1. The impact of the company's restructuring on competition shall be taken into account pursuant to the opinion of the Icelandic Competition Authority No. 3/2008 dated 12 November 2008. An effort shall be made to choose a way of restructuring that strengthens competition or minimizes its disruption. The financial company's obvious interest in maximizing value, securing its interests and resolving issues quickly shall not be set aside.

6.2. During work to resolve companies' debt problems, it may prove necessary to continue debt collection in order to protect the interest of the financial company. Collection refers to collection pursuant to Act No. 95/2008 on debt collection or legal collection according to laws on legal procedure.

6.3. Debt write-off is not expected to change a company's negative equity position to a positive one. It is, however, designed to strengthen a company's long-term financial position.

6.4. Financial companies seek to keep procedures as transparent as possible. This means that all decisions on debt rescheduling or amendments to terms shall go through a specifically defined process by creditors and all decisions recorded especially and kept by the creditor. The process used must be comparable to the one used for lending, and the objectivity of decision-making needs to be ensured.

6.5. Therefore, where liquidity is foreseen to be lacking or very limited, it seems no options remain but to seek enforcement in the borrower's assets.

7. The main data used to assess and resolve issues

Before financial restructuring takes place, the financial company requires the following information and data as applicable.

7.1. Affirmed and/or audited information on the income statement, balance sheet and cash flow of the company for the last few years, including notes.

7.2. The operating budget for the next 3-5 years showing the estimated income statement, balance sheet and cash flow as well as historical operating figures. Also a summary of main assumptions and factors influencing the budget.

7.3. An itemized summary of the company's obligations, including debts to financial companies, other creditors and public bodies, lease agreements as well as the guarantees of the company and its owners.

7.4. An investment budget that defines which investments are necessary for the company in order to maintain its current operations and reach the desired objectives.

7.5. Information on business agreements, business relationships, breakdown of income, particularly related to expert knowledge or patents.
7.6. The company's organizational chart and information on the management.
7.7. Information on related companies and business dealings with related parties, including guarantees.
7.8. A summary of the main operating assets.
7.9. A list specifying age of accounts receivable and accounts payable as well as assessment of recoveries and status of collection.
7.10. Inventories and their revised value, specifying age.
7.11. Certificate of title for properties, fixed assets and liquid assets and updated value of all secured debts.
7.12. Information on changes to the presentation of accounts.
7.13. Decisions on business agreements and collateral which have been taken in the last two years.
7.14. Information on whether the company is involved in litigation.
7.15. Other information which the financial company considers important with respect to financial restructuring.

8. The sale process of assets

The financial company may need to take over a shareholding in a company, partly or wholly, with the purpose of ensuring fulfilment of the financial company's assets or as part of a company's financial restructuring. However, the aim is always to perform financial restructuring without a takeover. In the case of takeover, the financial companies take the following perspectives into account when selling acquired assets, as applicable:

8.1. The aim is to sell shareholdings in companies as quickly as is deemed profitable.
8.2. The decision to sell a shareholding in a financial company and the method of sale shall be reasoned and recorded similar to other measures related to the financial restructuring of companies.