

RULES

on the Central Bank of Iceland Real-time Gross Settlement System

Article 1

Definitions

Banking day: A day on which commercial banks or savings banks are open for business, from Monday through Friday.

Payment system: A formal arrangement of three or more participants that is based on collective rules and a standardised arrangement for the execution of payment orders among them, provided that at least one of the participants has a main office in Iceland, and that fulfils set requirements and has been approved and announced pursuant to the Act on the Security of Transfer Orders in Payment Systems, no. 90/1999.

Intraday overdraft: A facility for participants to meet fluctuations within one day in the negative balance on their real-time gross settlement (RTGS) accounts, up to a specified maximum, until the time that the account is settled and the debit balance eliminated at the end of each business day.

Overdraft lock: A technical lock to prevent the execution of payment orders from a participant that has reached its overdraft limit.

Netting system: A payment system that receives requests from participants for the execution of payment orders from one participant to another within the system. The payment system performs netting; i.e., converts multiple claims or liabilities into a single (net) claim or (net) liability for payment or the obligation to make payment on the part of participants.

Netting account: An account held by a participant in a netting system which the participant uses to manage its netting balance.

Board of a netting system: A designated group of persons formally responsible for the operation of a netting system, including the compliance of its operations with these Rules. If a netting system takes the form of a limited company or private limited company, the board of the company is deemed to be the board of the netting system for the purpose of these Rules.

Real-time gross settlement (RTGS) system: The Central Bank of Iceland payment system that processes payment orders whereby payment is transferred from the payer's settlement account and into the payee's settlement account only if there is a sufficient balance on the payer's account or a sufficient negotiated intraday overdraft facility with satisfactory collateral security. Settlement is made as soon as

the payment is transferred from the payer's settlement account and into the payee's settlement account (i.e., by real-time gross settlement).

RTGS account: A current and settlement account held by a participant in the RTGS system.

Settlement account: An RTGS account used for making settlements in the payment system.

Securities settlement system: A system that confirms trading terms for securities transactions, calculates and determines entitlements and obligations in connection with the transaction, settles it and handles custody of the securities.

Reference price of securities: The end-of-day price of securities, on the last trading day before the reference date, in an organised securities exchange or recognised information system approved by the Central Bank.

Article 2

Participants

The Central Bank of Iceland decides on the admission of new participants in the RTGS system and exclusion of existing system participants.

Participants in the RTGS system may be institutions, cf. Article 2, Item 2 of the Act on the Security of Transfer Orders in Payment Systems, no. 90/1999, and those publicly owned credit institutions that are approved by the Central Bank, provided that in other respects they fulfil the conditions for participation according to Article 3 of these Rules.

The Central Bank may approve RTGS system participation by foreign financial undertakings that are established and licensed to operate in European Economic Area (EEA) states, provided that the undertaking is subject to financial regulation similar to that provided for in Act no. 87/1998 in its home state.

Rights and obligations of other participants – i.e., intermediaries, settlement agents, netting centres, and indirect participants – are as provided for in Act no. 90/1999 and in Articles 2 and 3 of these Rules, as appropriate.

If participants in the RTGS system have no other business with the Central Bank of Iceland, the Central Bank may decide whether such participants' RTGS system accounts shall be interest-free or shall bear a rate of interest specially determined by the Bank.

If a participant no longer fulfils the conditions of Articles 2 and 3, the Central Bank may, without advance notice or notification, deny it further participation in the RTGS system. The same applies to a participant that violates these Rules or jeopardises the stability of the system.

Under exceptional circumstances, the Central Bank may set special conditions for continued participation in the system by a participant that does not fulfil the

participation requirements set forth in Articles 2 and 3, has violated these Rules, or has jeopardised the stability of the RTGS system. If continuing participation in the RTGS system causes disruption, creates risk or jeopardises stability in any manner, the Central Bank may exclude the participant from further participation without prior notice or notification.

Article 3

Conditions for participation

In addition to the conditions stated in Article 2, participants shall fulfil the following conditions for participation in the RTGS system:

1. be subject to regulation by a financial supervisory authority in the European Economic Area,
2. hold a valid operating licence from the relevant supervisory authority and fulfil that supervisory authority's requirements, including those on capital adequacy and liquidity ratio,
3. have the necessary technical resources for participation,
4. have the necessary management capability and employee expertise for participation,
5. have a reliable system for monitoring risks in connection with participation in the system;
6. have reached an agreement on and provided adequate collateral security to the Central Bank of Iceland,
7. have paid, or negotiated payment of, an appropriate user fee.

The provisions of Items 1, 2 and 6 of Paragraph 1 do not apply to the Central Bank of Iceland.

Article 4

Payment amounts (gross payment limits)

Payment orders in the amount of 10 m.kr. or more (gross payment limit) are covered by the RTGS system. Payment orders in amounts below the gross payment limit are covered by the netting system. The Central Bank may allow participants to use the RTGS system for payment orders in amounts below the gross payment limit. Transfers in connection with settlements in the netting system and securities settlement system are covered by the RTGS system, irrespective of their amount.

While the RTGS system is closed, the Central Bank may, in consultation with the board of the netting system, decide a lower gross payment limit than 10 m.kr.

Payment orders may not be split in order to prevent them from being covered by the RTGS system.

Article 5

Recognition of the RTGS system

Recognition of the RTGS system is subject to the Act on the Security of Transfer Orders in Payment Systems, no. 90/1999

Article 6

Operating time of the RTGS system

The RTGS system shall be operated from 9:00 to 17:00 hrs. on regular banking days.

Settlement in the netting system shall be made in the RTGS system as soon as the RTGS system has closed at 17:00 hrs. on regular banking days. The Central Bank may authorise more than one settlement per day in the netting system within each banking day. Decisions concerning the number of settlements and their scheduling are published on the Central Bank's website. The Central Bank may close the RTGS system under exceptional circumstances.

The following provisions apply to use of the RTGS system outside its regular operating hours:

1. From 17:00 to 17:45 on regular banking days, participants may use the RTGS system to settle payments among themselves and eliminate debit balances in the system. During this time, the RTGS system shall be closed for settlement of payment orders involving the participants' customers.
2. Under exceptional circumstances, the Central Bank may open the RTGS system outside its regular operating hours.
3. The Central Bank decides the operating hours of the RTGS system on New Year's Eve and other days when the banking system operates for part of the day.

Article 7

Payment orders

Payment orders in the RTGS system are defined as directives by a participant, which the system has received and confirmed, for the delivery of funds to a specified recipient by depositing, with a transfer, a specific sum into the account of a credit institution, central bank or settlement agent, or which oblige it or relieve it of the obligation to remit payment as this term is defined in general legal interpretations.

The RTGS system shall register and keep a record of the payer's name, address and account number.

Article 8

Request for execution of a payment order

A request for the execution of a payment order is submitted to the RTGS system via participants' electronic connections with the system.

Article 9

Time of payment order entry

A payment order is regarded as having been entered in the RTGS system when the system has verifiably confirmed that final settlement of it has been made. Precise records shall be kept of the time of final settlement.

Article 10

Legal effect of confirmation of receipt of a payment order

After receipt of a payment order has been confirmed pursuant to Article 9, the order is considered binding towards third parties and may not be retracted after that time.

The legal effect of insolvency and winding up of a participant is determined by the Act on Bankruptcy, etc., no. 21/1991, the Act on the Security of Transfer Orders in Payment Systems, no. 90/1999, and the Act on Financial Undertakings, no 161/2002.

Article 11

Agreement on intraday overdraft and collateral security for settlements

A participant shall make an agreement in writing with the Central Bank on an intraday overdraft facility in the RTGS system that is sufficiently large to enable the participant to meet fluctuations within the day in the negative balance of its RTGS account until the time the account is settled and the debit balance eliminated at the end of each business day. The Central Bank shall propose the amount of the intraday overdraft with reference to fluctuations in the balance of the respective participant over the preceding 12 months. Care shall be taken to ensure that the participant in question always has adequate scope to meet unexpected fluctuations in its payment position.

The participant in question shall provide adequate collateral security for settlement of its payment position in the RTGS system, which has been evaluated and approved by the Central Bank. An agreement in writing to this effect shall be made with the Central Bank. The amount of the collateral, adjusted for deductions, may not be lower than the intraday overdraft amount of the participant in question.

Participants may not exceed the negotiated intraday overdraft.

The Act on Financial Collateral Arrangements, no. 46/2005, shall apply to settlement collateral for intraday overdrafts in the RTGS system.

The Central Bank issues guidelines for evaluating the eligibility of securities as collateral for intraday overdrafts and their valuation. The guidelines are published on the Bank's website.

Article 12

Changes in the intraday overdraft when the RTGS system is closed

When a netting system is open and the RTGS system is closed, the Central Bank may allow part of participants' collateral security for the RTGS system to be used for the netting system at that time. The aim of such a measure shall be to reduce the likelihood that overdraft locks will be activated in the netting system when the RTGS system is closed. If part of the collateral security in the RTGS system is used in this way, the overdraft in the RTGS system shall be reduced correspondingly until collateral security has been transferred to it once more.

Article 13

Changes in the intraday overdraft amount

The Central Bank reassesses the amount of each participant's intraday overdraft facility in February and August of each year, with reference to fluctuations in the balance of the respective participant over the preceding 12 months. The Central Bank may demand more frequent reassessment of collateral security.

In reassessment of intraday overdraft facilities, care shall be taken to ensure that the participant in question always has adequate scope to meet unexpected fluctuations in its payment position. If a participant has repeatedly utilised the entire amount of its intraday overdraft, it must have the overdraft limit increased or reach an agreement with the Central Bank for payment of interest (an overnight facility) on any amount exceeding the intraday overdraft limit.

A participant may request a change in its intraday overdraft facility on the condition that collateral security pursuant to Article 15 matches the new intraday overdraft amount.

Article 14

Rejection of request for execution of a payment order

If the RTGS system receives a request for settlement of a payment order which would, if executed, cause the participant in question to exceed its intraday overdraft, the payment system is obliged to reject such a request and notify the participant in question.

Article 15

Securities eligible as overdraft collateral

Both deposits and the following securities denominated in Icelandic krónur are eligible as overdraft collateral in the RTGS system:

1. Securities issued by the national Treasury;
2. HFF bonds issued by the Housing Financing Fund;
3. Certificates of deposit issued by the Central Bank of Iceland;
4. Participants' fixed-term deposits with the Central Bank of Iceland.

Article 16

Eligibility requirements for securities used as collateral

Securities provided as collateral must fulfil the following conditions:

1. The market value of the series is over 3 b.kr. and it is confirmed that this amount has been sold.
2. The securities have a market maker on a regulated securities exchange or through recognised data vendors approved by the Central Bank.
3. The securities must be electronically registered in a central depository recognised by the Central Bank.

Article 17

Limits on the eligibility of securities as collateral

A participant guarantees that securities provided as collateral are without liens or encumbrances.

Subordinated instruments may not be provided as collateral.

Securities selected may not mature prior to the end of the contracted period. If securities are called or mature during the period of validity of the intraday overdraft of a participant in the RTGS system, or if the seller requests that they be returned, the participant must provide new eligible securities. Their value must be at least equal to that of the called or matured securities.

If no reference value of the securities is available on a regulated securities market or through recognised data vendors approved by the Central Bank, the securities concerned may not be used as financial collateral arrangements unless a specific decision is made to this effect by the Central Bank.

The Central Bank shall evaluate the eligibility of the securities in question as collateral on a case-by-case basis. The Central Bank reserves the right to reject

securities submitted as financial collateral if there is doubt as to whether the conditions for their eligibility as collateral are fulfilled.

Article 18

Valuation of eligible collateral securities

In appraising the value of securities provided as collateral for intraday overdrafts in the Central Bank's RTGS system, the following deductions shall be calculated from the reference price. No deduction is calculated, however, on certificates of deposit from the Central Bank. The deductions applied to securities are published on the Central Bank website in the conditions for financial collateral arrangements with the Central Bank of Iceland.

If necessary, e.g. due to market conditions, the Central Bank may calculate deductions in addition to those stated in the Bank's conditions.

The Central Bank may refuse to execute payment orders in the RTGS system if no agreement is reached on the value of collateral.

The Central Bank issues conditions for evaluating the eligibility of securities as overdraft collateral and for their valuation. The conditions are published on the Bank's website.

Article 19

Additional collateral security

The Central Bank reviews the value of collateral on a regular basis. Because the market value of securities may change without notice, such a review may lead the Central Bank to require additional collateral security. If these Rules and any terms and conditions set in accordance with them stipulate that collateral value must always exceed a specified minimum, and if the collateral value falls below it, the participant shall provide additional collateral so as to restore the said minimum.

If the Central Bank deems that additional collateral is required, cf. Paragraph 1, the participant in question must provide satisfactory collateral within two banking days after such a demand is made. In exceptional circumstances, the Central Bank may set a shorter deadline or demand that collateral be provided that same day, if changes in market conditions warrant it. The Central Bank may temporarily reduce the maximum intraday overdraft limit of the participant in question by a corresponding amount until the additional collateral has been provided.

Article 20

Custody of securities

Securities provided as collateral shall be registered with a securities depository that has been granted an operating licence pursuant to the Act on Electronic

Registration of Title to Securities, no. 131/1997. Securities that are registered electronically in a foreign securities depository recognised by the Central Bank may be provided as collateral.

Securities registered in an Icelandic securities depository shall be deposited in a securities deposit account (VS account) held by the participant concerned with the Central Bank; this account shall also be pledged to the Central Bank through a special declaration to this effect.

If securities are registered in a foreign securities depository, they must be deposited with a custodian (account operator) approved by the Central Bank.

Registration of collateral shall be as provided for in Chapter IV of the Act on Electronic Registration of Title to Securities, no. 131/1997.

Article 21

Authorisation to dispose of collateral in the event of settlement default

Should a participant default on its settlement obligations in the payment systems, the Central Bank may appropriate all of the settlement collateral submitted by that participant, regardless of whether the claim concerns settlement in the netting system or the RTGS system.

The Central Bank may redeem securities provided as financial collateral and/or use cash in a collateral account and dispose of it, without advance notice or notification, in order to conclude settlement and eliminate debit balances in the system.

Article 22

Technical resources and risk surveillance system

Participants must have the technical resources specified by the Central Bank at any time.

Participants must, at all times, have a secure risk surveillance system associated with their use of the RTGS system and other payment and securities settlement systems in which they participate.

Article 23

Monitoring of payment position and response

Each participant is obliged to have technical equipment to facilitate the monitoring of its payment position.

Each participant must monitor its payment position in the RTGS system so as to prevent, in good time, the rejection of a request for execution of a payment order.

A participant must take suitable measures to ensure that the maximum limit of its intraday overdraft is not reached.

Article 24

Participants' contingency plans

Each participant must develop a contingency plan outlining its response to shocks to the operation of the RTGS system.

Article 25

Central Bank's contingency plan

The Central Bank shall develop a contingency plan outlining its response to shocks to the operation of the RTGS system.

Article 26

Instruction on the operation of the RTGS system

Participants must ensure that their employees receive sufficient instruction and training in use of the RTGS system.

Article 27

Tariff

The Central Bank determines the tariff for the operation and activities of the RTGS system. User charges shall be paid by the participant initiating the payment order in the payment system (the payer). The tariff shall be transparent and shall be accessible on the Central Bank of Iceland website.

Article 28

Oversight and supervision

The Central Bank oversees the operations of the RTGS system with respect to its operational security, efficacy and efficiency. The Financial Supervisory Authority supervises individual participants' implementation of these rules.

Article 29

Information disclosure

Participants shall provide the Central Bank and Financial Supervisory Authority with all information they may request regarding the implementation of these Rules,

and notify them of all major incidents that may disrupt or may have disrupted system activities.

Participants shall provide information on their participation in the RTGS system to any party that so requests and has legitimate interests at stake.

The Central Bank shall announce the names of RTGS system participants in the *Official Gazette (Lögbirtingablaðið)*. A new announcement shall be made if participation changes.

Article 30

Rules of procedure and conditions

The Central Bank may set rules of procedure and terms and conditions providing in detail for the following, and publish them in suitable manner; for example, on its website:

1. activities of the system, conditions for participation, exclusion from participation, requirements for technical resources, execution of payment orders, and contingency plans.
2. Deductions on securities; cf. Article 18.
3. Assessment of the eligibility of securities as overdraft collateral and their valuation; cf. Article 18.
4. Interactions with financial undertakings.

Article 31

Entry into force

These Rules, which are adopted pursuant to Article 38, cf. Article 4, of the Act on the Central Bank of Iceland, no. 36/2001, enter into force on August 17, 2009. From that same date, the Rules on the Central Bank of Iceland Real-time Gross Settlement System, no. 312 of 11 April 2007, and Rules no. 953 of 15 October 2008 shall be repealed.

Reykjavík, August 13, 2009

CENTRAL BANK OF ICELAND

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