



**CORPORATE  
GOVERNANCE  
GUIDELINES**

5<sup>TH</sup> EDITION

The Guidelines on Corporate Governance are published by the Iceland Chamber of Commerce, SA Business Iceland and Nasdaq Iceland. These Guidelines may not be reproduced in any form, such as through photography, printing, photocopying or by any similar means in part or in whole without the written permission of the publisher.

Project Manager: Marta Guðrún Blöndal, Iceland Chamber of Commerce  
Design and layout: Ásthildur Gunnarsdóttir, Iceland Chamber of Commerce

Photographs: Harpa  
Printed at Prentmet, an Ecolabelled Printing Company

Published in June 2015  
ISBN 978-9935-9135-5-5

## Foreword

This is the fifth edition of the Icelandic Guidelines on Corporate Governance. The publishers of the Guidelines are the Iceland Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland. The first edition was published in 2004 and the Guidelines have been reviewed on a regular basis since then.

Much has happened since the Guidelines were first published in 2004. The Icelandic economy has seen some turbulence over the past decade and a number of valuable lessons can be learnt. Among these is the fact that corporate boards and managers carry greater responsibility than many would have thought a decade ago. It does not therefore come as a surprise that these individuals are therefore increasingly aware of the importance of good corporate governance and the impact it has on their performance and the long-term performance of their companies.

The Guidelines are intended to support company boards and managers in meeting the obligations they have undertaken. Additionally, the publishers of the Guidelines believe that good corporate governance can serve to strengthen company infrastructure and build trust in business generally. Both components are crucial for the competitiveness of Icelandic companies.

Domestic awareness of the importance of good corporate governance has increased steadily in recent years, which is a very positive development. The last edition of the Guidelines was larger than ever before, in terms of number of copies printed, and inquiries from stakeholders on its content and interpretation have increased steadily. A number of open meetings and conferences devoted to this topic have been held since the last Guidelines were published. Additionally, several Icelandic companies have undergone formal assessments of their corporate governance at their own initiative.

While there is always room for improvement, these positive signs illustrate that a growing number of business leaders understand the advantage of adopting good corporate governance. It is important to ensure that this development continues. This will require active discussions and cooperation on the matter between different stakeholders. These may include companies, investors of all sizes and types, media, creditors, regulators, educational institutions, researchers, consultants, industry associations and politicians. It is in everyone's common interest for all that good corporate governance is practised across the board.

Significant changes have been made on the Guidelines from the fourth version. The main focus of the review process was to make the Guidelines clearer and user-friendly, by means of general changes in format, layout and wording. Additionally, content improvements have been made based on feedback from various users of the Guidelines. While the Guidelines have been reviewed with a view to making them as suitable for Icelandic business as possible, efforts have been made to ensure that they are also in accordance with international standards and development.

Together with the publication of the fifth edition of the Guidelines on Corporate Governance, a new website has been launched: **corporategovernance.is**. The website gives access to an electronic version of the Guidelines, a complete list of changes made from the fourth edition of the Guidelines, and supplementary information on corporate governance. The electronic version of the Guidelines is interactive and customised for computers and smart devices of all shapes and sizes. The publishers of the Guidelines hope that these changes will make the Icelandic Guidelines on Corporate Governance more accessible and user-friendly.

## Acknowledgements

The working group on corporate governance was made up of representatives of the publishers of the Guidelines and experts from both the private sector and academia. The members of the group were the following: Þórunn Jónsdóttir, Dean of the Business School at Reykjavik University (Chair), Bergþóra Halldórsdóttir, lawyer at SA – Business Iceland, Frosti Ólafsson, Managing Director of the Iceland Chamber of Commerce, Haraldur I. Birgisson, lawyer at Deloitte, Hildur Árnadóttir, Head of Treasury at Íslandsbanki, Hjörleifur Pálsson, consultant and Chairman of the Board at Reykjavik University, and Páll Harðarson, CEO of Nasdaq Iceland. Marta Guðrún Blöndal, General Counsel at the Iceland Chamber of Commerce, was the project manager.

The publishers, the working group and the project manager would like to express their gratitude for the assistance and input from the numerous parties that contributed to the review process. These include representatives from member companies of both the Iceland Chamber of Commerce and SA – Business Iceland, representatives of educational and regulatory bodies, various experts in corporate governance, foreign scholars in the field of corporate governance, and numerous directors of Icelandic companies. The contribution from these individuals has been invaluable and is reflected in the positive changes that have been made to the fifth version of the Icelandic Guidelines on Corporate Governance.



# Table of Contents

|   |           |
|---|-----------|
| <b>Guidelines on Corporate Governance</b>                   | <b>8</b>  |
| <b>1 Shareholders and Shareholders' Meeting</b>             | <b>11</b> |
| 1.1 Annual general meeting (AGM) and shareholders' meetings | 11        |
| 1.2 Management attendance at shareholders' meetings         | 12        |
| 1.3 Election of the Chair of the Meeting                    | 12        |
| 1.4 Share Registry  | 13        |
| 1.5 Nomination Committee                                    | 13        |
| <b>2 The Board</b>  | <b>17</b> |
| 2.1 Main role and duties of the Board                       | 17        |
| 2.2 Size and composition of the Board                       | 17        |
| 2.3 Independent Directors                                   | 18        |
| 2.4 Cooperation, communications and setting goals           | 21        |
| 2.5 The Board's rules of procedure                          | 21        |
| 2.6 Performance assessment                                  | 22        |
| 2.7 Remuneration policy                                     | 23        |
| 2.8 Risk management and internal controls                   | 25        |
| 2.9 Social responsibility and ethics                        | 26        |
| 2.10 Shareholder relations                                  | 26        |
| 2.11 Minutes of Board meetings                              | 27        |



|          |  |           |
|----------|--|-----------|
| <b>3</b> | <b>Directors of the Board</b>                  | <b>29</b> |
| 3.1      | Chairman of the Board                          | 29        |
| 3.2      | Directors                                      | 30        |
| <b>4</b> | <b>Chief Executive Officer</b>                 | <b>33</b> |
| 4.1      | Information on the CEO                         | 33        |
| 4.2      | The role of the CEO                            | 33        |
| <b>5</b> | <b>Sub-committees of the Board</b>             | <b>35</b> |
| 5.1      | Establishment and operations of sub-committees | 35        |
| 5.2      | Information obligations of sub-committees      | 35        |
| 5.3      | Audit Committee                                | 36        |
| 5.4      | Remuneration Committee                         | 37        |
| <b>6</b> | <b>Information on Corporate Governance</b>     | <b>41</b> |
| 6.1      | Corporate governance statement                 | 41        |
| 6.2      | The Company's website                          | 42        |

## Guidelines on Corporate Governance

The main objective of the Guidelines is to contribute to good corporate governance by clarifying the roles and responsibilities of managers and enabling them to perform their tasks while simultaneously securing the interest of stakeholders and other invested parties. The Guidelines include recommendations over and above those laid down in the relevant legislation and are therefore more flexible, as it is difficult to set standards that are suitable for companies of all types and sizes.

One must bear in mind that the Act on Public Limited Companies stipulates that companies must have three decision-making bodies in a hierarchical relationship to one another: the Shareholders' Meeting, the Board of Directors and the Chief Executive Officer (CEO). The power and influence of shareholders is thereby limited to the Shareholders' Meetings, while the Board seeks its authority from the Shareholders' Meeting and carries out the supreme authority between Shareholders' Meetings. It is then the responsibility of the Board to recruit the Chief Executive Officer (one or more) and call them to account regarding the operations of the Company. The CEO is responsible for the day-to-day management of the Company and shall pursue the policies and instructions of the Board. A vital part of good corporate governance is following this three-way division of roles and responsibilities, bringing about a clear distinction between the powers and responsibilities of each party, and ensuring that the parties involved do not encroach on matters that are the responsibility of another.

The layout of the fifth edition of the Guidelines is quite different from the previous versions. The Guidelines which companies need to comply with or explain deviations from are now in a numbered sequence. A short introduction in a shaded text box can now be found at the beginning of most chapters of the Guidelines. This introductory text is meant to clarify the Guidelines contained in each chapter and companies are not required to report non-compliance with such remarks. Many provisions have additional commentary that is marked specifically as such. Companies are not required to report non-compliance with such commentary. To prevent any uncertainty regarding the requirements of the Guidelines, the wording has been harmonised so that now, for instance, the phrase 'the Board shall' is always used when referring to obligations of the Board.

This version of the Guidelines is applicable from 1 June 2015.<sup>1</sup>

### Which companies are to apply the Corporate Governance Guidelines?

The Guidelines on Corporate Governance are specifically targeted at public-interest entities, i.e. companies with securities listed on a regulated market, pension funds, financial

---

<sup>1</sup> This means that this version covers decisions regarding corporate governance practices taken after that date. It may be more practical in some circumstances for procedures and standards in force to remain applicable until a certain point in time, such as the end of the fiscal year or until the next AGM.

institutions and insurance companies.<sup>2</sup> It should be noted that financial undertakings, insurance companies and companies with securities listed on a regulated market must follow recognised Guidelines on corporate governance.<sup>3</sup>

The Guidelines on Corporate Governance can however benefit all companies, regardless of their size and activities. It is furthermore desirable for State-owned enterprises to adhere to Guidelines on Corporate Governance in their operations.

## The 'comply or explain' principle

The Guidelines on Corporate Governance are based on the 'comply or explain' principle. The principle allows company boards the flexibility to decide the extent to which certain aspects of the Guidelines suit their companies. As such, a company can be considered to adhere to the Guidelines even if it deviates from some of its standards. The 'comply or explain' principle does however place on boards the burden of providing a detailed explanation for all deviations from the Guidelines in the Company's corporate governance statement.

This arrangement offers more flexibility for companies to tailor the Guidelines on Corporate Governance to their size, structure and sector. This also encourages boards and managers to contemplate and evaluate their own corporate governance conduct regularly.

If a company decides to deviate from the Guidelines on Corporate Governance, it shall explain:

- the way in which the Guidelines have been deviated from;
- why the Guidelines have been deviated from;
- how the decision to deviate from the recommendations in question was made within the Company;
- what measures were taken to offset deviations and how they conform to the underlying objectives of the Guidelines, wholly or partially.
- If the deviation is temporary, the Board shall explain how the Guidelines will later be met.

These explanations should be clearly set forth in the Company's corporate governance statement, so that shareholders, investors and other invested parties can easily familiarise themselves with their content. The characteristics and special circumstances of the relevant company – such as size, organisation and ownership of the Company – shall be outlined.

---

<sup>2</sup> Under Act No 79/2008 on Auditors, cf. Act No 80/2008 on Annual Accounts, the following undertakings are considered public-interest entities: a) legal person with registered domicile in Iceland and with securities listed on a regulated securities market in a State within the European Economic Area, in a Member State of the European Free Trade Association or in the Faroe Islands; b) pension funds with a fully valid operating permit; c) lending institutions pursuant to the Act on Financial Undertakings; d) undertakings with a license to operate insurance operations in accordance with the Insurance Act.

<sup>3</sup> Cf. Article 19(3) of the Act No 161/2002 on Financial Undertakings and Article 6(3) of the Insurance Act (Act No 56/2010).



# 1 Shareholders and Shareholders' Meeting

Shareholders hold the decision-making powers in the affairs of the Company at shareholders' meetings. Shareholders' meetings are the supreme authority in the Company's affairs. The meetings must be organised and run so as to enable shareholders to exercise their decision-making powers in an effective and informed manner.<sup>4</sup>

## 1.1 Annual general meeting (AGM) and shareholders' meetings

1.1.1 When organising the AGM, the Board shall do so in a manner that allows shareholders to exercise their decision-making powers and express their opinions. It shall, for instance, be made possible for shareholders to participate in the AGM by electronic means, partially or fully, including the possibility to vote without being physically present.<sup>5</sup>



When preparing the AGM, it is important to ensure the participation of shareholders and ensure they have an opportunity to present their views. In this way, shareholders can be involved in the direction and development of the Company in the short and long term.

1.1.2 When the time and date for the AGM has been decided, preferably no later than two months before the end of the Company's accounting year, this information shall be posted on the Company's website, together with the deadline for shareholders to submit motions and/or proposals to be discussed at the meeting.

1.1.3 The meeting notice and other documents relevant to the AGM shall be available to shareholders in sufficient time and in such a form as to give shareholders sufficient opportunity to form a well-founded opinion on the issues to be raised at the meeting.

1.1.4 The meeting notice shall specify the language to be used at the meeting and the language of the documents for the meeting. If the meeting is conducted or if the documents are in a language other than Icelandic, the main points of the agenda shall also be available in an Icelandic-language summary. In addition, the notice shall specify if interpretation of the introductory talks and translations of the documents will be made available to the shareholders.

1.1.5 The proposals of the Nomination Committee and other candidacies shall be presented in the meeting notice.<sup>6</sup>

<sup>4</sup> Here and elsewhere in the Guidelines, the reference is both to the AGM and other shareholders' meetings, unless specifically mentioned that reference is made only to the AGM.

<sup>5</sup> Article 80A of Act No 2/1995 on Public Limited Companies (hereafter 'the PUBLIC Act') and Article 55A of Act No 138/1994 on Private Limited Companies (hereinafter 'the PRILC Act') states that, unless otherwise stated in the Company's Articles of Association, the Board may decide that shareholders can participate electronically in shareholders' meetings.

<sup>6</sup> See further on Nomination Committees in Section 1.5.

1.1.6 The Board shall post the following information on the candidates to the Board on the Company's website as early as possible, and no later than two working days before the AGM:<sup>7</sup>

- Age, education, chief occupation and professional experience.
- Date of first election to the Company's Board.
- Other commissions of trust, e.g. membership on boards of other companies.
- Shares in the Company, both direct ownership and through associated parties.
- Interest links to the Company's main clients and competitors and major shareholders in the Company.<sup>8</sup>
- Any other links with the Company as described in Section 2.3 and the assessment of the Board or the Nomination Committee as to whether the Board member is deemed independent.

## 1.2 Management attendance at shareholders' meetings

1.2.1 The Chairman of the Board and the required majority of the Directors<sup>9</sup> shall be present at shareholders' meetings, as shall the Chief Executive Officer (CEO).

1.2.2 The Auditor of the Company and at least one member of all of the Board's sub-committees shall be present at the AGM.

1.2.3 If the Company has a Nomination Committee, at least one Committee member shall be present at the AGM.

1.2.4 A nominated party and other candidates for Board membership shall be present at the Company's AMG unless there is a valid reason for their absence.

1.2.5 If circumstances prevent the management from attending a shareholders' meeting, their participation shall be ensured by other means e.g. electronically.

## 1.3 Election of the Chair of the Meeting

1.3.1 If the Company has a Nomination Committee, the Committee shall propose a Chairperson to chair shareholders' meetings. The Committee's proposal shall be stated in the notice of the meeting.

1.3.2 If there is no Nomination Committee in the Company, the meeting shall elect a Chairperson for the meeting from among the shareholders or others, unless the Company's Articles of Association provide otherwise.<sup>10</sup>

---

<sup>7</sup> Cf. Article 63A(4) of the PUBLIC Act.

<sup>8</sup> A 'major shareholder' is any individual or legal entity who controls at least 10% of the total share capital or weight of votes in the Company, alone or in cooperation with associated parties.

<sup>9</sup> This refers to the number needed to form a quorum of the Board. The Board is quorate when a majority of the Board attends a meeting, unless the Company's Articles of Association provide otherwise.

<sup>10</sup> Cf. Article 90(1) of the PUBLIC Act.

## 1.4 Share Registry

- 1.4.1 The Board shall ensure that there is an effective system for updating the share registry so it contains correct information at all times. Information on shareholders' voting rights shall be entered into the registry. The registry shall also state any associations the Company has with corporate groups.



It is preferable for the share registry to give information on the representatives of the legal entities registered as shareholders in the Company. When assessing whether or not a given representative should be registered in the share registry, account may be taken, for instance, of how many shares the respective shareholder holds.

- 1.4.2 The Company's share registry shall be readily available to shareholders at the shareholders' meeting, either in print or in electronic form.

## 1.5 Nomination Committee

The role of the Nomination Committee is to propose candidates to serve as Directors on the Board. In its work, the Committee shall promote the interests of all shareholders and ensure that the proposed candidates collectively possess sufficient knowledge and experience to exercise their duties.



The Nomination Committee has an advisory role in the selection of Directors and proposes candidates to the AGM. Directors, however, are elected by the AGM, in accordance with the relevant legislation. By establishing a Nomination Committee, clear arrangements are made for the nomination of the Board of Directors at the Company's AGM. This, among other things, lays the foundation for informed decision-making by shareholders. In addition, it increases the likelihood that the Company's Board will possess diversity and breadth in capabilities, experience and knowledge. This is because the Committee is expected to take these aspects into account when preparing nominations of Directors.

## Appointment of committee members

- 1.5.1 The shareholders' meeting shall appoint members to the Nomination Committee or decide how they should be appointed.



The shareholders' meeting can, for instance, decide that the Board should appoint the members of the Nomination Committee. The manner in which the appointment is made shall be indicated in the Company's corporate governance statement. The shareholders meeting should preferably take a position on how the Committee is appointed, its role, members' remuneration, and its working procedures. These details may be indicated in the Company's Articles of Association.

- 1.5.2 The Nomination Committee shall consist of at least three members, the majority of whom shall be independent of the Company and its day-to-day management.

The same criteria shall apply to the assessment of committee members as to the assessment of the independence of Board members.<sup>11</sup> The Committee may consist of two members, but in this case both members shall be independent of the Company. At least one Committee member shall be independent of major shareholders.

- 1.5.3 Members of the Board of Directors may be members of the Nomination Committee but may not constitute a majority of the Committee. They shall not chair the Nomination Committee. This applies equally to the Chairman of the Board as other members of the Board.

 It can be desirable for the Chairman of the Board or another member to serve on the Committee. In this way, the Committee is guaranteed a certain overview of the Board's work.

- 1.5.4 Neither the Company's managers nor its employees shall be members of the Nomination Committee.

- 1.5.5 The Nomination Committee may involve consultants in the execution of its duties. Such consultants shall be independent of the Company, its managers and non-independent members of the Board of Directors. The Committee is responsible for verifying the independence of such consultants. The same criteria applies to the assessment of the independence of consultants as to the assessment of the independence of Board members.<sup>12</sup>

- 1.5.6 The Company shall announce the names of members of the Nomination Committee on its website no later than six months before the AGM.

 This time requirement must especially be kept in mind if the AGM has delegated to the Board or another party the task of appointing the Nomination Committee.

## Role and procedures of the Nomination Committee

- 1.5.7 The Nomination Committee shall propose candidates for membership of the Company's Board before its AGM.

- 1.5.8 The role of the Committee shall include:

- assessing potential Directors based on qualifications, experience and knowledge. When making its assessment, it shall take into consideration the criteria laid down in Section 2.2 (Size and composition of the Board). It shall also consider the findings of the Board's performance assessment regarding the composition and competence of the Board's members;<sup>13</sup>
- evaluating the independence of potential Directors, in accordance with Section 2.3;

---

<sup>11</sup> See further on the independence of Board members in Section 2.3.

<sup>12</sup> See further on the independence of Board members in Section 2.3.

<sup>13</sup> See further on performance assessment in Section 2.6.

- addressing gender ratios on the Company's Board;<sup>14</sup>
- preparing and submitting proposals, based on this assessment, on the election of Board Directors during the Company's AGM.

1.5.9 In the execution of its duties, the Committee shall take into consideration the collective interests of all shareholders. The role and main duties of the Committee shall be specified in the Committee's rules on working procedures and shall reflect the needs of the Company. The rules of procedures shall be posted on the Company's website.



In the execution of its duties, the Committee may gather relevant information from the current Board and the Board's sub-committees.

1.5.10 The Committee shall request proposals from shareholders in a timely manner before the Company's AGM.



It is appropriate for the Nomination Committee to request proposals from shareholders in good time so that it has sufficient time to assess the submitted proposals.

1.5.11 The Company's website shall give information on how shareholders can submit proposals for Board appointments to the Committee and how other individuals can submit their candidacy.

1.5.12 The Committee's proposals (and other candidacies) shall be presented in the notice of the AGM and shall be accessible to shareholders on the website of the Company as soon as possible, and no later than at least two working days before the meeting.

1.5.13 At the Company's AGM, the Committee shall inform the meeting of the manner in which it has arranged its work and explain its proposals. The Committee's reasoning shall also be available on the Company's website.

---

<sup>14</sup> Cf. Article 63(1) of the PUBLIC Act and Article 39(1) of the PRILC Act.



## 2 The Board

### 2.1 Main role and duties of the Board

The Board of Directors holds supreme authority between shareholders' meetings. It shall ensure that the Company's organisation and operations are in a good state. It shall promote the development and long-term performance of the Company and supervise its operations

#### 2.1.1 The main roles of the Board are as follows:

- To hold supreme authority between shareholders' meetings, promote the development and long-term performance of the Company and supervise its operations. The Board shall regularly assess the performance of the Company's executive directors and how the Company's policies are implemented.
- To take the initiative, together with the CEO,<sup>15</sup> in formulating policies and setting goals and risk parameters for the Company, both in the short and long term.
- To establish an active system of internal controls. This means, among other things, that the arrangement of the internal controls system shall be formalised, documented and its functionality verified regularly.
- To ensure that the Company's operations are in conformity with existing laws and regulations.
- To administer the recruitment and dismissal of the Company's CEO.

### 2.2 Size and composition of the Board

The Board must be of a size and composition that enables it to execute its duties efficiently and with integrity.

#### 2.2.1 The composition of the Board shall take into account the operation and policies of the Company, its stage of development and other relevant factors in its operations and environment. The Board shall display diversity and breadth in qualifications, experience and knowledge and the goal shall be for gender distribution to be as equal as possible.<sup>16</sup>



Company boards are meant to provide managers with support and encouragement and ensure, as far as possible, that the organisation and operations of the Company are in a good state. It is important for the Board to consist of individuals with the necessary knowledge and experience to execute their duties diligently. It is just as important to make efforts to achieve reasonable breadth of knowledge, talent and

<sup>15</sup> Here and elsewhere in the Guidelines, this refers to the Managing Director/Chief Executive Officer recruited by the Board, but not to department heads or division managers.

<sup>16</sup> Cf. Article 63(1) of the PUBLI Act and Article 39(1) of the PRILC Act.

capabilities and ensure that important components are not lacking. This, in turn, will ensure the greatest possible benefit from a multi-member board.

**2.2.2 Only one<sup>17</sup> Board member can be a Director of the Company, a member of its executive board or its subsidiaries’**



The PUBLIC Act allows for company managers to serve on the Board as long as they do not constitute a majority of the Board. The Guidelines therefore recommend stricter limits on the number of executive managers on the Board than the relevant legislation does. This is because one of the most important duties of the Board is to monitor the day-to-day running of the Company and the Company’s managers. If company managers make up 40% of the Board, e.g. if two out of five Board members are executive managers of the Company, this reduces its capacity to carry out its supervisory duties towards managers.

## 2.3 Independent Directors

To help the Board work for the interests of the Company and all of its shareholders, Directors shall be independent from the Company, its executive managers and major shareholders.

**2.3.1 The majority of Directors shall be independent of the Company and its day-to-day managers.**



One of the most important duties of the Board is to monitor those who are responsible for the Company’s day-to-day operations. If a Director is connected with the Company in any manner that may give cause to question whether their own interests could affect their decision-making towards the Company and its executive managers, this reduces their ability to carry out their supervisory role over managers.

**2.3.2 A Director is not independent of the Company and its day-to-day managers:**

- 1.** if he/she is or has been an employee of the Company, or a company closely related to the Company<sup>18</sup> in the three years prior to the commencement of Board membership;
- 2.** if he/she receives or has received substantial payments from the Company,<sup>19</sup> a company closely related to the Company or its day-to-day managers, apart from a Director’s fee, e.g. as a consultant or contractor, in the three years prior to commencement of Board membership.

<sup>17</sup> This refers to a board consisting of five members.

<sup>18</sup> If the Company controls at least 10% of the total share capital or weight of votes in another company, the latter shall be deemed to ‘closely related’. If the Company controls 50% or more of the total share capital or weight of votes in another company, then it shall be considered to have indirect control of the latter company’s shares in other companies.

<sup>19</sup> An assessment of such payments should be conducted to ascertain whether or they are of a considerable amount, for both the Company and the individual Director, e.g. if it a large portion of their gross income.

3. if he/she is in, or has in the past year been in, significant business with the Company or closely related companies, e.g. as a customer, supplier or partner, or if he/she has other significant business interests in the Company, whether personally or through another company;
4. if he/she is one of the day-to-day managers of another company in which one of the Directors is a day-to-day manager;
5. if he/she is or has been, in the past three years prior to taking a seat on the Board, a partner of the external auditor of the Company or a closely related company, or an employee who has taken part in the external audit of the Company;
6. if he/she has close family ties<sup>20</sup> with any of the Company's day-to-day managers or any other persons mentioned above, and that person is in direct or indirect business with the Company to such an extent that the director could not be considered independent.



The ways described above in which a Director may be considered not independent are not exhaustive. It remains up to the Board to assess other factors where the interests of specific Directors, large shareholders and the Company itself might collide, whether in fact actually or in appearance. The Board might, for instance, consider whether the Director has been considered independent for more than seven consecutive years or if individuals or companies related to the Director are in such a relationship with the Company as is mentioned above.

The abovementioned criteria for independence should not be interpreted in such a manner as to hinder necessary diversity and breadth amongst Board members. If a particular Director does not meet the listed conditions but is nevertheless considered extremely competent for the work due to his/her experience, education or other reason, the Company's corporate governance statement shall indicate how the Board intends to prevent any conflicts of interest which may arise in their work as a Director of the Board.

### 2.3.3 At least two<sup>21</sup> of the Directors that are independent of the Company and its day-to-day managers shall also be independent of the Company's major shareholders.<sup>22</sup>



The recommendation that two Board members shall be independent from major shareholders aims to support the Board in operating for the benefit of the Company and all of its shareholders. Although the recommendation will likely result in reducing the influence of major shareholders, it does allow for the majority of the Board members to be related to major shareholders in one way or another. The recommendation therefore simultaneously supports active ownership and the protection of minority shareholders.

<sup>20</sup> This refers to Article 3(1)(2) of the Administrative Act (Act No 37/1993), i.e. if the Director in question is or has been the spouse of or related in a direct or indirect line to an individual or similarly joined by means of adoption.

<sup>21</sup> This refers to a board consisting of five members.

<sup>22</sup> A 'major shareholder' is any individual or legal entity who controls at least 10% of the total share capital or weight of votes in the Company, alone or in cooperation with associated parties.

- 2.3.4 When determining whether a Director is independent of the Company's major shareholders,<sup>23</sup> a general assessment shall be made of all direct and indirect relations with the relevant shareholder. The standards set out in Section 2.3.2 may, for example, be considered when assessing whether a Director can be regarded as being independent from the Company's major shareholders. A Director is not independent of the Company's major shareholders in the following circumstances:
1. If he/she has direct or indirect control of the Company or is a board member or an employee of a company that has control of the Company.
  2. If he/she owns a significant share in the Company or is a board member or an employee of a company that owns a significant share in the Company.



As for independence towards the Company, these recommendations on independence towards major shareholders are not meant to prevent the best possible composition of the Board in respect of the operations of the Company. If there are instances where a certain Director does not fulfil the aforementioned requirements but is perceived as very competent for the job based on their experience, education or other factors, the Company's corporate governance statement shall indicate how the Board intends to prevent conflicts of interests that may arise in their work as Director.

- 2.3.5 The Board shall evaluate whether its members are at any given time independent of the Company and its major shareholders. The Board shall also evaluate the independence of potential Board members before the Company's AGM – if a Nomination Committee has not been appointed – and its conclusions shall be made available to shareholders.
- 2.3.6 Directors of the Board shall provide all relevant information to facilitate the assessment of their independence and give notification of any changes to their circumstances which might affect whether they could be considered independent. They shall provide at least the following information:
- Date of birth, education, chief occupation and professional experience.
  - Date of first election to the Board.
  - Other commissions of trust, e.g. membership on boards of other companies.
  - Shares in the Company, whether direct ownership or through associated parties.
  - Information on work carried out for the Company.
  - Connections with the Company's main clients and competitors and major shareholders in the Company.
  - Other connections with the Company as described above, if applicable, as well as the evaluations of the Board and the Nomination Committee on whether the Director is considered independent.

---

<sup>23</sup> A major shareholder is anyone who has at least 10% of the total shares or voting rights in the Company, alone or in cooperation with related parties.

## 2.4 Cooperation, communications and setting goals

The Board must seek to engage in regular discussions on how it intends to discharge its duties, the areas on which it will focus, what communication and procedural rules will be upheld and what the main goals of the Board are.

- 2.4.1 The Board shall annually define its significant assignments, goals and strategy of the Company and make a plan for the execution of its duties.
- 2.4.2 The Board's work shall in general take place at Board meetings. In the event of communication between Board members and/or between Board members and the Company's executive directors outside the board-room regarding decisions taken by the Board or the grounds for such decisions, this shall be disclosed at the next Board meeting.



It is important for Board members to all possess the same information so that a critical discussion can take place in Board meetings. This is especially important when a new Board is assembled or when a new Board member takes a seat on the Board.

- 2.4.3 All information necessary for Board members to form an informed opinion on matters shall be delivered to them in a timely manner before Board meetings.
- 2.4.4 The Board shall convene regularly enough for it to be able to discharge its duties in an efficient manner.



The Directors shall preferably agree on the number of meetings estimated for the year. This improves organisation of the Board's work and implies that Directors also agree that they are able to execute their duties satisfactorily during that time.

## 2.5 The Board's rules of procedure

The Board's rules of procedure deal with the allocation of tasks among Directors and the relations between the Board, the Chairman of the Board and the CEO. The rules make it easier for shareholders to assess the working practices of the Board.

- 2.5.1 The Board shall establish its own written rules of procedure further addressing the role and execution of the work of the Board.<sup>24</sup>
- 2.5.2 The Board shall review and revise its working procedures annually.
- 2.5.3 The Board's rules of procedure shall at least cover the following:
  - Allocation of tasks among Directors.

<sup>24</sup> Cf. Article 70(5) of the PUBLIC Act and Article 45(5) of the PRILC.

- Job description of the Board and the Chairman of the Board.
- The division of responsibilities between the Board and the CEO, e.g. delegation of power to the CEO, i.e. what decisions should be considered to be unusual or major and therefore under the sole authority of the Board.<sup>25</sup>
- The convening of Board meetings, their frequency, participants and the arrangement of meetings.
- Communications between Directors, between Directors and day-to-day managers outside Board meetings, between the Board and shareholders and between the Board and the Company's auditors.
- Decision-making powers and voting among Directors.
- Documents for Board meetings, Directors' access to before and after Board meetings, and handling of meeting documents.
- Minutes of Board meetings.
- Board sub-committees, their duties and decision-making powers.
- Procedures for accepting new Board members, concerning information and guidance in the workings of the Board and the Company.
- Procedures for annual performance assessments.
- Gathering and disclosing to the Board information from the CEO, the sub-committees and from independent experts.
- Professional secrecy and confidentiality.
- Ineligibility.
- Links to other rules within the Company, such as guidelines on good corporate governance and other rules as applicable, e.g. from the Financial Supervisory Authority and Nasdaq Iceland.

## 2.6 Performance assessment

It is important that the Board regularly evaluates the performance of the Company. For that purpose, the Board shall evaluate its own work and the work of the CEO and the Company's operations.

- 2.6.1 The Board shall annually review and evaluate the development of the Company and whether this is consistent with its goals.
- 2.6.2 The Board shall, under pre-determined arrangements, conduct an annual assessment of its work, size, composition and procedures. The Board shall seek ways to improve its workings in accordance with the findings of these assessments. The Board shall inform the Nomination Committee, if one has been appointed, of the results of these assessments.

<sup>25</sup> Cf. Article 68(2) of the PUBLIC Act and Article 44(2) of the PRILC.



It shall be noted that the assessment also includes an evaluation of the work conducted by sub-committees of the Board and the contribution of the CEO to the work of the Board. The assessment shall include whether or not the Board has operated in accordance with its own rules of procedure. It shall be taken into account whether or not important company matters are adequately prepared and if sufficient time is provided for discussion. Additionally, the contribution of individual Board members shall be considered, as regards attending and participating in meetings. Evaluations of individual Board members should preferably be carried out in an anonymous manner. Such assessments could, for instance, be carried out by means of anonymous electronic survey administered by a third party.

- 2.6.3 The Board shall annually evaluate the work of the Company's CEO and the Company's operations in general. Any Board member who is also one of the Company's day-to-day managers shall not be present for the evaluation of the performance of the CEO. The Chairman of the Board shall present the results of the assessment to the CEO and discuss with him/her how to address weaknesses and/or further improve strengths.

## 2.7 Remuneration policy

The Company's remuneration policy shall state the fundamental basis for the remuneration of the Company's Directors and its managers and the Company's policy regarding contracts with managers and Directors. The policy shall also state if and under what circumstances and to what extent it is permitted to remunerate managers and Directors in addition to their fixed salaries.<sup>26</sup>

- 2.7.1 If the Company has appointed a Remuneration Committee, the Committee shall draft a remuneration policy for the Company in accordance with Section 5.4. Otherwise it shall be the responsibility of the Board.<sup>27</sup>
- 2.7.2 The Board shall publish the Company's remuneration policy in connection with its AGM, e.g. on its website, and the remuneration policy shall be approved at the AGM, with or without amendments. At the AGM, the terms pertaining to individual managers and Directors of the Company shall be made known, including wages, earned pension payments, other payments and benefits, as well as any changes to terms between years.
- 2.7.3 All documents forming the basis for the remuneration policy shall be made accessible to shareholders no later than two weeks before the AGM. The documents shall be prepared in such a way that shareholders find it easy to form an opinion on the remuneration policy.

<sup>26</sup> Cf. Article 79A(2) of the PUBLIC Act and Article 54A(2) of the PRILC.

<sup>27</sup> Pursuant to Article 79A(1) of the PUBLIC Act and Article 54A(1) of the PRILC, Boards of companies that have an obligation to vote for an Auditor under the Annual Accounts Act shall approve the Company's remuneration policy.

- 2.7.4 At the AGM, special focus shall be placed on the total expenditure of the Company in respect of its remuneration policy and the meeting shall be informed about stock options that may thin out the value of shareholders' stocks. The AGM shall be informed on the estimated cost of option plans and on the execution of the previously approved remuneration policy. This shall be done to enable shareholders to fully understand the structure of the employment terms of Board Directors, the CEO and other managers.
- 2.7.5 If the Board departs from the remuneration policy, such departures shall be submitted to the Remuneration Committee for approval, if such Committee has been established. The reasons behind such departures shall be entered in the minutes of the Board in each case.<sup>28</sup>
- 2.7.6 If it is planned to give managers and other employees stock option rights, or any other form of remuneration other than fixed salaries, the main provisions of such contracts and/or plans shall be submitted to a shareholders' meeting for approval. Such main provisions include: the total number of shares in the plan, the maximum length of option agreements, the period in which employees can exercise such rights, criteria for the determining the purchase price and terms, in the event of a loan.
- 2.7.7 The Company's remuneration policy shall contribute to the interests of the Directors and day-to-day managers being genuinely related to the long-term results of the Company. It shall also prevent the remuneration terms for managers from being such as to encourage excessive risk-taking.



That may include the following:<sup>29</sup>

- Variable wages should be a reasonable proportion of overall wages. The remuneration policy should provide for maximum variable wages.
- Variable wages should be linked to pre-determined and measureable goals<sup>30</sup> that reflect the Company's actual growth and actual financial benefits in the long term for the Company and its shareholders.
- Wages of Directors shall reflect their responsibility, expertise, experience and the time required to execute their duties.
- Directors should not have any stock options, priority-buy options or buy-or-sell options on stock in the Company and should not receive any remuneration linked to shares in the Company or the development of share prices.<sup>31</sup>

28 Pursuant to Article 79A(3) of the PUBLIC Act, the remuneration policy is binding for the Board as regards stocks options, buy-and-sell options, priority-buy options and other types of remuneration linked to shares in the Company or the development of their share price.

29 It should be noted that different rules and legislation on remuneration policy apply depending on the type of company.

30 Cf. Article 79A(2)(1) of the PUBLIC Act and Article 54A(2)(1) of the PRILC Act.

31 Cf. Article 79A(2)(5) of the PUBLIC Act and Article 54A(2)(5) of the PRILC Act.

## 2.8 Risk management and internal controls

Satisfactory risk management and internal controls are essential for the Board to execute its statutory duties. Satisfactory risk management and internal controls increase the likelihood that a company's activities and operations are in an acceptable state, that legislation and regulations are being followed, that the annual accounts and decisions of the Board are based on correct and conclusive data.

- 2.8.1 The Board shall define, at least once a year, the risk factors that the Company has to address, including their nature and extent. It shall also define remedial action to the risks in question.



Risk management is a process of analysing and measuring the risk factors which could prevent the Company from achieving set goals. It also includes remedial action is taken to minimise the anticipated effects of such risk factors. To this end, the Board should assess on an annual basis aspects such as the Company's finance, liquidity and equity and perform stress tests if appropriate.

- 2.8.2 The Board shall ensure the existence of a satisfactory system of internal controls that is formal and documented. Internal controls shall provide reasonable certainty that the Company can attain its goals as regards:

- success and efficiency in operations;
- providing dependable and justified financial information to external parties;
- complying with laws and regulations that apply to the business.



Active internal control is a process made by the Board and day-to-day managers. Internal control is inter-linked with the Company's operations and intended to facilitate the Board's and day-to-day manager's task of supervising its operations. The internal control system also formalises the manner in which the Company works towards its goals, distributes responsibility in its internal activities and explains the responsibility of the Board in such work.

- 2.8.3 The Board shall regularly verify the effectiveness of internal controls and risk management. The Board may delegate the implementation of certain aspects of internal controls to parties within the Company. However, it should be done in such a manner that the Board is always informed of its progress. When responsibility for the implementation of control activities is delegated to particular sub-units or managers within the Company, this should be done formally so that there is no uncertainty as to where responsibility lies and how to respond to deviations.

## 2.9 Social responsibility and ethics

By setting a policy of corporate social responsibility, the Company contributes to a better economy and improved relations with invested parties. In this way, it also reinforces its operating basis with an improved perception of trust and credibility, increased risk awareness, happier employees and improved competitiveness.

- 2.9.1 The Board shall set a policy for social responsibility for the Company and a written code of ethics for the Company's Board members, its managers and employees.



Corporate social responsibility addresses the Company's responsibility for the effect that its operations have on people, the community and the environment. The Company shall set out its policy on its social responsibility and its interaction with invested parties and form practices to ensure compliance with that policy. Such a policy should address issues such as employee rights, human rights, regulatory compliance, environmental and climate issues, health and safety, social involvement and anti-corruption measures. The Board shall decide, in cooperation with employees and other possible invested parties, the standards of ethics on which the Company's conduct is based.

## 2.10 Shareholder relations

The Board's relations with shareholders should be based on honesty and be unambiguous and coordinated.

- 2.10.1 All shareholders shall have the same access to information on the interests of the Company. Dissemination of information to shareholders shall therefore be limited to shareholders' meetings or the dissemination of uniform information to all shareholders simultaneously.
- 2.10.2 The Board shall establish an effective and accessible arrangement for communications between shareholders and the Board so that shareholders have an equal opportunity to express their opinions to the Board. Shareholders should thereby have the opportunity to explain their views on the Company's operations to the Board and to ask the Board questions.
- 2.10.3 The Board shall be notified of all proposals or questions from shareholders and it shall supervise the Company's response.

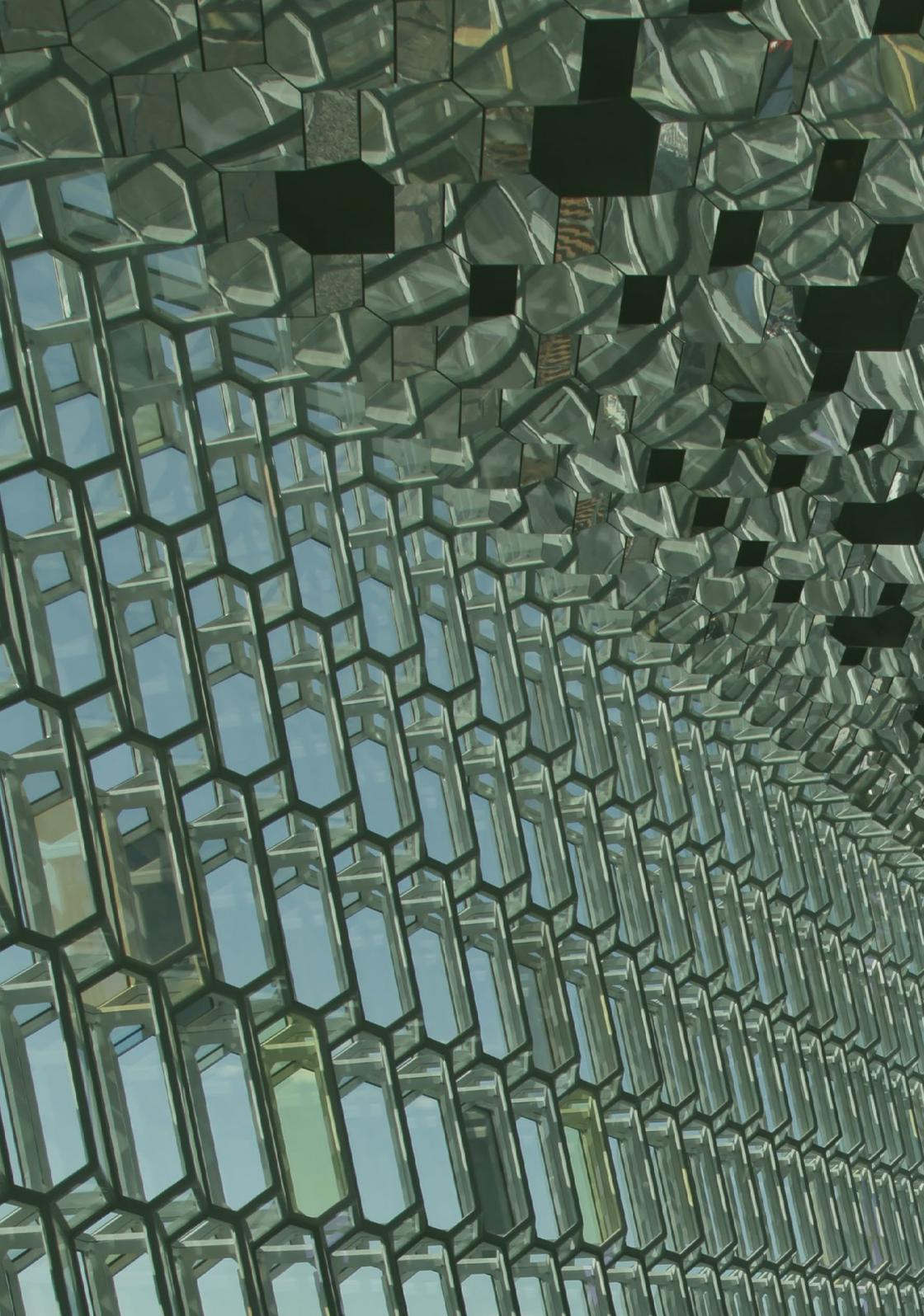
## 2.11 Minutes of Board meetings

Board meeting minutes should give a comprehensive overview of meeting discussions, the documents presented for each agenda item, and the decisions made by the Board.

- 2.11.1 Directors shall confirm the minutes with their signature.
- 2.11.2 The following information shall be present in the minutes of the Board:<sup>32</sup>
- Name and national identification number of the Company.
  - Meeting place, date and time.
  - Number of the Board meeting.
  - Attendance at the meeting.
  - If and when third parties attend, e.g. the Company's auditor, and when they exit the meeting.
  - Name of the Chair and Secretary of the meeting.
  - Agenda of the meeting.
  - Documents made available to Board members before the meeting or handed out or presented at the meeting. A copy shall be kept with the minutes.
  - Conclusion of each agenda item of the meeting, e.g. decisions made, items postponed, inquiries made during the meeting.
  - Whether and why a board member, the CEO or another person leaves the meeting during a discussion or decision-making of an agenda item and whether the relevant party had access to documentation related to the discussion or decision-making.
- 2.11.3 Minutes of Board meetings shall be made accessible to all Board members as soon as possible.

---

<sup>32</sup> KPMG. *Managers Handbook*, p. 56.



## 3 Directors of the Board

### 3.1 Chairman of the Board

The Chairman of the Board is responsible for the Board fulfilling its role in an effective and organised manner.

- 3.1.1 The procedural rules of the Board shall contain provisions describing the duties and responsibilities of the Chairman of the Board. This job description should contain provisions stipulating that the Chairman of the Board should:
- help ensure that the procedures of the Board are in conformity with legislation, regulations and good corporate governance and that the Board is provided with the best possible working conditions;
  - keep all Directors informed of issues concerning the Company and encourage the activity of the Board in all decision-making;
  - ensure that new Directors receive necessary information and guidance in the procedures of the Board and the Company's affairs, including the Company's policies, its objectives, risk parameters and operations;
  - ensure that the Board regularly updates its knowledge of the Company and its operations, in addition to ensuring that the Board generally receives, in the course of its work, detailed and explicit information and data in order to be able to perform its work;
  - ensure that Directors gets proper guidance regarding the main issues involving corporate governance, e.g. regarding their statutory duties and responsibilities, or ensure that Directors attend courses of that type;
  - take responsibility for relations between the Board and shareholders;
  - take the initiative in the preparation and revision of the Board's rules of procedure;
  - organise the agenda for the meetings of the Board, together with the Company's CEO, and supervise their convening and chairing. The Chairman of the Board shall ensure that Board meetings allow ample time for discussions and decision-making, in particular for larger and more complicated issues;
  - follow progress in the execution of Board decisions within the Company and confirm their implementation to the Board;
  - ensure that the Board makes an annual assessment of their work and that of the sub-committees.

Irrespective of these main responsibilities, it should be borne in mind that the position of Chairman of the Board does not, by law, come with any special rights or decision-making or implementation powers other than those of the Board as a whole. The Board may, however, mandate the Chairman to work on specific projects.

- 3.1.2 The Chairman of the Board shall not take on any work or projects for the Company other than those considered a natural part of his/her duties as Chairman of the Board, with the exception of specific projects that the Board has entrusted to him/her.

## 3.2 Directors

Anybody elected as Director shall perform his/her duties with integrity and be able to devote the time required by such duties.

### 3.2.1 Directors shall:

- make independent decisions in each individual instance and not favour the interests of specific shareholders who appointed them to the Board;
- understand the role of the Board, their own role and responsibilities, as well as have knowledge of the laws and regulations that apply to the running of a business and the activities of the Company;
- understand the objectives and projects of the Company and have an understanding of how they should organise their Board-membership responsibilities in order to contribute to the achievement of these objectives;
- call for and study all documents and data that they deem necessary in order to have a full understanding of the operations of the Company and to be able to make informed decisions;
- ensure that internal controls are in place and that the decisions of the Board are complied with;
- verify that laws, rules and regulations are adhered to at all times in the Company's operations;
- foster a good atmosphere within the Board;
- prevent their affairs, whether personal or business-related, from leading to a direct or indirect conflict of interests between themselves and the Company;
- have sufficient time to execute their duties with integrity.

 If a Director serves on multiple boards at the same time, it may be that the individual in question is unable to effectively fulfil his/her duties. The extent of a Director's duties varies between different boards and therefore it is not considered necessary to limit the number of boards that an individual can serve on. The risk of serving on multiple boards simultaneously should however be borne in mind, especially as regards the possibility of conflicts of interests between companies. It should also be noted that legislation may provide for a limit to the number of boards an individual can serve on, for example in the case of Board members of regulated entities.<sup>33</sup>

33 Cf. Article 52(4) of the Financial Undertakings Act and Article 54(8) of the Insurance Act.

- 3.2.2 Directors shall ensure that their views in connection with individual issues are entered in the minutes if they are not content with the decision-making of the majority of the Board.
- 3.2.3 If a dispute causes a Director to resign, the Director in question shall indicate this in a written statement to the Board.
- 3.2.4 Board members shall have access to independent expert consultants at the expense of the Company, if they consider it necessary to make independent and informed decisions.
- 3.2.5 If the decisions of the Board pertain to the affairs of an individual Director, e.g. negotiations between the Company and the Director in question, such decisions shall be taken by independent Directors of the Company.<sup>34</sup> In addition, the Director in question should leave the meeting while the Board addresses such issues. A Director shall disclose issues of this type as soon as they arise, as well as if he/she becomes aware that he/she cannot be considered independent.

---

<sup>34</sup> Cf. Article 72(1) of the PUBLIC Act and Article 48 of the PRILC Act.



## 4 Chief Executive Officer

The CEO shall carry out the day-to-day operations of the Company and must, in this respect, follow the policies and instructions laid down by the Board.<sup>35</sup> The CEO must at all times conduct his work with integrity and take account of the Company's interests.

### 4.1 Information on the CEO

4.1.1 The CEO shall provide personal information to ensure that shareholders are informed of main points relating to him/her. The following information on the CEO shall be published in the Company's corporate governance statement:

- Name, education, chief occupation and professional experience.
- Date of appointment.
- Other commissions of trust, e.g. membership on boards of other companies.
- Shares in the Company, whether direct ownership or through associated parties.
- Share-option agreements with the Company.
- Connections with principal clients and competitors of the Company and major shareholders in the Company.

### 4.2 The role of the CEO

4.2.1 The CEO shall carry out the day-to-day operations of the Company in accordance with the policies and instructions laid down by the Board.

4.2.2 The CEO shall ensure that Directors of the Board are regularly provided with accurate information on the Company's finances, development and operations to enable them to perform their duties. The information shall be in the form and of the quality determined by the Board. Information and data shall be available to Directors in good time for Board meetings, and between such meetings. All Directors shall receive the same information. Moreover, the information shall be available when needed and as up-to-date and accurate as possible.

4.2.3 The CEO shall submit any other projects undertaken by him/her, which are unrelated to the Company, to the Board for discussion.

<sup>35</sup> Cf. Article 68(1) of the PUBLIC Act and Article 44(2) of the PRILC Act.



## 5 Sub-committees of the Board

The establishment of sub-committees can improve working practices regarding issues that the Board must deal with and can make its work more effective. This is particularly the case for affairs concerning financial supervision and remuneration of the CEO and day-to-day managers.



The establishment of sub-committees can increase efficiency and improve procedure of boards, especially in larger companies where the purview of the Board is extensive. Such arrangements make it possible to devote more time and dig deeper into issues concerning financial supervision, risk factors and remuneration. When one or more Board members are not independent of the Company or if employees of the Company serve on the Board, they are less suitable to address matters of financial supervision, risk assessment and (own) remuneration.

### 5.1 Establishment and operations of sub-committees

- 5.1.1 The Board is responsible for the appointment and activities of sub-committees and they operate under its authority. The establishment of a sub-committee does not reduce the responsibilities of the Board or relieve it of any liability. All Board members shall have an overview of the matters delegated to sub-committees and be aware of the fact that decision-making powers remain with the entire Board.
- 5.1.2 The role and main projects of sub-committees shall be stipulated in their rules of procedure, which shall be posted to the Company's website. The rules of procedure shall state that new committee members should receive instruction and information on the work and procedures of the committee.
- 5.1.3 Sub-committees shall annually evaluate their own work and that of individual committee members under a pre-determined arrangement.

### 5.2 Information obligations of sub-committees

- 5.2.1 Sub-committees shall ensure that Directors regularly receive accurate information on the main projects of the committee.
- 5.2.2 Sub-committees shall at least annually submit to the Board a report on their projects.
- 5.2.3 Information and documents from the sub-committees shall be available to Board members in good time before Board meetings, as well as between meetings, and all Board members should receive the same information. Moreover, information shall be available when needed and as accurate as possible.
- 5.2.4 The Board shall decide upon a procedure for information provision from the sub-committees in its operating rules, e.g. whether the Board should have access to the minutes of sub-committees' meetings.

### 5.3 Audit Committee

- 5.3.1 Public-interest entities shall have an Audit Committee. Moreover, the appointment of an Audit Committee is recommended if the scope of a given company is such that it is considered important for surveillance and reporting on financial affairs to receive further discussion and analysis in smaller groups than the entire Board.
- 5.3.2 For the execution of its work, the Audit Committee shall have extensive access to data from managers and internal and external auditors. The Committee may request reports and commentaries from such parties as relate to the Committee's work.

#### Appointment of Committee Members

- 5.3.3 The Audit Committee shall be established no later than one month after the AGM and shall consist of at least three members. In companies other than public-interest entities, the committee may be composed of two members, but in that case both of them need to be independent of the Company.
- 5.3.4 Committee members shall be independent from the auditor(s) of the Company. A majority of members shall be independent of the Company and its day-to-day management. Furthermore, one member, who is independent of the day-to-day management and the Company, shall also be independent of major shareholders. The CEO and other day-to-day managers may not be members of the Committee.

 It is not necessary to appoint members from outside the Board to the Audit Committee, unless it is lacking sufficient expertise.

- 5.3.5 Committee members shall have qualifications and experience in accordance with the activities of the Committee, and at least one member shall have detailed expertise in the field of accounting or auditing.

 When assessing whether or not a Committee member has such knowledge, the following criteria may be used:

- Knowledge of generally accepted accounting principles.
- Experience in the preparation and analysis of financial statements and auditing
- Knowledge of internal controls relating to accounting.

#### Role of the Audit Committee

- 5.3.6 The Audit Committee shall review all financial information and procedures regarding information disclosure from day-to-day managers and internal and external accountants. The Committee shall verify that the information that the Board receives regarding the operations, standing and future prospects of the Company are reliable and give the clearest possible perspective of the Company at any given time.

- 5.3.7 The Audit Committee shall annually schedule a joint meeting of the Board, the Committee and the external auditors, where the day-to-day management of the Company is not present.
- 5.3.8 The role and main projects of the Committee shall be set out in its rules of procedure. The Audit Committee shall, among other things, have the following roles<sup>36</sup> irrespective of the responsibility of the Board, managers or others in this field:
- Monitoring working processes in the preparation of financial statements.
  - Monitoring the organisation and effectiveness of the Company's internal controls, internal auditing, if applicable, and risk management.
  - Monitoring and checking the auditing of the Company's annual accounts and consolidated accounts.
  - Assessing the independence of external auditors or auditing firm and monitoring any other work performed by the external auditors or auditing firm. The Committee shall in its assessment take into consideration the items specified in Section 2.3.
  - Presenting proposals to the Board regarding the selection of external auditors or auditing firm.



Other tasks undertaken by the Committee may be as follows, if appropriate:

- Assessing financial statements and management reports on the Company's finances.
  - Monitoring risk management and responses to risks.
  - Following up on remedies to shortcomings identified during internal controls.
  - Assessing the need for and handling the recruitment of an internal auditor.
  - Handling communication and monitoring in respect of internal auditing and external auditors.
  - Assessing the work of both internal and external auditors of the Company.
- 5.3.9 Detailed provisions on the execution of the roles of the Audit Committee shall be included in its rules of procedure.

## 5.4 Remuneration Committee

- 5.4.1 The Board shall appoint a Remuneration Committee to establish a remuneration policy for the Company, in accordance with that set out in Section 2.7, and to negotiate with the CEO and other employees, if they are Board members, on wages and other employment terms.<sup>37</sup>

<sup>36</sup> Cf. Article 108B of the Annual Accounts Act.

<sup>37</sup> Pursuant to Article 79A(1) of the PUBL Act and Article 54A(1) of the PRILC, Boards of companies that have an obligation to vote for an Auditor under the Annual Accounts Act shall approve the Company's remuneration policy.



The establishment of a Remuneration Committee is particularly recommended if the CEO is also a Director of the Board or if other Directors are also employees of the Company or if the CEO is not independent of major shareholders in the Company.

## Appointment of Committee Members

- 5.4.2 The Remuneration Committee shall consist of at least three members, the majority of whom shall be independent of the Company and its day-to-day management. However, the Committee may consist of two members, in which case both members shall be independent of the Company.<sup>38</sup>
- 5.4.3 Owing to the nature of the activities of the Remuneration Committee, neither the CEO nor other employees may be members of the Committee. If the Board finds it more suitable to undertake the role of the Remuneration Committee itself, the Directors of the Board who are also employees of the Company may not be involved in such work.

## Role of the Remuneration Committee

- 5.4.4 The role and main tasks of the Remuneration Committee shall be stated in its rules of procedure and shall take account of the needs of the Company.
- 5.4.5 The role of the Committee shall include:
- preparing the Company's remuneration policy and ensuring that it is enforced;
  - ensuring that wages and other employment terms are in accordance with laws, regulations and best practices as current at any given time;
  - preparing the decisions of the Board concerning the wages and other employment terms of day-to-day management and employees who also are Board members;
  - taking an independent stance on the effect of wages on the Company's risk exposure and risk management, in cooperation with the Company's Audit Committee.
- 5.4.6 The Remuneration Committee may seek the involvement of expert consultants in the execution of its duties. Such consultants shall be independent of the Company, its day-to-day managers. The Committee is responsible for verifying that such consultants are independent.

---

<sup>38</sup> See further on the independence of Board members in Section 2.3.





## 6 Information on Corporate Governance

Publishing information on corporate governance increases transparency of governance towards shareholders and other stakeholders. Publishing such information therefore helps increase the credibility of companies.

### 6.1 Corporate governance statement

6.1.1 A statement on the Company's governance for the preceding year shall be published annually in a separate chapter in its annual accounts or annual report. The corporate governance statement shall be accessible on the Company's website.

6.1.2 The statement shall contain the following items:

1. References to the rules on corporate governance that the Company follows, or is obliged by law to follow, and where such rules can be accessed by the public.
2. Whether the Company departs from any of the relevant guidelines and if so, which ones. The reasons for departure shall be indicated, as shall the measures used instead. If the deviation is temporary, the Company must explain how the guidelines will later be met.<sup>39</sup>
3. References to any other rules or guidelines that have been followed and specifically apply to the type of business the Company is involved in.
4. A description of the main aspects of internal control and the Company's risk management.
5. Details of the Company's policy on social responsibility and ethical standards.
6. Description of the composition and activities of the Board, management and sub-committees of the Board.
7. Arrangements for the appointment of Nomination Committee members.
8. Arrangements for the appointment of sub-committee members.
9. Information on the number of Board meetings and sub-committee meetings as well as their attendance.
10. Where written rules of procedure for the Board and its sub-committees may be accessed.
11. Information on Directors of the Board (see Section 2.3.6).
12. Information on which Directors are independent of the Company and major shareholders.
13. Principal aspects of the Board's performance assessment.
14. Information on the Company's CEO (see Section 4.1.1) and a description of his/her main duties.

<sup>39</sup> See further on the 'comply or explain' rule in the introduction.

**15.** Information on infringements of laws and regulations that the appropriate supervisory or ruling body has determined.

**16.** Arrangements for communications between shareholders and the Board.

6.1.3 The above shall apply equally to the consolidated financial statements.

6.1.4 The Board shall review the Company's corporate governance statement and the Company's auditor shall ensure that it is included in the annual accounts/annual report and that its description of the main features of internal controls and risk management is in accordance with the Company's financial statements.

## 6.2 The Company's website

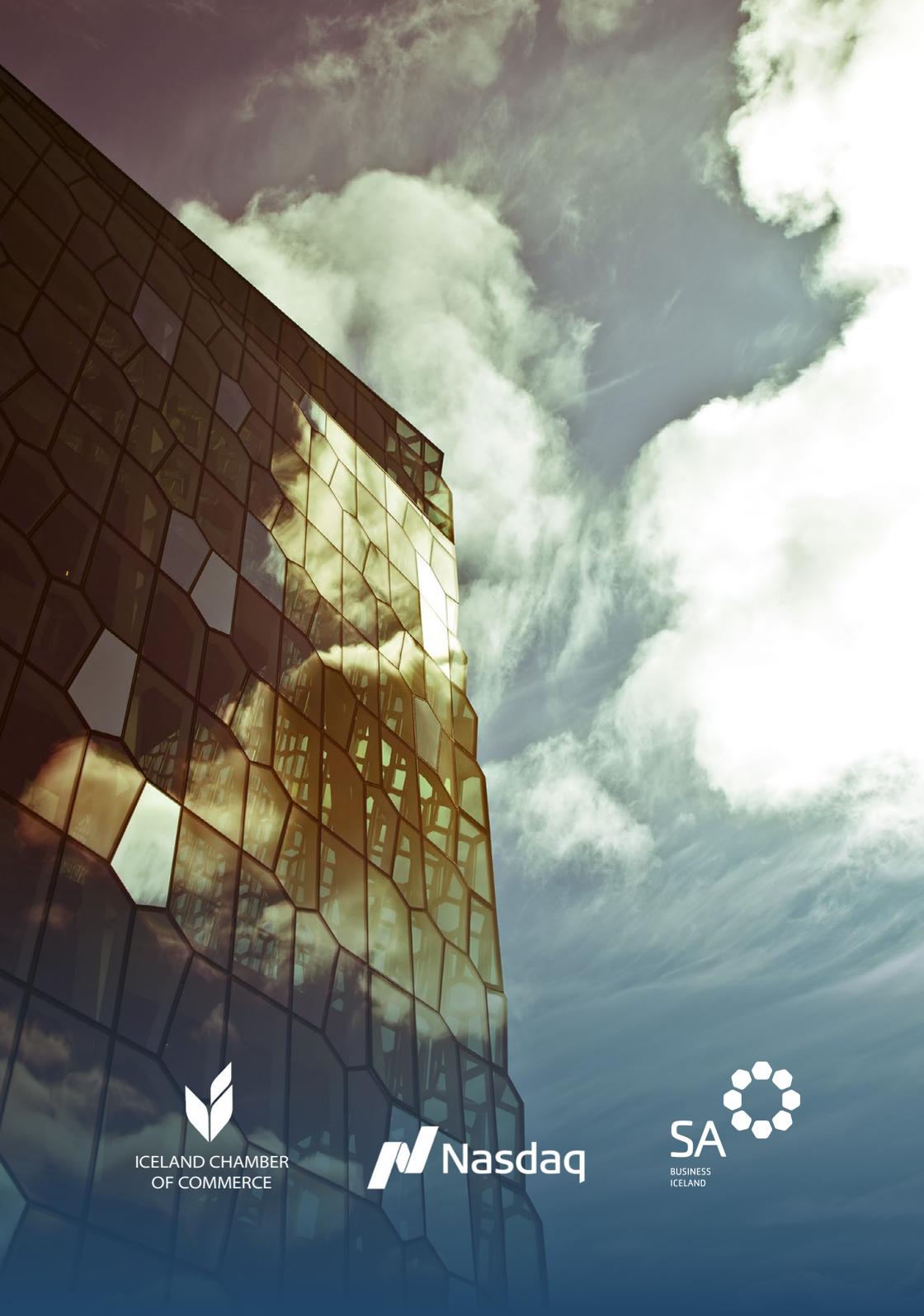
6.2.1 The Company shall reserve a section of its website for good corporate governance and shall publish its corporate governance statement there along with all the main information on the activities of the Company.

6.2.2 The Company's website shall include the following information:

- 1.** The Company's corporate governance statement.
- 2.** The Company's remuneration policy.
- 3.** Summarised information on the Company's Board of Directors, CEO, auditors and members of sub-committees.
- 4.** Information on the Company's shareholders' meetings, including time and location, information on candidates to the Board, and the agenda of the meeting, together with the date of issue of the annual accounts and interim financial statements.
- 5.** Meeting notices, minutes of shareholders' meetings and documents presented at the meeting. It is not necessary to publish a list of the shareholders and proxies that have attended meetings.
- 6.** Information on the arrangements for the appointment of the Nomination Committee, the working procedures of the Committee and information on the Committee members. Information on Committee members shall be published at least six months before the Annual General Meeting.
- 7.** The Nomination Committee's justification for its proposal of candidates.
- 8.** Information on how the shareholders can submit candidate proposals to the Nomination Committee.
- 9.** The Company's Articles of Association.
- 10.** The Board's rules of procedure.
- 11.** The Company's annual accounts and the report of the Board of Directors.

6.2.3 The abovementioned information shall be updated within seven days from the time that the Directors and/or the executive managers become aware that the information has changed.





ICELAND CHAMBER  
OF COMMERCE

