

RULES

on the Foreign Exchange Market

Article 1

Interbank foreign exchange market membership

In addition to the Central Bank of Iceland, any holder of an unrestricted licence to act as an intermediary in foreign exchange transactions on the basis of Article 8, Paragraph 2 of the Foreign Exchange Act, no. 87/1992, cf. Article 9, Paragraph 1 of the Regulation on Foreign Exchange, no. 679/1994, may become a member of the interbank foreign exchange market (market maker) provided that it undertakes the responsibilities and duties of market makers for euros against the Icelandic króna in accordance with the provisions of these Rules.

Market makers shall apply for membership of the foreign exchange market pursuant to these Rules in the format decided by the Central Bank of Iceland. The Central Bank shall process the application within two weeks of receiving it. If the Bank approves the application, it shall so notify all market participants five business days before the applicant's membership takes effect.

Article 2

Duties of market makers

Market makers are obliged to submit binding bid/ask quotes for euros if another market participant so requests. If the amount is not specified, the market maker shall use a reference of 100,000 euros and is obliged to trade for that amount at the specified quote price. A market maker with a different amount in mind shall specify it but need not state whether the intention is to buy or sell. Market makers are not obliged to present a quote for any other amount than 100,000 euros. The Central Bank of Iceland is exempted from the provisions of this Paragraph and may also conduct foreign currency transactions with market makers outside the market opening hours specified in Article 3.

Transactions involving currencies other than the euro require the consent of both parties.

Article 3

Market hours

The interbank foreign exchange market is open from 9:15 hrs. until 16:00 hrs. on business days. For the purpose of these Rules, a business day shall mean a day when market makers and the Central Bank of Iceland are open.

Article 4

Indicative quotes and trade frequency

Market makers pledge to update their indicative quotes – i.e., bid/ask quotes for euros – and publish them via a recognised trading system according to Article 5. Indicative quotes shall be updated at least every 30 seconds. Normally, these will show the price at which the market maker is prepared to buy and sell 100,000 euros.

If the market maker has received a quote from another market maker and conducted a foreign exchange transaction, at least five minutes must pass before it may ask the same market maker for a new quote.

Article 5

Recognised trading system

Market makers shall come to a consensus on which trading system they will use to publish indicative bid/ask quotes. Market makers shall consult with the Central Bank before reaching a decision. The Central Bank

decides which minimum requirements the recognised trading system must satisfy. Market makers must notify the Central Bank of any change in the trading system used at least six months before the change takes effect.

Article 6

Market makers' information disclosure requirements

Market makers shall submit to the Central Bank of Iceland three types of statement – intraday, daily, and monthly – on foreign exchange transactions in the interbank market and on their foreign exchange balance, in the format prescribed by the Central Bank. Information on each business day's turnover shall be submitted as soon as possible, and no later than at the opening on the next business day.

Article 7

Central Bank of Iceland's information disclosure requirements

The Central Bank of Iceland shall publish each business day's total interbank foreign exchange market trading volume on its website.

Article 8

Official fixing of the reference exchange rate for the Icelandic króna

Each business day at 14:15 hrs. Central European Time (CET), the Central Bank shall review bids from all market makers and calculate the central exchange rate of the euro. At 16:00 hrs. Icelandic time, the Central Bank shall publish the official reference exchange rate and the exchange rates of other currencies on its website. In extraordinary circumstances, the Central Bank may also fix the official exchange rate on the basis of the last trading price for that same day.

The Central Bank of Iceland determines the currencies for which the official exchange rate will be fixed.

Article 9

Foreign exchange transactions by the Central Bank of Iceland

Central Bank is not obliged to conduct foreign exchange transactions with market makers even if they request that it do so. Market makers are obliged to conduct foreign exchange transactions with the Central Bank in accordance with these Rules, however.

Article 10

Number of decimal places in bids

Market makers shall use the same number of decimal places in their bid/ask quotes as are used by the Central Bank's official fixing of the reference exchange rate.

Article 11

Effective date of transactions

Transactions involving foreign currency shall be subject to the same rules as in foreign markets as regards effective dates and transfers of funds to foreign bank accounts.

Article 12

Required qualifications

Market makers shall inform the Central Bank of the identity of the persons handling interbank foreign exchange trading on their behalf. Market makers shall ensure that their employees who handle trading in the interbank foreign exchange market are adequately qualified to deal with foreign exchange transactions. Market makers shall operate satisfactory internal audit and information systems for evaluation and

management of foreign exchange trading risks. Market makers' internal organisational structure shall provide for clear boundaries between foreign currency transactions and their finalisation. Upon request, market makers shall provide the Central Bank with information about the internal audit systems and rules that they have established for foreign exchange trading. If the activities of a market maker change or new senior executives are appointed for its foreign exchange transactions, the Central Bank shall be notified. Market makers are responsible for those parties that represent them in interactions with the Central Bank.

Article 13

Meetings of market makers, codes of ethics, etc.

Market makers shall appoint contact personnel, generally senior executives in charge of their foreign exchange transactions, to handle communications with the Central Bank of Iceland. The Central Bank shall meet with market makers at regular intervals. Market makers shall promote sound business practices in foreign exchange transactions, including by ensuring that market makers and their employees adopt the international FX Global Code published by the Global Foreign Exchange Committee (GFXC) and posted on the Central Bank website.

Market makers shall monitor all indications of abnormal conduct as with respect to the scope, frequency, and finalisation of foreign exchange transactions, or any other related activity that could be regarded as abnormal. If market makers become aware of such conduct, they shall report it to the Central Bank of Iceland without delay.

Article 14

Cancellation of market making, and penalties

A market maker that intends to cancel membership of the interbank market in accordance with these Rules shall notify the Central Bank of Iceland of that decision in writing with a minimum of three months' notice.

If the Central Bank is of the opinion that a market maker does not fulfil its commitments according to these Rules, the Bank may revoke the market maker's membership of the interbank foreign exchange market pursuant to Article 1.

Article 15

Emergency response

If the foreign exchange market becomes non-functional for a period of time, either because of equipment malfunctions or due to other circumstances beyond human control, the Central Bank may decide without prior notice that trading shall be conducted in a manner different than that described in these Rules, and it shall so notify all foreign exchange market participants without delay.

If a market maker experiences comparable circumstances that prevent access to necessary information, the market maker may decline to submit quotes even if requested to provide them pursuant to Article 2.

Article 16

Entry into effect

These Rules, which are set with reference to Article 27 of the Act on the Central Bank of Iceland, no. 92/2019, cf. Article 3, Paragraph 3 of the same Act and Article 8 of the Foreign Exchange Act, no. 87/1992, were approved at a meeting of the Governor and Deputy Governors on 13 May 2020. They shall take effect on 30 August 2020. At that time, the Rules on the Foreign Exchange Market, no. 1098/2008 of 3 December 2008, with subsequent amendments, shall be abrogated.

Temporary provision

If market makers have not agreed on a recognised trading system pursuant to Article 5, and in accordance with the previous Rules on the Foreign Exchange Market, no. 1098/2008, the Refinitiv information system (previously Reuters) shall be considered the recognised trading system.

Reykjavík, 3 June 2020
Central Bank of Iceland

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