Box 2 Changes in Central Bank rules

On May 29, changes were made in a number of rules set by the Central Bank. Largely they involved the elimination of shortcomings that had emerged in earlier rules. The accompanying table shows the main changes entailed for each separate rule. In addition, one effect of the change made to the rule for calculating interest rates in rules on transactions involving required reserves of financial institutions is to abolish the “interest-free days” on the thirtieth day of each month which has thirty-one days. Interest on February 28 and 29 will also only be equivalent to a single day’s interest, instead of the triple or double weighting it had under the old rules.

Rules on required reserves

Earlier rules	*Revised rules*
1. A maximum imposed on how much the required reserve could increase between periods. (Could apply when the required reserves ratios were raised and when new credit institutions which are subject to reserve requirements were added or they grew due to a merger or takeover). (para. 2 Art. 3).	1. Removed. If the required reserve ratio is raised or new institutions are subjected to reserve requirements, the Central Bank may judge them on a case-by-case basis and decide an adjustment process if this is deemed necessary (see also item 3 below).
2. Despite the ceiling set for the amount by which the required reserves could be raised, a minimum was also set for the amount it would have to increase if the institution in question failed to fulfil the requirement under item 1 above. (para. 3 Art. 3).	2. Removed. Concomitant with para. 2 Art. 3. (see item 1 above).
3. The Central Bank Board of Governors was authorised to raise/lower the required reserves ratio by one percentage point. (para. 4 Art. 3).	3. Removed. If the required reserves ratio is changed, the rules will be amended and reissued. (Previously, ministerial approval was needed to raise or lower the ratio but under the new Central Bank Act, the Board of Governors determines it).
4. Required reserves amount was calculated from disposable funds in the preceding month. (para. 1. Art. 6).	4. Required reserves amount is calculated from average disposable funds at the end of the preceding two months.

5. Required reserves were calculated as a 30-day average. As a result, when the required reserve maintenance period was 31 days, the account deposit on the 30th was not included in the average and February 28 had a triple weighting (double in leap years).	5. Day rules for Central Bank transactions with credit institutions which are subject to reserve requirements have been changed from 30/360 to actual/360. One result is that the average is based on the actual number of days in the required reserve period.
6. An institution which is subject to reserve requirements was authorised to handle the requirement of another. (Art. 8).	6. Paragraph added limiting this authorisation to Icebank in its intermediary role for the savings banks. (para. 3 Art. 8).
7.	7. Separate required reserve account. Financial institutions are offered the option of using part of the amount in required reserves as collateral in the netting payment system, instead of securities. Rules concerning payment intermediation are being drawn up.

Rules on foreign balance

Earlier rules	*Revised rules*
1. A US $ balance could be positive or negative by 20% but the maximum for other currencies was 15%. (para. 2. Art. 4).	1. The euro balance may also be positive or negative by 20%.

Rules on transactions with the Central Bank by credit institutions which are subject to reserve requirements

Earlier rules	*Revised rules*
1.	1. Repos. A 7-point framework has been drawn up describing the bonds that qualify for Central Bank repo transactions.
2. Requests for O/N loans must be received by 15:00 hrs. and collateral accepted by 16:00 hrs.	2. Requests for O/N loans must be received by 17:15 hrs. and collateral accepted by 17:45 hrs.
3. General interest rule was 30/360 except for overdraft transactions and O/N loans where the rule was actual/360.	3. General interest rule is actual/360.

Rules on liquidity

Earlier rules	*Revised rules*
1.	1. Several points added to provide a better picture of the breakdown of liquidity between domestic and foreign positions.
2. A savings bank's main current account with Icebank and deposits related to Icebank's inter-	2. A savings bank's main current account with Icebank and deposits related to Icebank's inter-

mediary role in required reserves were valued as 90% assets of the savings bank.	mediary role in required reserves are now valued as 100% assets of the savings bank.
3. Icebank's claims on savings banks related to its intermediary role in Central Bank repo transactions were valued as 90% assets (had been accounted for as 100% assets, but this was not correct according to the rules).	3. Icebank's claims on savings banks related to its intermediary role in Central Bank repo transactions are now valued as 100% assets.
4. Liabilities on account of the unused remainder of a contractual rollover loan/credit line weighed 25% regardless of whether a credit institution or other institution was involved. This could result in credit institutions making agreements among themselves to "create" liquidity (with 80-100% weighting on the asset side).	4. Liabilities on account of the unused remainder of a credit institution's contractual rollover loan/credit line are given the same weighting as on the asset side (80% for loans in krónur and 100% in foreign currency). In the case of other institutions than credit institutions (non-financial companies and individuals) the weighting is 25%.
5. The principal of forward securities contracts had a 90% weighting on the asset side and 100% on the liabilities side, ignoring currency forwards and options.	5. Gain or loss on all off-balance sheet contracts is now calculated and entered as a claim (90% weighting) or liability (100% weighting).
6.	6. A new article was added (now Art. 7) requiring the principal/payment flow of off-balance sheet contracts to be stated in terms of time zones in liquidity surveys, even though these amounts are not used in calculation of the liquidity ratio.