

RULES
on Central Bank of Iceland Facilities for Financial Undertakings

Article 1

Objective

With reference to the first paragraph of Article 7 and Article 38 of Act No. 36/2001, on the Central Bank of Iceland, the Central Bank has adopted the following Rules on Central Bank facilities for financial undertakings (credit institutions).

The objective of these Rules is to clarify the legal relationship between the Central Bank and the financial undertakings which may have facilities with it. Such facilities shall be governed by these Rules and conditions set on their basis.

Article 2

Scope

The following financial undertakings may have facilities with the Central Bank:

1. financial undertakings (credit institutions), which have been granted an operating licence pursuant to Points 1, 2 and 3 of the first paragraph of Art. 4 of Act No. 161/2002, on Financial Undertakings;
2. branches of foreign financial undertakings that are established and hold a comparable operating licence in another state of the European Economic Area, cf. Art. 31 of Act No. 161/2002, and operate in Iceland;
3. branches of foreign financial undertakings established in a state outside the European Economic Area which have been authorised by the Financial Supervisory Authority, pursuant to Art. 33 of Act No. 161/2002, provided the undertaking has a similar operating licence as referred to in Points 1, 2 and 3 of the first paragraph of Article 4 of the same Act in its home state, that the activities the undertaking proposes to pursue in Iceland are comparable, and that the undertaking's activities are subject to supervision in its home state comparable to that provided for in Act No. 87/1998.

Article 3

Definitions

Term deposits: Deposits of a financial undertaking with the Central Bank for an agreed period.

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

Repurchase agreement: An agreement whereby the Central Bank purchases securities from or sells securities to a financial undertaking that, at the same time, acquires the right and obligation, after a specific interval, to repurchase or resell the securities or equivalent ones at a specified price. Repurchase transactions are concluded through the purchase and sale of securities on a regulated securities market approved by the Central Bank.

Financial collateral arrangement: The transfer of full ownership of financial collateral or pledging of financial collateral for the purpose of securing a financial institution's obligations to the Central Bank.

Currency swap: An agreement for the purchase or sale of currency which is then reversed by an opposite trade after a specified time in accordance with the agreement.

Certificate of deposit: A type of debt instrument issued by the Central Bank to a financial undertaking.

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

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

Reference price: The closing price of securities, on the last trading day before their valuation, on a regulated securities exchange or recognised data vendor approved by the Central Bank.

Business day: A regular weekday when commercial and savings banks are open for business.

Article 4

Currency of transactions

Overnight loans and regular facilities are concluded in Icelandic *krónur*. The Central Bank may authorise transactions in foreign currency.

Article 5

Current accounts

The financial undertaking concerned must have established a current account with the Central Bank to have access to Central bank facilities as provided for in these Rules.

Financial undertakings' facilities are credited to or debited from their current accounts by the Central Bank as appropriate in accordance with these Rules; 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

Business days for regular facilities, cf. Point 1 of the first paragraph of Article 7, are regular banking days of commercial banks and savings banks. If the date of maturity is not a business day, the date of maturity is moved to the last preceding business day and the maturity shortened accordingly. New Year's Eve is not considered a regular business day.

The Central Bank publishes a calendar of regular business days, as referred to in Point 1 of Article 7, on its website.

Article 7

Types of facilities

Central Bank facilities may take the following forms:

1. Regular facilities:

Regular facilities with the Central Bank may be up to seven days in duration, for the purpose of increasing or reducing the supply of liquid assets. Regular facilities include:

- a. loans against financial collateral arrangements approved by the Central Bank, cf. Article 11;
- b. Central Bank certificates of deposit, i.e. debt instruments issued by the Central Bank to financial undertakings;
- c. term deposits;
- d. currency swaps;
- e. repurchase agreements for securities deemed eligible as collateral by the Central Bank, cf. Article 11.

2. *Overnight loans:*

Overnight loans are granted until the following business day against financial collateral arrangements approved by the Central Bank, cf. Article 11. A financial undertaking may request an overnight loan if it is unable to fulfil reserve requirements by other means. The Central Bank may also grant a financial undertaking an overnight loan to prevent an overdraft on its current account at the end of a business day. The Central Bank may grant overnight loans in other instances.

3. *Other transactions:*

The Central Bank may, with a specific decision, offer financial undertakings the following facilities with longer maturities than those provided for in Point 1:

- a. loans against securities collateral deemed eligible by the Central Bank, cf. Article 11;
- b. Central Bank certificates of deposit, i.e. debt instruments issued by the Central Bank to financial undertakings;
- c. term deposits;
- d. currency swaps;
- e. repurchase agreements for securities deemed eligible as financial collateral arrangements, cf. Article 11.

Article 8

Arrangements for regular facilities

Collateral loans or repurchase agreements may have terms of up to seven days, with settlement on the same day or the following business day (T+1). Such facilities can be arranged as follows:

1. The Central Bank offers a limited total amount at fixed interest.
2. The Central Bank offers a limited total amount and counterparties submit bids on interest rates. The Central Bank may set an interest rate floor.
3. The Central Bank sets no limit on the total amount but the interest is fixed.
4. The Central Bank invites bids from counterparties for facility amounts without stipulating the total amount in advance.

Arrangements for facilities with certificates of deposit and term deposits of up to seven days can be as follows:

1. The Central Bank offers a limited total amount at fixed interest.
2. The Central Bank offers a limited total amount and counterparties submit bids on interest rates. The Central Bank may set an interest rate ceiling.

3. The Central Bank sets no limit on the total amount but the interest is fixed.
4. The Central Bank invites bids from counterparties without stipulating the total amount in advance.

The Central Bank may limit the proportion of the total amount of the facilities it offers to individual financial undertakings. The Central Bank may reject any or all bids.

The Central Bank will announce the arrangements and terms and conditions for facilities on its website.

Article 9

Terms of facilities

The interest rate on Central Bank facilities is determined by the Bank's interest rate announcements as published on the Bank's website.

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

The Central Bank shall publish on its website other terms of facilities and conditions for financial collateral arrangements.

Article 10

Agreements on financial collateral arrangements

Financial collateral arrangements of Central Bank facilities for financial undertakings are governed by Act No. 46/2005.

An agreement on financial collateral arrangements shall be made in writing or electronically, to enable the formal legal verification of the collateral arrangement.

The agreement must specify what obligations and collateral it covers.

Article 11

Financial collateral arrangements for Central Bank facilities

The following are eligible as collateral for Central Bank facilities:

1. debt instruments issued by the national Treasury in Icelandic *krónur*;
2. certificates of deposit issued by the Central Bank of Iceland;
3. term deposits of financial undertakings with the Central Bank;
4. HFF bonds issued by the Housing Financing Fund.

The Central Bank may approve debt instruments issued by the Housing Financing Fund, the National Power Company (*Landsvirkjun*), the Municipal Authorities' Loan Fund and the City of Reykjavík as eligible collateral. The Central Bank will publish on its website the securities it has approved as eligible collateral. The Central Bank may also approve equity commitments and equity contributions by the state to financial undertakings wholly state-owned, even if such collateral does not satisfy the requirements of Points 1-3 of the third paragraph. The Central Bank may set a limit on how high the proportion of such collateral may be where provided to secure facilities of the Bank.

Securities provided as collateral for facilities must fulfil the following conditions:

1. The market value of the series is over 3 b.kr. and it is confirmed that this amount has been sold.
2. The securities have a market maker on a regulated securities exchange or through recognised data vendors showing both bid and ask quotes and approved by the Central Bank.
3. The securities must be electronically registered in a central depository recognised by the Central Bank.

Article 12

Limits on the eligibility of securities as collateral

A financial undertaking is responsible for ensuring that securities provided under financial collateral arrangements for its obligations towards the Central Bank are unmortgaged and unencumbered.

Subordinated instruments may not be provided as collateral.

Issuers are not authorised to submit their own debt instruments as collateral for their own transactions with the Central Bank.

If securities are called or mature prior to the maturity of the obligation, and if the financial undertaking requests that they be returned, it must provide new, eligible securities, whose valuation must be at least equal to the valuation of the called or matured 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 securities concerned may not be used as financial collateral arrangements unless a specific decision is made to that effect by the Central Bank.

The Central Bank shall evaluate the eligibility of the securities in question as collateral on a case-by-case basis. The Central Bank reserves the right to reject securities submitted as financial collateral arrangements if there is doubt as to whether the conditions for their eligibility as collateral are fulfilled.

Article 13

Valuation of eligible collateral securities

In valuation of securities provided as collateral for Central Bank facilities, deductions shall be calculated from the reference price. No deduction is calculated, however, on certificates of deposit or term deposits. The deductions applied to securities are published in the conditions for financial collateral arrangements for facilities of the Central Bank of Iceland

If necessary, e.g. due to market conditions, the Central Bank may apply deductions in addition to those stated in the conditions.

The Central Bank may refuse an application for facilities if agreement is not reached on the value of collateral.

Article 14

Valuation of overnight loans

The amount of outstanding overnight loans may never exceed ninety percent of the market value of securities provided as collateral.

Article 15

Additional collateral

The Central Bank regularly reviews the value of financial collateral arrangements. Since market value can drop at any time, such reassessment may result in the Central Bank demanding additional collateral. If the rules and conditions require that the value of collateral must always exceed a specific minimum, and if the value of the collateral falls below the specified minimum, the financial undertaking must provide additional collateral in order to reach the specified minimum once more.

If the Central Bank deems that additional collateral is required, cf. the first paragraph, the financial undertaking in question must provide satisfactory collateral immediately.

Article 16

Custody of securities

Securities provided as collateral shall be registered with a securities depository that has been granted an operating licence pursuant to Act No. 131/1997, on Electronic Registration of Title to Securities. Securities which are electronically registered in a foreign securities depository recognised by the Central Bank may be provided as collateral.

Securities registered in an Icelandic securities depository shall be deposited in a VS account held by the financial undertaking concerned with the Central Bank, which shall also be pledged to the Central Bank through a special declaration to this effect.

If securities are registered in a foreign securities depository, they must be deposited with a custodian (account operator) approved by the Central Bank.

Article 17

Default and enforcement authorisations of the Central Bank

Should a financial undertaking fail to make payment of its obligations on the due date, penalty interest shall be paid on the amount of debt in default, cf. the first paragraph of Article 6 of the Interest Act, No. 38/2001, from the due date until the date payment is made.

The Central Bank may redeem securities provided as collateral or dispose of them without prior notice or notification towards obligations in default.

Article 18

Exclusion from facilities

The Central Bank may, without prior notice, exclude a financial undertaking from further facilities as provided for in these Rules if it has not complied with their provisions.

The Central Bank may also exclude financial undertakings from facilities if the undertaking fails to fulfil the provisions of Chapter X of Act No. 161/2002, on liquid assets and own funds.

Article 19

Cost of facilities

Financial undertakings shall bear all transaction cost incurred by the parties. In the case of repurchase agreements, the financial undertaking shall bear all transactions costs for both the purchase and sale of securities.

Article 20

Terms and conditions for Central Bank of Iceland facilities

Financial undertakings eligible for Central Bank facilities as provided for in these Rules must sign general terms and conditions prescribing the legal relationship between the Central Bank and the financial undertaking pursuant to these Rules and on implementation of the facilities it provides for, including:

1. the parties' obligations concerning facilities covered by these Rules;
2. the execution of facilities and communications;
3. financial collateral arrangements;
4. provisions for the custody of financial collateral;
5. default and enforcement authorisations of the Central Bank;
6. disclosure obligations of the financial undertaking.

Article 21

Entry into force

These Rules shall enter into force on 1 July 2009. As of that same date, Rules on Central Bank of Iceland Facilities for Financial Undertakings, No. 808 of 22 August 2008 shall be repealed.

Reykjavík, 26 June 2009

Central Bank of Iceland

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