

RULES

on Central Bank of Iceland Facilities for Financial Undertakings

Article 1

Objectives

With reference to Article 7, Paragraph 1 and Article 38 of the Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, the Central Bank has set the following Rules on Central Bank facilities for financial undertakings (credit undertakings).

The objective of these Rules is to clarify the legal relationship between the Central Bank and those financial undertakings that are eligible for Central Bank facilities. Facilities are subject to these Rules and any terms and conditions set on the basis of them.

Article 2

Scope

The following financial undertakings are eligible for Central Bank facilities:

1. Financial undertakings (credit undertakings) that have been granted an operating licence pursuant to Article 4, Paragraph 1, Items 1 and 2 of the Act on Financial Undertakings, no. 161/2002.
2. Branches of foreign financial undertakings that are established in and hold an operating licence in another member state of the European Economic Area, cf. Article 31 of Act no. 161/2002, and operate in Iceland.
3. Branches of foreign financial undertakings that are established in a country outside the European Economic Area and have been authorised by the Financial Supervisory Authority, pursuant to Article 33 of Act no. 161/2002, provided that the undertaking concerned is authorised to pursue activities in its home state parallel to those provided for in Article 4, Paragraph 1, Items 1 and 2 of the said Act, that the activities that the undertaking proposes to pursue in Iceland are comparable, and that its activities in its home state are subject to supervision comparable to that provided for in Act no. 87/1998.

Article 3

Definitions

Term deposits: Deposits held by financial undertakings with the Central Bank for an agreed period of time.

Overnight loan: A loan granted until the following business day against financial collateral that the Central Bank deems eligible.

Repurchase agreement (repo): An agreement for the purchase/sale by the Central Bank from/to a financial undertaking, which confers upon the financial undertaking the right and the responsibility to resell/repurchase the securities, or equivalent securities, at a specified time and price. Repurchase agreements involve the purchase and sale of securities on a regulated securities exchange approved by the Central Bank.

Financial collateral arrangement: The transfer of full ownership rights to financial collateral or the pledge of financial collateral for the purpose of securing a financial undertaking's obligations towards the Central Bank.

Currency swap agreement: An agreement for the purchase or sale of currency that is exchanged back after a specified time with an agreed reverse trade.

Certificate of deposit: An electronic certificate for a deposit with the Central Bank of Iceland, issued to a financial undertaking.

Market value: The nominal value of financial collateral multiplied by the reference price.

Covered bond: A bond or other unilateral, unconditional, written debt instrument that enjoys special rights of realisation in the issuer's collateral portfolio and is issued in accordance with Act no. 11/2008.

Collateralised loans: Loans granted against collateral in securities that the Central Bank deems eligible.

Reference price: End-of-day price of securities on the last trading day before valuation of the securities takes place in an organised securities exchange or recognised data vendor approved by the Central Bank.

Business day: A day on which commercial banks or savings banks are open for business, from Monday through Friday.

Article 4

Currency of transactions

Central Bank facilities and overnight loans are granted in Icelandic krónur. The Central Bank may authorise transactions in foreign currency.

Article 5

Current accounts

Central Bank facilities under these Rules are subject to the requirement that the financial undertaking in question have established a current account with the Central Bank.

Financial undertakings' facilities are credited to or debited from their current accounts, as appropriate, by the Central Bank in accordance with these Rules, and the financial undertaking is obliged to maintain an adequate disposable balance on its account at all times.

Article 6

Regular business days of the Central Bank of Iceland

Business days for regular facilities, cf. Article 7, are days on which commercial banks and savings banks are open for business. If the performance date is not the same as the transaction date, the Central Bank may decide, with at least five days' notice, what day shall be the performance date, and the maturity shall be adjusted accordingly. Unless a decision is made to the contrary, the performance date shall be moved to the business day immediately preceding, shortening the maturity accordingly. New Year's Eve is not considered a regular business day.

Article 7

Regular facilities

Regular Central Bank facilities, which bear maturities set by the Bank, for the purpose of increasing or reducing the supply of liquidity, are as follows:

- a. Loans against financial collateral deemed eligible by the Central Bank, cf. Article 10;
- b. Central Bank certificates of deposit; i.e., debt instruments issued by the Bank to financial undertakings;
- c. Term deposits;
- d. Bills issued by the Central Bank;
- e. Currency swap agreements;
- f. Repurchase agreements involving securities deemed eligible by the Central Bank, cf. Article 10.

Article 8

Arrangements and terms of facilities

Interest rates on Central Bank of Iceland facilities are in accordance with the Central Bank's interest rate announcements, which are published on its website.

The Central Bank may restrict the proportion of the amount offered in the form of facilities that will be made available to a specific financial undertaking. The Bank may reject all bids or a portion of them.

The Central Bank shall publish information on general arrangements and other terms of facilities, as well as financial collateral arrangements, on its website.

Article 9

Agreements on financial collateral arrangements

Financial collateral arrangements for Central Bank facilities for financial undertakings are subject to the provisions of Act no. 46/2005.

An agreement on financial collateral arrangements shall be made in writing or in electronic form, so that the establishment of the collateral arrangements can be legally verified.

The agreement shall specify the obligations and the collateral to which it applies.

Article 10

Financial collateral arrangements for Central Bank facilities

The following collateral is eligible for Central Bank facilities:

1. Financial undertakings' term deposits with the Central Bank;
2. Certificates of deposit issued by the Central Bank;
3. Bills issued by the Central Bank;
4. Bonds issued by the Republic of Iceland in Icelandic krónur;
5. Government-guaranteed bonds issued in Icelandic krónur;
6. Covered bonds, whose collateral portfolio must consist solely of bonds secured by residential property in Iceland. Financial undertakings may provide as collateral up to 3 b.kr. market value from their own covered bond issues.
7. Individual bonds issued by Municipality Credit Iceland Plc or the City of Reykjavík and deemed eligible as collateral by the Central Bank.

Securities according to Paragraph 1, Items 2-7 must satisfy all of the following conditions:

1. The securities must be electronically registered in a central securities depository recognised by the Central Bank.
2. The securities must have a market maker, either on a regulated securities market or a data utility approved by the Central Bank, where bid and ask quotes are published.
3. The issued market value shall be more than 5 b.kr., and it must be confirmed that this amount has been sold.

The Central Bank may decide to derogate from the conditions laid down in Paragraph 2, Items 2 and 3 in connection with securities according to Paragraph 1, Items 2-5.

The Bank shall publish on its website the bond series it accepts.

Article 11

Limits on the eligibility of securities as collateral

Financial undertakings are responsible for ensuring that securities provided under financial collateral arrangements for obligations to the Central Bank are free of liens and encumbrances.

Subordinated instruments may not be provided as collateral.

An issuer may not use its own bonds as collateral for its own facilities with the Central Bank, with the exception of covered bonds as provided for in Article 10, Paragraph 1, Item 6.

If securities are drawn, if they mature, or if the Financial Supervisory Authority revokes the licence to issue covered bonds that have been submitted as collateral, the financial undertaking shall submit new eligible collateral with an appraised value at least as high as that of the previously submitted collateral.

The Central Bank shall assess the eligibility of collateral in each instance. The Central Bank reserves the right to reject securities submitted as financial collateral if there is doubt as to whether the conditions for their eligibility as collateral are fulfilled.

Article 12

Valuation of eligible collateral securities

If no reference value of the securities is available on a regulated securities market or through recognised data vendors approved by the Central Bank, the Central Bank shall determine the reference value.

In the valuation of securities provided as financial collateral for Central Bank facilities, a haircut shall be deducted from the reference price. The Central Bank shall determine the haircut and publish it on the Bank's website.

If the need arises – for instance, due to market conditions – the Central Bank may decide to apply a haircut different from that previously decided and published on the Bank's website.

The Central Bank may refuse an application for a facility if no agreement is reached on valuation of collateral.

Article 13

Overnight loans

An overnight loan is granted until the next business day, against financial collateral deemed eligible by the Central Bank, cf. Article 10. A financial undertaking may request an overnight loan if it cannot meet its reserve requirements in another manner. Furthermore, the Central Bank may grant a financial undertaking an overnight loan in order to prevent an overdraft on its current account at the end of the business day. The Central Bank may grant overnight loans in other instances.

The stock of outstanding overnight loans may never exceed ninety percent (90%) of the market value of securities provided as collateral.

The Central Bank may amend the terms of overnight loans without prior notice.

Article 14

Additional collateral security

The Bank reassesses the value of financial collateral on a regular basis. Because the market value of securities can fall without notice, such a review may lead the Central Bank to require additional collateral security. If rules or terms and conditions stipulate that collateral value should always exceed a specified minimum, and if the collateral value falls below it, the financial undertaking shall provide additional collateral to enable the said minimum to be restored.

If the Central Bank considers it necessary to require additional collateral in accordance with Paragraph 1, the financial undertaking concerned shall submit satisfactory collateral immediately.

Article 15

Custody of securities

Securities provided as collateral shall be registered with a securities depository that has been granted an operating licence pursuant to the Act on Electronic Registration of Title to Securities, no. 131/1997. It is permissible to submit securities registered electronically with a foreign securities depository recognised by the Central Bank.

Securities registered with an Icelandic securities depository shall be deposited to the respective financial undertaking's securities deposit account with the Central Bank, and the account shall be pledged to the Central Bank in accordance with an explicit declaration to this effect.

If the securities are registered with a foreign securities depository, they shall be held in custody with a custodian (account operator) recognised by the Central Bank.

Article 16

Default and the Central Bank's right of realisation

The Bank is authorised to transfer funds from a financial undertaking's deposit account in order to pay the undertaking's past-due debts to the Bank. Such transfers of funds shall be reported to the financial undertaking concerned as soon as possible.

If a financial undertaking does not remit payment on its liabilities on the payment due date, penalty interest shall be paid on the amount in default, cf. Article 6, Paragraph 1 of the Act on Interest and Price Indexation, no. 38/2001, for the period from the due date until the date of payment.

The Central Bank may redeem securities that have been provided as collateral and allocate them, without prior notice or announcement, towards the amount in default.

Article 17

Exclusion from facilities

The Central Bank may, without prior notice, exclude a financial undertaking from further facilities under these Rules if it has not complied with the provisions herein.

The Central Bank may also exclude a financial undertaking from facilities if the undertaking does not fulfil the provisions of Chapter X of Act no. 161/2002 concerning liquid assets and own funds, and any Governmental directives set on the basis of those provisions.

Article 18

Cost of facilities

The financial undertaking shall bear all costs incurred by the parties to the facilities. In the case of securities repurchase transactions, the financial undertaking shall bear the cost of both the purchase and the sale of the securities.

Article 19

Terms and conditions for Central Bank of Iceland facilities

The Central Bank sets terms and conditions that further describe the legal relationship between the Bank and financial undertakings according to these Rules, and that contain the following provisions, among others:

1. Obligations of parties with respect to facilities under these Rules;
2. Execution of facilities and arrangements for communication;
3. Financial collateral arrangements;
4. Provisions on custody of financial collateral;
5. Default and the Central Bank's right of realisation in case of default;
6. The financial undertaking's duty to disclose information.

The terms and conditions for Central Bank of Iceland facilities are published on the Bank's website.

As soon as a facility between the Central Bank of Iceland and a financial undertaking has been executed, the financial undertaking is considered to have agreed to the applicable terms and conditions.

If the Central Bank decides to amend the terms and conditions for Central Bank facilities, such amendments shall take effect with at least three business days' notice. Such amendments shall not apply to outstanding facilities.

Article 20

Entry into effect

These Rules enter into force on 31 December 2019. At that time, the Rules on Central Bank of Iceland Facilities for Financial Undertakings, no. 553 of 1 July 2009, shall expire. These Rules were discussed and approved at the meeting of the Monetary Policy Committee on 9 December 2019.

Temporary Provisions

I.

Notwithstanding the provisions of Article 2, Items 1 and 3 of these Rules, financial undertakings that have received an operating licence pursuant to Article 4, Paragraph 1, Item 3 of the Act on Financial Undertakings, no. 161/2002, are eligible for Central Bank facilities. This temporary provision shall expire on 28 February 2020.

Reykjavík, 18 December 2019

Central Bank of Iceland

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Section B – Date of issuance: 20 December 2019