



Rules on Central Bank of Iceland securities lending facilities on behalf of the Treasury for primary dealers

These rules are set on the basis of Article 9 of the agreement dated June 2, 2009, between the Central Bank of Iceland, on behalf of the Treasury, and primary dealers, concerning the Treasury bond issuance and market making in the secondary market. According to the agreement, primary dealers have the option of borrowing Treasury securities (hereinafter referred to as loaned securities) from the Central Bank upon submittal of collateral.

Article 1

Term of loan

Primary dealers may request to borrow securities on any day when the OMX Nordic Exchange in Iceland is open for business, from the market opening until 15 minutes after the market close. The maximum loan period is 28 days; that is, from a given day of the week until the same day four weeks later. If the settlement date falls on a holiday, the maximum loan period shall be reduced and the settlement date moved forward to the last business day on which the OMX is open for trading prior to the said holiday. The International and Market Department (Government Debt Management) of the Central Bank of Iceland handles interactions with primary dealers concerning securities lending.

Article 2

Credit lines and series

Information on credit lines and series can be found in the terms and conditions for securities lending to primary dealers, which are published on the website www.lanamal.is.

Article 3

Financial collateral arrangements

Financial collateral arrangements for Central Bank securities lending facilities to primary dealers are governed by the provisions of Act no. 46/2005.

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

The liabilities and collateral covered by the agreement shall be specified in it.

Article 4

Securities eligible as collateral

Securities eligible as collateral may be the following:

1. Central Bank of Iceland certificates of deposit.



2. Securities issued with a state guarantee.
3. Financial undertakings' tied deposits with the Central Bank, pursuant to Article 7, Paragraph 1, Subparagraph c of the Rules on Central Bank of Iceland Facilities for Financial Undertakings, no. 808/2008.
4. Cash in Icelandic krónur according to decision of the Central Bank.

Article 5

Eligibility requirements for securities used as collateral

1. The securities shall be issued in Icelandic krónur.
2. The securities shall be electronically registered in a securities depository recognised by the Central Bank.
3. The market value of the issue shall be more than 3 b.kr., and it must be confirmed that this amount has been sold.
4. The securities shall be under market making on a regulated securities exchange or recognised information system approved by the Central Bank.

Article 6

Clause on eligibility of securities

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

Subordinated instruments may not be provided as collateral.

With the exception of covered bonds, an issuer may not use its own bonds or bills as collateral for its own facilities with the Central Bank. Neither is it permissible to use bonds or bills of an issuer in which the respective financial undertaking has a qualifying holding, cf. Article 40, Paragraph 2 of the Act on Financial Undertakings, no. 161/2002.

The Central Bank may determine the amount of unsecured instruments each primary dealer may submit as collateral for loaned securities. Definition of unsecured instruments is clarified in Article 4, paragraph 3. The Central Bank may also determine the amount of unsecured instruments from any individual issuer each primary dealer may submit as collateral. The above limitations can be found in the terms and conditions for securities lending to primary dealers, which are published on the website www.lanamal.is.

Article 7

Application for valuation of eligibility of securities as collateral

In exceptional circumstances, the Central Bank of Iceland may accept securities as collateral even though they do not meet the eligibility requirements set forth in Article 5, Items 1 – 4 above.



Applications for valuation of securities as collateral shall be submitted to the International and Market Department of the Central Bank on the appropriate form, “Application for eligibility valuation of collateral securities.doc”, which can be found on the Central Bank website. Applications for eligibility valuation of collateral securities must be received by the Bank no later than one (1) day prior to date of the transaction. If the securities in question are held by a foreign securities depository or are settled in a foreign settlement system, the application must be received no later than two (2) days prior to the date of the transaction. The Central Bank will attempt to process applications within this time frame but reserves the right to take a longer time for processing. If the securities in question do not have a credit rating or a reference price, the processing of the application may require extra time. The Central Bank reserves the right to reject an application if there is any doubt about the eligibility of a given instrument as collateral.

Article 8

Payments of principal and interest

Securities submitted as collateral shall generally be selected to exclude those maturing before the expiry of the agreement.

It is permissible to use as collateral securities that pay interest or instalments of principal during the term of the agreement, as long as the final maturity date does not fall during the term of the agreement. If payments are remitted to the Central Bank for securities held in custody by the Bank, the primary dealer shall be entitled to receive such payments. The Central Bank is entitled, however, to demand increased collateral in an amount commensurate with the amount of the payment.

If a primary dealer has borrowed a bond series that pays fixed annual interest, he is required to reimburse the Central Bank for that amount on the interest payment date. Upon payment of interest, the primary dealer may request reimbursement of that portion of the collateral securities that corresponds to the reduction in the final price of the loaned securities due to the interest payment. The Central Bank is entitled to demand penalty interest if interest is not paid on the interest payment date. Furthermore, the Central Bank is authorised to withhold and sell collateral securities in an amount equal to the interest payment, plus penalty interest and other costs incurred, if the primary dealer has not remitted the interest payment three (3) days after the interest payment date.

Article 9

Valuation of financial collateral

The valuation of securities submitted as collateral shall be based on the bid and ask prices on the transaction date, including accrued interest and price indexation. The market price shall be based on the best bid for collateral securities and the best asking price for loaned securities.

The haircut from the market price of collateral securities shall be as follows:

- 2% for securities with less than one year to maturity.
- 5% for securities with one to five years to maturity.



- 7% for securities with more than five years to maturity.

If, during the term of the agreement, the market value of the collateral securities drops in excess of the haircut, the Central Bank is entitled to require additional collateral commensurate with the amount of the reduction in price.

Article 10

Custody of securities

Securities provided under a financial collateral arrangement 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. Securities may be electronically registered in a foreign securities depository recognised by the Central Bank. If securities are registered in a foreign depository, they shall be deposited with a custodian (account operator) approved by the Central Bank.

Securities registered in an Icelandic securities depository shall be deposited in the respective financial undertaking's securities deposit account in the Treasury Re-lending, which account shall be pledged to the Central Bank in accordance with a separate declaration to that effect.

Article 11

Delivery of electronic shares

Delivery to the Icelandic Securities Depository shall be considered satisfactorily accomplished when the primary dealer delivers the collateral securities to the Icelandic Securities Depository account bearing its own national ID number. The Central Bank then accesses the collateral securities and transfers them to Treasury Re-lending account at the Icelandic Securities Depository. Thereafter, the Central Bank delivers the loaned securities to Treasury Re-lending suspense account at the Icelandic Securities Depository, where the primary dealer accesses them. If collateral securities to be delivered to the Central Bank have not been received electronically 30 minutes after the market close on the date of the transaction, the Bank may cancel the transaction. On the settlement date of the agreement, the primary dealer must first return the loaned securities to the Treasury Re-lending suspense account at the Icelandic Securities Depository. After the Central Bank has received the loaned securities, the collateral securities are delivered to the suspense account under the national ID number of the primary dealer. The primary dealer shall return the loaned securities before 14:00 on the settlement date, and the Central Bank shall return the collateral securities before 15:00 on the settlement date, provided the loaned securities have been returned. If the primary dealer wishes to make any amendments to the existing agreement, he shall request them before 14:00. If a primary dealer wishes to conclude or amend an agreement concerning securities stored in a foreign securities depository, he shall so request before 12:00 if the delivery of assets is to take place on the same day.

The general rule concerning collateral securities that are not registered with the Icelandic Securities Depository is that they are delivered to the Central Bank before loaned securities are dispatched. On the settlement date of the agreement, the collateral securities are dispatched after the loaned securities have been delivered. Simultaneous delivery is also permissible if possible.



Article 12

Settlement complications

If the primary dealer does not deliver the loaned securities on the settlement date, the Central Bank is entitled to demand penalty interest on the initial price of the relevant loaned securities until they have been returned. If three days have passed since the agreement expired and the primary dealer has not yet delivered the loaned securities, the Central Bank is authorised to sell the collateral securities on its own account and to charge the primary dealer for all costs and damages incurred. If the primary dealer has returned the loaned securities but the Central Bank has not returned the collateral securities on the settlement date, the primary dealer is authorised to demand the payment of penalty interest, as well as all costs and damages that he has incurred as a result of the transaction.

Article 13

Notifications

Notifications from lending institutions to the Central Bank of Iceland concerning financial items discussed in these Rules may be sent by e-mail or fax. It is required that the e-mail or fax be sent by a party authorised to obligate the institution concerned. The Central Bank of Iceland emphasises strongly that primary dealers confirm by telephone when an agreement is sent in this manner. Telephone calls related to transactions are tape-recorded.

Article 14

Commissions and other costs

The Central Bank of Iceland calculates a commission for securities lending transactions. Information can be found in the document “Terms and conditions for securities lending facilities for primary dealers,” which is published on the Government Debt Management website: www.lanamal.is.

1. The commission is based on the Central Bank's policy interest rate, which is presented and specified as the nominal interest rate. Interest payable on loaned securities is calculated by adding a premium to the policy interest rate, and interest payable on collateral securities is calculated by deducting a haircut from the policy interest rate. The day count rule for calculating interest payable during the term of the agreement is A/360, where A signifies the actual number of days.
2. A processing fee is charged for each agreement concluded.
3. Commissions are paid at the beginning of the term of the agreement.

Should the Central Bank incur any costs due to the custody of the collateral securities during the term of the agreement, it is entitled to collect these costs at the beginning of the term of the agreement. An example of such expenses is the custodial fee for HFF bonds held at Euroclear.

Article 15

Exclusion from facilities



The Central Bank of Iceland may, without prior notice, exclude a primary dealer from further facilities in accordance with these Rules if it has not complied with the provisions therein.

Article 16

Entry into force

These Rules, which are based on the agreements concluded with primary dealers on June 2, 2009, shall take effect on June 2, 2009. At that time, the previous Rules on Central Bank of Iceland securities lending facilities for primary dealers, dated November 28, 2008, shall be abrogated.

Reykjavík, June 2, 2009

International and Market Department

Government Debt Management

Central Bank of Iceland