

New rules on collateral for securities in repurchase agreements

On March 5, 2002 the Central Bank of Iceland announced plans to change which securities qualify for repurchase agreements. The main principle of the rules is that bonds will be usable as collateral for repurchase agreements, if they fulfil the following conditions:

1. Bonds shall be issued denominated in Icelandic krónur.
2. The issued market value of the bond category shall be greater than 3 b.kr. and confirmation shall be at hand that this quantity has been sold.
3. The issuer shall have a credit rating from one of the following three rating agencies: Standard & Poor's, Moody's or Fitch, and a long-term rating of A- or better as awarded by Standard & Poor's and Fitch, and A3 or better from Moody's.
4. Bonds carrying treasury guarantees shall be evaluated as if issued by the treasury.
5. Bonds shall be covered by market making agreements at Iceland Stock Exchange or a comparable institution.
6. Bonds shall not be subordinated, nor will the issuer be allowed to use his own securities in transactions with the Central Bank.
7. In order to avoid excessive disruption to the conditions of issued categories which already qualify for repurchase agreements, these will continue to qualify for repurchase agreements for as long as they are covered by market making agreements at Iceland Stock Exchange or a comparable institution.

It is proposed that this rule shall take effect from June 1, 2002.