

## RULES on Minimum Reserve Requirements

### Article 1

#### *Definitions*

*General reserve account:* An account with the Central Bank of Iceland, held by an entity subject to minimum reserve requirements, which the Bank has designated for fulfilment of the average reserve maintenance requirement during the reserve maintenance period.

*Reserve ratio:* A ratio, determined by the Monetary Policy Committee, which is multiplied by the reserve base and is used in this manner to calculate the reserve amount according to these Rules.

*Minimum reserve requirements:* Requirements obliging an entity subject to minimum reserve requirements to hold a further specified amount in a reserve account with the Central Bank of Iceland throughout the reserve maintenance period. Settlement of reserve requirements may take the form of a fixed reserve requirement or an average reserve maintenance requirement.

*Reserve maintenance period:* The period during which an entity subject to minimum reserve requirements must fulfil the imposed reserve requirements: namely, from the 21st day of the month through the 20th day of the following month.

*Residual maturity:* The number of days remaining until a debt matures, counted from the reporting date according to Article 7 until the first possible maturity date.

*Repo (repurchase agreement):* An amount of cash received in exchange for securities sold by a party subject to minimum reserve requirements at a given price under a commitment to repurchase the same (or similar) securities at a fixed price on a specified future date.

*Deposits:* For the purpose of these Rules, deposits are amounts owed to creditors by entities subject to minimum reserve requirements, including deposits with agreed maturities and those that are redeemable at notice. Deposits do not include amounts owed to creditors by entities subject to minimum reserve requirements and deriving from the issuance of negotiable debt instruments.

*Money market securities:* Negotiable debt instruments, other than bonds or bills, that are traded in the money market.

*Fixed reserve account:* A locked account with the Central Bank of Iceland into which entities subject to minimum reserve requirements must deposit the funds required to fulfil their fixed reserve requirements.

*Issued bonds and bills:* Securities, other than shares or money market securities, that are issued by an entity subject to minimum reserve requirements and can be traded in the secondary market.

### Article 2

#### *Entities subject to minimum reserve requirements*

The following entities are subject to minimum reserve requirements as set forth in these Rules:

1. Financial undertakings that have been granted an operating licence pursuant to Article 4, Paragraph 1, Subparagraphs 1, 2, and 3 of the Act on Financial Undertakings, no. 161/2002.
2. Parties other than those listed in Item 1 that are at any time authorised by law to accept deposits from the public for custody and investment.
3. 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.
4. 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, to operate a branch in Iceland, provided that the

undertaking concerned is authorised to pursue activities in its home state parallel to those provided for in Article 4, Paragraph 1, Subparagraphs 1, 2 and 3 of the said Act, that the activities that the undertaking pursues 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.

Minimum reserve requirements do not apply to financial undertakings that operate on the basis of Article 4, Paragraph 1, Subparagraph 3 of Act no. 161/2002 but are bound by provisions in special legislation or the current fiscal budget with respect to the procurement of funding for their activities.

If an entity subject to minimum reserve requirements is wound up in accordance with Chapter XII of Act no. 161/2002, it shall cease to be subject to minimum reserve requirements according to these Rules.

### Article 3

#### *Reserve base*

The following liability items constitute the reserve base of an entity subject to minimum reserve requirements:

1. Deposits with a residual maturity of two years or less.
2. Issued debt securities and bills with a residual maturity of two years or less.
3. Money market instruments with a residual maturity of two years or less.

The following liability items are not included in the reserve base:

1. Debt owed to the Central Bank of Iceland.
2. Repurchase agreements (Repos).
3. Debt owed by an entity subject to reserve requirements to another entity subject to reserve requirements.
4. The debts of an entity subject to minimum reserve requirements due to the balance in an account subject to special restrictions; cf. Article 2, Item 8 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016.
5. The debts of an entity subject to minimum reserve requirements due to the balance in an account that is established in connection with the obligation pursuant to the Temporary Provision of the Foreign Exchange Act, no. 87/1992; cf. Article 2 of Act no. 42/2016.

### Article 4

#### *Reserve ratios and distribution of settlement*

The Monetary Policy Committee determines the reserve ratio and the distribution of minimum required reserves between the fixed reserve requirement and the average reserve maintenance requirement according to Article 6 of these Rules. In its decision, the Monetary Policy Committee may also determine different reserve ratios for individual components of the reserve base according to Article 3 of these Rules.

The Monetary Policy Committee's decisions on minimum reserve ratios and the distribution of the settlement of minimum required reserves shall be made public. Entities subject to reserve requirements shall be notified of the reserve amount in accordance with Article 5, Paragraph 1 of these Rules.

### Article 5

#### *Minimum reserve amount*

The minimum reserve amount shall be the product of the reserve base and the reserve ratio, cf. the definitions in Articles 3 and 4 of these Rules, and this amount is then split into the reserve amount for the fixed reserve requirement, on the one hand, and the average reserve maintenance requirement, on the other, upon settlement of the reserve requirements according to Article 6 of these Rules. The

minimum reserve amount is based on the average reserve base as calculated according to these Rules at the end of the preceding two months, and the minimum reserve requirement must be fulfilled each calendar day of each reserve maintenance period. In general, entities subject to minimum reserve requirements shall be notified, two days before the beginning of the reserve maintenance period, of the minimum reserve amount and its distribution between the fixed reserve requirement and the average reserve maintenance requirement according to Article 6 of these Rules.

## Article 6

### *Settlement of reserve requirements*

Following the decision of the Monetary Policy Committee, minimum reserve requirements shall be fulfilled in the following manner:

1. *Fixed reserve requirement*

The minimum reserve requirement is then fulfilled by deposit of the reserve amount to a fixed reserve account with the Central Bank at the beginning of the reserve maintenance period. The reserve amount is locked in the account until the end of the reserve maintenance period. On the 21st day of each month or the business day immediately following, if the 21st is not a business day, the Central Bank adjusts the reserve amount for the upcoming reserve maintenance period by transferring funds between the general reserve account and the fixed reserve account of entities subject to minimum reserve requirements, which could entail either a deposit or a withdrawal from an account, as applicable in each instance.

2. *Average maintenance*

The reserve requirement is fulfilled using the general reserve account. The Central Bank gives notification in writing of which account is the general reserve account. Entities subject to minimum reserves must ensure that the average balance on their reserve account with the Central Bank during each reserve maintenance period, including the adjustment referred to in Item 1, does not fall below the specified reserve amount.

If the balance on the general reserve account of an entity subject to minimum reserve requirements is insufficient to adjust the reserve amount of the fixed reserve requirement for a new reserve maintenance period, the Central Bank calculates *per diem* fines according to Article 2, Paragraph 1 of the Rules on the Imposition of Periodic Penalty Payments on the shortfall. If the balance on the general reserve account is below the amount required to fulfil the average reserve maintenance requirement, the Central Bank calculates *per diem* fines according to Article 2, Paragraph 1 of the Rules on the Imposition of Periodic Penalty Payments on the shortfall. The fines according to this Paragraph shall be debited from the current account of the entity concerned after at least seven days have passed since the decision on *per diem* fines was communicated to the entity; cf. Article 6, Paragraph 3 of the Rules on the Imposition of Periodic Penalty Payments. Determination of *per diem* fines, the right of appeal, and collection are subject, where appropriate, to the provisions of Articles 6, 7, and 8 of the Rules on the Imposition of Periodic Penalty Payments.

The Monetary Policy Committee determines interest rates on reserve amounts, both for the fixed reserve requirement and the average maintenance requirement.

## Article 7

### *Reporting*

For the calculation of the minimum reserve requirement, monthly itemised reports from entities subject to minimum reserve requirements, providing information on the reserve base as defined in Articles 3 and 4 of these Rules, shall have been received by the Central Bank no later than the 11th day of each calendar month, or the preceding day if the day of submittal is a general bank holiday.

If an entity subject to minimum reserve requirements neglects to submit an itemised calculation of the reserve requirement to the Central Bank within the time limit specified in Paragraph 1 of this Article, the Bank is authorised to set the reserve amount on the basis of the amount for the current reserve maintenance period, using the same distribution between the fixed and average maintenance requirements, plus a 20% premium, and that figure shall constitute the reserve amount for the upcoming reserve maintenance period.

At least once a year, entities subject to minimum reserve requirements shall review the methods for reporting reserve requirements and send the Central Bank a written statement on them. On the basis of this statement, the Central Bank may provide the entity subject to minimum reserve requirements with guidelines on improved reporting.

#### Article 8

##### *Entry into effect*

These Rules are set in accordance with the authority contained in Article 11, Paragraph 2 of the Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, cf. Article 24, Paragraph 1, Article 29, Paragraph 1, and Article 38 of the same Act, and shall enter into force immediately. The first reserve maintenance period according to the Rules shall begin on 21 June 2018. Until that date, the Rules on Minimum Reserve Requirements, no. 870 of 30 September 2015, shall remain in effect as regards settlement and intermediation of reserve requirements; however, they shall expire at the beginning of the first reserve maintenance period according to these Rules. These Rules were discussed and approved at the meeting of the Monetary Policy Committee on 4 June 2018.

Reykjavík, 4 June 2018  
*Central Bank of Iceland*

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