

Memorandum of Understanding

between the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, Financial Supervisory Authority and Central Bank of Iceland, on consultation concerning financial stability and contingency plans

Purpose

Since the establishment of the Financial Supervisory Authority (FME) at the beginning of 1999 it has cooperated closely with the Central Bank of Iceland on tasks relating to financial stability, including contingency plans for meeting conceivable financial shocks. Over the past two years, informal consultations have also taken place between the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, FME and Central Bank of Iceland on the same issues. The purpose of this Memorandum of Understanding (MoU) is to formalise consultations in this area, in an effort to sharpen the division of responsibilities, prevent work duplication and increase transparency. The MoU does not limit the scope of any signatory for making independent decisions on measures on the basis of its role and responsibilities.

Consultative group

A solid legal, regulatory and supervisory framework for the activities of financial undertakings and markets is a prerequisite for financial stability, and a secure and efficient financial system is an important precondition for macroeconomic growth and welfare. Parties to the MoU contribute together towards ensuring that these preconditions are in place, on the basis of their mandatory roles and tasks. Furthermore, they seek to coordinate their responses to a conceivable shock to the financial system.

The forum for consultation is the consultative group of the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, FME and Central Bank of Iceland. The consultative group shall meet at least twice a year. However, it shall be convened immediately at the proposal of the Director of the FME and/or the Board of Governors of the Central Bank on account of developments involving the position of financial undertakings or markets. The representative of the Office of the Prime Minister shall chair the group's work. In preparing presentations and in discussions, all parties shall honour prior confidentiality by which they are bound.

At its meetings, the consultative group's tasks shall include:

- The position and outlook in financial markets
- Major changes in financial market legislation, regulations and working procedures
- Questions concerning international cooperation, particularly within the European Economic Area.

Contingency plans and procedures

The consultative group is a forum for the exchange of information and views. Its role is consultative and it does not make decisions on measures. The consultative group prepares and maintains a list of main contacts. It can arrange and participate in contingency exercises such as those which have been conducted in cooperation between the FME and the Central Bank.

If circumstances arise in which the financial system is considered to be at risk due to a shock to a financial undertaking or market, the matter shall be addressed by the consultative group without delay. Responses to such problems depend on the circumstances at any time but the fundamental principal is that the owners and management of financial undertakings, and market agents, should resolve their problems themselves.

Review of the MoU

The MoU shall be reviewed at the request of a party to it.

Further cooperation between the FME and Central Bank

The FME and Central Bank closely monitor, and aim to contribute to, the soundness of the Icelandic financial system, in their respective ways in accordance with their roles. Cooperation between them is governed by an official Memorandum of Understanding, originally made in 1999 and currently dating from 2003, which specifies aims that include ensuring coordinated responses by the FME and Central Bank to conceivable systemic risks in financial markets.

February 21, 2006