

Revised rules for the foreign exchange market

Following the sharp depreciation of the króna in the early morning of July 13, 2000, market participants resorted to a suspension of trading in the foreign exchange market in accordance with Art. 10 of the market's rules. This stipulated that a majority of market makers could decide on a temporary suspension of trading without consulting with the Central Bank. The action proved controversial and was seen as warranting a review of the rules for the market.

This review has been completed and the Central Bank issued new rules for the foreign exchange market which entered into effect on October 20. They replace the earlier rules set on December 8, 1999. Two main changes are entailed by the new rules:

1. Withdrawal of authorisation for participants in the foreign exchange market to agree on a temporary suspension of trading under exceptional circumstances.
2. The minimum binding bid amount required from market makers is raised from USD 1 million to USD 1½ million.

The aim of this reform is to increase the functionality and depth of the market.

Concurrent with these changes to the rules, market makers in the foreign exchange market made an agreement on the exchange rate spread, cf. Art. 9 of the rules. It provides for an increase in the spread on bids under specific conditions.

1. The maximum spread on bids shall be 0.07 kr. Nonetheless, market makers shall use a general reference spread of 0.05 kr. unless market conditions are exceptional.
2. If the currency index for the Icelandic króna changes by more than 1.25% from the opening value for the day, the maximum spread shall be increased to 0.10 kr. until the end of that day.
3. If the currency index for the Icelandic króna changes by more than 2% from the opening value for the day, the maximum spread shall be increased to 0.20 kr. until the end of that day.
4. Art. 1 of this agreement shall be reviewed one month after signature. If the spread in market makers' bids has generally risen to the maximum specified in Art. 1, the maximum exchange rate spread shall be reduced to 0.06 kr. which will remain in effect until the market makers decide otherwise.