

## **RULES**

### **on interbank market trading in Icelandic krónur**

#### Article 1

##### *Eligibility to participate in interbank market trading in Icelandic krónur*

The following financial undertakings may participate in interbank market trading in Icelandic krónur:

1. Financial undertakings (credit institutions) that have been granted an operating licence pursuant to Article 4, Paragraph 1, Items 1, 2, and 3 of the Act on Financial Undertakings, no. 161/2002.
2. Branches of foreign financial undertakings that are established, and hold an operating licence corresponding to that specified in Item 1 above, in another member state of the European Economic Area, cf. Article 31 of Act no. 161/2002, and operate in Iceland.
3. Branches of foreign financial undertakings that are established in a country outside the European Economic Area and have been authorised by the Financial Supervisory Authority, pursuant to Article 33 of Act no. 161/2002, to operate a branch in Iceland, provided that the undertaking concerned is authorised to pursue activities in its home state parallel to those provided for in Article 4, Paragraph 1, Items 1, 2 and 3 of the same Act, that the activities that the undertaking proposes to pursue in Iceland are comparable, and that its activities in its home state are subject to supervision comparable to that provided for in Act no. 87/1998.

A party wishing to participate in interbank market trading according to these Rules shall file a written application to this effect with the Central Bank of Iceland. The Central Bank will send a written response to the application within two weeks of receiving it. If the Bank approves the application, it will notify all market participants no later than five business days before the applicant's participation takes effect.

#### Article 2

##### *Participants' duties related to quotes and trading*

Market participants are required to provide binding quotes of their deposit and lending rates if another party so requests. Participants' quotes shall include the following maturities and minimum amounts:

- Overnight deposits or loans, minimum amount 300 m.kr.
- One-week deposits or loans, minimum amount 100 m.kr.
- One-month deposits or loans, minimum amount 100 m.kr.
- Three-month deposits or loans, minimum amount 100 m.kr.
- Six-month deposits or loans, minimum amount 50 m.kr.

The quotes are binding insofar as credit lines according to Article 9 of these Rules are not fully drawn. If a participant wishes to carry out trading for a larger amount than is specified above, the counterparty may decide whether it wishes to engage in such a transaction. A participant that has submitted a quote resulting in a transaction is not required to submit a quote to the same counterparty until 10 minutes have passed from the previous transaction.

The Markets Department of the Central Bank handles communications with interbank market participants.

### **Article 3**

#### *Market hours*

Trading on the interbank market in Icelandic krónur takes place between 9:15 hrs. and 16:00 hrs. each business day.

### **Article 4**

#### *Interest rate quotes for deposits and loans*

Participants pledge to update their binding interest rate quotes for interbank deposit and lending rates. Interest rates shall be updated at least every 10 minutes. Binding interest rate quotes shall be visible to the Central Bank and to market participants via one or more information systems agreed upon by participants and approved by the Central Bank.

### **Article 5**

#### *Disclosure requirements*

A participant that has provided an interest rate quote resulting in deposit or lending activity shall so notify the Central Bank no later than at the market close. The notification shall specify the counterparty, amount, maturity, effective date, and interest rate.

Whenever the Central Bank so requests, participants shall provide or deliver to the Bank all information related to the interbank market and interbank market trading that the Central Bank considers necessary to obtain so as to implement these Rules. Participants must also provide the Central Bank with information on transactions and other matters that are likely to have a substantial impact on the market.

### **Article 6**

#### *Central Bank listings of interbank interest rates*

The Central Bank lists interbank rates in Icelandic krónur (REIBOR and REIBID) based on participants' interest rate quotes. Between 11:15 hrs. and 11:30 hrs. each business day, the Central Bank examines all participants' quotes, calculates the average deposit rate and lending rate, and publishes interbank rates based on the averages. If there are four participants or fewer, a simple average of quotes for each maturity shall be calculated. If there are five or more participants, the average calculated shall omit the highest and lowest quoted deposit and lending rates for each maturity.

Interbank market participants' interest rate quotes are only included in the Central Bank's calculations of interbank rates if the participants have approved a majority of participants' credit lines as described in Article 9 of these Rules. The Central Bank may decide to omit participants' interest rate quotes in its calculation of interest rates.

The Central Bank publishes listed interbank interest rates and total trading volume in the interbank market for krónur on its website.

### **Article 7**

#### *Calculation and communication methods*

In calculating interest rates, the calculation rule A/360 is used. Quotes shall be presented with simple interest rates. In preparing agreements on deposits and lending, the parties negotiate interest rates, initial amount, interest amount, final amount, effective date, and maturity date.

#### Article 8

##### *Interest rate spread in quotes*

The maximum spread between deposit and lending rates in market participants' quotes for periods of one month or longer is 100 basis points. Quotes for shorter periods are not subject to defined maximum interest rate spreads. No party shall routinely price itself out of the market by submitting unfavourable quotes. The Central Bank monitors interest rate spreads in participants' quotes and may revoke a participant's access to the market as is described in Article 12, if the Bank considers the participant's market conduct inappropriate.

#### Article 9

##### *Credit lines*

Participants negotiate credit lines among themselves. The amount of such credit lines must be reported to the Central Bank, as shall any changes to them. If a market participant refuses to accept deposits, the Central Bank shall be so notified at once. The same applies if a market participant refuses to grant loans and the credit lines agreed by the parties concerned are not fully drawn. If the Central Bank of Iceland considers that a market participant does not fulfil its commitments according to these Rules, the Bank may revoke the participant's market membership; cf. Article 12 of these Rules.

#### Article 10

##### *Effective date of transactions*

If no other agreement is reached, the delivery date and the first interest payment date for overnight and one-week deposits and loans shall be the day the contract is made (T+0). For deposits and loans of other durations – cf. Article 2 – the two-day rule (T+2) shall apply to delivery and interest calculation.

#### Article 11

##### *Communications and code of conduct*

Market makers shall ensure that their employees who handle interbank market trading are qualified to carry out those transactions. Market makers shall operate satisfactory internal audit systems for assessment and management of interbank market trading risk. They shall notify the Central Bank in advance who conducts interbank market trading on their behalf, when changes are made to their operations, or when there is a change in supervisory personnel responsible for interbank market trading. Participants shall appoint contact personnel to handle communications with the Central Bank. In general, such contact persons shall be those who supervise interbank trading for the participants concerned. The Central Bank shall invite contact personnel on a regular basis to meetings where the ground rules of the market are discussed. Participants shall promote sound business practices.

Participants shall monitor all indications of abnormal conduct with respect to the scope, frequency, and finalisation of trading, and shall notify the Central Bank if they become aware of this or of any other activity that may be regarded as abnormal.

#### Article 12

##### *Termination of participation and penalties*

A participant that intends to cancel its interbank market membership in accordance with these Rules shall so notify the Central Bank in writing with a minimum of two weeks' notice.

If the Central Bank of Iceland considers that a participant has not fulfilled its obligations pursuant to these Rules, the Bank may immediately revoke that participant's market membership. This decision shall be announced to all participants. In such cases, the participant's quotes and transactions in the interbank market for Icelandic krónur shall no longer be considered valid interbank market transactions.

### Article 13

#### *Entry into effect*

These Rules, which are set in accordance with the authority contained in Article 38, cf. Article 4, Paragraph 2 and Article 29 of the Act on the Central Bank of Iceland, no. 36/2001, shall enter into force on 1 January 2020. At that time, Rules no. 805/2009, of 21 September 2009, shall expire.

### **Temporary Provisions**

#### **I.**

In addition to the provisions laid down in Article 2 of these Rules, market participants are required to specify, with their binding deposit and loan quotes, nine-month deposits and loans with a minimum amount of 50 m.kr. and twelve-month deposits and loans with a minimum amount of 50 m.kr. This temporary provision shall expire on 1 July 2020.

Reykjavík, 18 December 2019

Central Bank of Iceland

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Section B – Date of issuance: 19 December 2019