



10 December 2020

## Memorandum

*To:* Financial Stability Committee

*From:* Central Bank of Iceland

### **Re: Financial market infrastructure**

According to Article 13 of the Act on the Central Bank of Iceland, no. 92/2019, one of the tasks of the Financial stability Committee is to decide which supervised entities, infrastructure, and markets shall be considered systemically important and of such a nature that their activities could affect financial stability.

The Central Bank's interbank payment system and the Icelandic branch of the Nasdaq CSD SE securities settlement system satisfy the general requirements laid down in international criteria and Icelandic law for designation as systemically important financial market infrastructure, including requirements concerning turnover, number of transactions, substitutability, and other factors. Both systems have recently been recognised pursuant to the Act on the Security of Transfer Orders in Payment Systems and Securities Settlement Systems, no. 90/1999.

### **About the Central Bank of Iceland interbank payment system**

The Central Bank's new interbank system was launched on 26 October 2020. It supplanted the real-time gross settlement (RTGS) system and the netting system, both of which were recognised pursuant to the Act on the Security of Transfer Orders in Payment Systems and Securities Settlement Systems, no. 90/1999. In 2015, the Financial Stability Council decided to classify the two systems as systemically important financial market infrastructure. Concurrent with the launch of the new interbank system, the Central Bank recommended to the Minister of Ministry of Finance and Economic Affairs that the system be recognised pursuant to the Act, as it satisfied the requirements laid down therein. The Minister accepted the Central Bank's recommendation and has notified the system to the EFTA Surveillance Authority (ESA) and the European Securities and Markets Authority (ESMA), as is provided for in the Act.

The interbank system is a standardised one already in use by the Nordic central banks, with the exception that the retail netting part of the system is a new, specially developed solution that can handle the same real-time payment intermediation previously offered by Iceland's legacy netting system. The interbank system has two components: the real-time gross settlement component, for large-value payments of 10 m.kr. or more; and

the retail component, for payments of less than 10 m.kr. The retail component of the system is open year-round, 24 hours a day.

The two-component system is the largest and most important payment system in Iceland. All financial institutions must be interbank system participants, either directly or indirectly, in order to function in the Icelandic financial market. Final settlement of securities transactions (i.e., financial transfers in securities settlement systems) takes place in the interbank system. The Central Bank uses the interbank system in monetary policy conduct, as a channel for interest rate decisions and, if applicable, loans of last resort.

#### **About the Nasdaq CSD SE securities settlement system**

The Nasdaq CSD SE securities settlement system was licensed in autumn 2017 by the Latvian Financial and Capital Market Commission, on the basis of Regulation (EU) no. 909/2014 of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDR). The CSDR was incorporated into Icelandic law with the passage of the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020, which entered into force on 6 February 2020.

On 20 May 2020, the Latvian Financial and Capital Market Commission granted Nasdaq CSD SE a licence to operate a branch in Iceland, in accordance with Article 19 of the CSDR. With a cross-border merger on 25 May 2020, Nasdaq CSD Iceland hf. and Nasdaq CSD SE merged their operations, and the activities of Nasdaq CSD Iceland were transferred to the Icelandic branch of Nasdaq CSD SE. Nasdaq CSD SE is subject to supervision by the Latvian Financial and Capital Market Commission in cooperation with the Central Bank of Iceland Financial Supervisory Authority, in accordance with the provisions of the CSDR.

On 25 August 2020, Nasdaq CSD SE launched a new securities settlement system for its Iceland operations. The new system, which was already in use in Estonia, Latvia, and Lithuania, supplanted Nasdaq CSD Iceland hf.'s legacy system, which was designated as systemically important financial market infrastructure by the Financial Stability Council in 2015. Nasdaq CSD SE's system is based on the company's rules and is subject to the requirements laid down in the CSDR, the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020, and other regulatory instruments. It is the only securities settlement system in operation in Iceland.