



# Terms of Auction

## for Central Bank of Iceland purchases of Icelandic krónur in exchange for foreign currency

**Transaction date: 4 February 2014**

1. The Central Bank of Iceland advertises herewith for offers to sell Icelandic krónur for cash payment in foreign currency. Commercial banks are invited to act, in their own names, as intermediaries for the transactions. This auction is an element in the removal of restrictions on capital transactions with foreign currency, in accordance with the Central Bank's capital account liberalisation strategy, dated 25 March 2011, and is carried out with reference to Article 18, Paragraph 1 of the Act on the Central Bank of Iceland, no. 36/2001. Movement of capital in domestic currency for collateral and/or settlement of transactions according to this auction and disposal of foreign currency acquired by participants upon settlement of transactions based on accepted bids in this auction are exempt from the restrictions set forth in the Foreign Exchange Act, no. 87/1992, cf. Article 13(o) of the same Act.
  2. The total amount of Icelandic krónur (the auction amount) that the Central Bank offers to purchase will be determined after the deadline for submittal of offers has passed. The Central Bank reserves full right to determine the auction amount.
  3. Commercial banks send offers to the Central Bank through the Bloomberg Auction System between 13:00 hrs. and 14:00 hrs. Icelandic time on the transaction date. The deadline for submittal is at 14:00 hrs. on Tuesday 4 February 2014 (the transaction date). The results of the auction will be published on the Central Bank website at the close of business on the transaction date and sent to commercial banks via the Bloomberg Auction System. Commercial banks shall then notify their customers of the results.
  4. The auction will be structured with a single-price format; i.e., all accepted offers will be offered to investors at the same price, and the lowest accepted price will determine the auction price. The Central Bank reserves full right to determine the auction price after the deadline for submittal of offers has passed. Offers *above* the auction price will be accepted in full, offers *below* the auction price will be rejected in full, and offers *equivalent to* the auction price will be accepted on a *pro rata* basis.
  5. The Central Bank reserves the right to accept some or all of the offers submitted, or to reject all of them.
  6. Those commercial banks that have concluded the pertinent intermediation agreements with the Central Bank (currently Arion Bank, Íslandsbanki, Landsbanki, and MP Bank) shall collect offers from their customers for the sale of Icelandic krónur. Offers made between them shall be binding, with the limitations deriving from the auction. Commercial banks shall submit offers to the Central Bank *in their own names*. Commercial banks are authorised to submit as many offers as necessary, based on the offers of their customers.
  7. Commercial banks shall only collect offers from customers that are non-residents or offers that are based on residents' króna holdings in foreign banks, provided that they have been owned continuously by the party in question since 28 November 2008. Offers originating from other types of parties shall be excluded from participation. Offers shall be based solely on revenues originating from and/or directed towards capital account transactions. Offers based on revenues from current transactions shall be excluded from participation. The terms *resident* and *non-resident* shall be defined as is set forth in the Foreign Exchange Act, no. 87/1992. For the purposes of this auction, *revenues from current transactions* are defined as is set forth in Article XXX, Item (d) of the International Monetary Fund Articles of Agreement.
  8. At a minimum, offers shall include information on the following: amount, number of Icelandic krónur offered for sale, and price in krónur per euro, with two significant digits. The minimum amount of each offer from a commercial bank shall be one hundred million krónur (ISK 100,000,000.00), with larger amounts in multiples of one million krónur (ISK 1,000,000.00). The same shall apply to each offer received by commercial banks from their customers.
  9. The commercial bank shall deposit the króna amount for the foreign currency according to accepted offers to the Central Bank's account, no. 0001-26-40083, no later than 10:00 hrs. on 7 February 2014. The foreign currency will be deposited to the commercial bank's euro account before the end of the day on 7 February, in accordance with payment instructions which must be received by the end of the day on 4 February 2014. If a commercial bank does not honour its offer, the Central Bank reserves the right to cancel the transactions immediately and accept another offer, and to charge the commercial bank the maximum legal penalty interest for the duration of the delay, without further notice and without liability vis-à-vis the commercial bank's customer.
  10. No later than Tuesday 11 February 2014, the commercial bank shall deliver foreign currency to the customer, in accordance with the customer's bid, which the commercial bank accepted on its own behalf. The commercial bank divides the foreign currency among its customers, either in full or on a *pro rata* basis, in accordance with the offers collected by the commercial bank. All distribution of foreign currency is the responsibility of the commercial bank.
  11. The Central Bank declares itself free of all liability for offers that do not reach the Central Bank due to system error or for any other reason. The Central Bank is authorised to cancel an auction in its entirety due to technical difficulties. Commercial banks may request confirmation of receipt of offers from the Market Operations and Financial Management Department of the Central Bank of Iceland. Offers that reach the Central Bank and are registered to individual terminals in the Bloomberg Auction System are binding and are the responsibility of the person who is registered for that terminal. It is permissible to amend or withdraw
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offers by sending an appropriate message through the Bloomberg Auction System to the Central Bank before 14:00 hrs. on the auction date.

12. These terms and conditions apply between the Central Bank and the commercial bank as a participant in the auction. The Central Bank is not liable for any obligation of the commercial bank vis-à-vis its customer due to foreign exchange transactions between them as a result of the commercial bank's participation in the auction.
13. These Terms of Auction have been translated into English; however, the Icelandic original shall be considered the authoritative text.

CENTRAL BANK OF ICELAND

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