

Central Bank of Iceland Supervisory Board

Rules of Procedure

The Rules are set on the basis of Article 7, Paragraph 2 of the Act on the Central Bank of Iceland, no. 92/2019.

Article 1

Composition of the Supervisory Board

- 1.1 The Supervisory Board is elected following Parliamentary elections. The Board comprises seven representatives and an equal number of alternates who are elected by proportional vote in Parliament. It is prohibited to elect board members or employees of supervised entities, or owners of qualifying holdings in supervised entities, to sit on the Supervisory Board. The same applies to members of Parliament, alternate members of Parliament, and Cabinet ministers. Supervisory Board members shall possess sound knowledge of administration and of the statutory and regulatory instruments that apply to the Central Bank. The aim shall be to ensure that Supervisory Board members have broad-based knowledge of the Icelandic economy, the financial market, management, and commercial operations. The mandate of the Supervisory Board remains in place until a new Board is elected. If a principal member of the Supervisory Board vacates the position, an alternate shall assume this seat until Parliament has elected a new principal member for the remainder of the term of the Supervisory Board.

Article 2

First meeting of new Supervisory Board. Division of tasks.

- 2.1 The Supervisory Board selects a chair and vice-chair from among its members.
- 2.2 The first meeting of the newly elected Supervisory Board shall be attended by the Board's principal and alternate members; the Governor, Internal Auditor, and Deputy Governors of the Central Bank; and the Board secretary. Alternate members attend the first Board meeting but do not have the right to present proposals or to vote.
- 2.3 The principal Board member with the longest term of service shall call the first meeting of the newly elected Board to order and shall preside over the election of the Board chair. If two or more members have the same, and longest, term of service, the oldest of them shall preside over the meeting. This person shall call for nominations for Board chair. When one or more nominations have been submitted, the person presiding over the meeting shall ask whether the election shall be conducted by a show of hands or whether it is requested that it be conducted in writing. If only one nomination has been submitted and if no one has requested that the vote be carried out in writing, the person presiding over the meeting shall declare the chair elected by acclamation.
- 2.4 The chair of the Supervisory Board takes over as chair of the meeting and presides over the election of the vice-chair, which shall be carried out in the same way as the election of the chair.
- 2.5 If votes are cast in the election of the chair or vice-chair, a simple majority shall decide the outcome. In case of a tie, the outcome shall be decided by drawing lots.
- 2.6 The secretary of the Supervisory Board shall present each principal and alternate Board member with a handbook containing summaries of legislation, rules, decisions, and other topics pertinent to the Board's activities. As soon as possible, a presentation on the Bank's activities shall be

held for both principal and alternate members of the newly elected Supervisory Board. If new members join the Board during the electoral term, attempts shall be made to provide them also with appropriate guidance on key aspects of the activities of the Central Bank and the Supervisory Board.

Article 3

Role and objectives

- 3.1 The role of the Supervisory Board and the powers entrusted to it are defined in the Act on the Central Bank of Iceland, no. 92/2019, Article 8 in particular.
- 3.2 The Supervisory Board monitors the Bank's compliance with the statutory provisions applying to its activities. Monitoring by the Supervisory Board does not include case handling or decisions on specific matters, however.
- 3.3 In executing their work, Board members may seek the assistance of specified Central Bank employees after consulting with the Governor.
- 3.4 The Supervisory Board may request expert opinions from outside parties in connection with its role.
- 3.5 The Governor shall inform the Supervisory Board on a regular basis of the main aspects of the Bank's policy and of the rules it sets. Board members may also submit queries to the Governor.
- 3.6 The Supervisory Board shall be entitled to all such information on the Central Bank of Iceland and companies owned by the Bank as is necessary for it to carry out its legally mandated role.

Article 4

Further tasks of the Supervisory Board

- 4.1 More specifically, the Supervisory Board's tasks are as follows:
 - 4.1.1 To determine remuneration and terms of employment for members of the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee.
 - 4.1.2 To endorse the rules of procedure for the Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee.
 - 4.1.3 To oversee the Bank's internal auditing and appoint the Internal Auditor.
 - 4.1.4 To endorse wage agreements with Bank employees, consider rules on their pension fund, and endorse the appointment of the Bank's representative on the board of the pension fund when called for.
 - 4.1.5 To endorse the Central Bank's proposal to the Minister concerning the rules on the Bank's accounting and annual accounts.
 - 4.1.6 To endorse the Bank's annual accounts. If a member of the Supervisory Board has any comments on the annual accounts, that member shall sign with a reservation and specify the nature of this reservation.
 - 4.1.7 To endorse the Bank's decision on capital adequacy criteria and disposition of profit.
 - 4.1.8 To endorse the Bank's operating budget as presented by the Governor at the beginning of each operational year.
 - 4.1.9 To monitor the Bank's assets and operations and endorse decisions on major investments in housing and other facilities for its activities.
 - 4.1.10 To endorse the tariff set by the Supervisory Board for all types of services; cf. Article 43 of the Act on the Central Bank of Iceland.
- 4.2 The Supervisory Board is authorised to entrust the Chairman with resolving specific matters.

- 4.3 The Supervisory Board may appoint a subcommittee from among its members to prepare matters for its plenary meetings.

Article 5

Further provisions on information disclosure to the Supervisory Board

- 5.1 The following information on the activities, finances, and operations of the Central Bank shall be submitted to the Supervisory Board:
- 5.1.1 Decisions by the Monetary Policy Committee shall be presented to the Board at the Board meeting immediately following their announcement.
 - 5.1.2 The Bank's *Monetary Bulletin*, *Financial Stability*, and *Financial Market Infrastructure* reports shall be presented to the Board at the Board meeting immediately following their publication.
 - 5.1.3 At least twice a year, a report on the Bank's operating expenses shall be submitted and presented to the Board.
 - 5.1.4 At least twice a year, a report on the management of the international reserves shall be submitted and presented to the Board.
 - 5.1.5 The three-, six-, and nine-month financial statements of the Central Bank, its subsidiaries, and the group shall be submitted to the Board no later than two months after the end of the relevant accounting period. The Bank's audited financial statements shall be completed each year before 31 March. Representatives of the Icelandic National Audit Office and the Bank's Internal Auditor shall be present at the presentation of the audited or examined financial statements.
 - 5.1.6 The Internal Auditor shall give a presentation to the supervisory Board on the department's activities at least twice a year.
 - 5.1.7 An operational plan for the Bank's activities during upcoming operational year shall be submitted to the Supervisory Board in the final quarter of each year.
 - 5.1.8 Furthermore, the Supervisory Board shall be entitled to all of such information pertaining to the Bank's operations and activities as is necessary for it to carry out its work. Information that the Supervisory Board may request shall be submitted or presented to the Board as soon as is possible.

Article 6

Internal audit

- 6.1 The Supervisory Board oversees internal audit for the Central Bank of Iceland and engages the Internal Auditor.
- 6.2 The Internal Auditor shall have expertise in the field of internal audit, have completed a university degree in a field relevant to the position, and have sufficient experience to fulfil the requirements of the position.
- 6.3 The Internal Auditor shall conduct systematic, impartial, and objective assessments of the efficacy of the risk management, internal monitoring, and governance practices of the Central Bank. The Internal Auditor shall work in accordance with a risk-based audit plan endorsed by the Supervisory Board. The audit plan shall be updated on a regular basis.
- 6.4 The Internal Auditor shall be sent the agenda of each Supervisory Board meeting so as to determine whether to attend the meeting, all or part of it. Furthermore, the Internal Auditor shall attend meetings, all or part of them, upon the request of one or more Board members.
- 6.5 The Supervisory Board shall ensure that the Internal Auditor has the independence needed to carry out their duties diligently and has direct access to the Board.

Article 7

Expenses of the Supervisory Board

- 7.1 When the Supervisory Board takes decisions that entail cost outlays for the Bank, these shall be as clearly delineated as possible. The chair shall be entrusted with estimating the resulting costs and shall approve them upon being so authorised by the Supervisory Board. The chair shall always keep the Supervisory Board informed of developments in such matters.

Article 8

Meetings of the Supervisory Board

- 8.1 The chair shall call meetings of the Supervisory Board, preside over meetings, and set the agenda.
- 8.2 Board members have the right to propose items for the agenda, and a majority of members may set the agenda. A draft agenda shall be made available no later than three (3) business days prior to the meeting.
- 8.3 The agenda shall specify all matters to be addressed at the meeting. If changes are to be made to the operational plan or if extraordinary expenses are to be incurred, no decision shall be taken unless the matter is specified in the meeting agenda. If it proves necessary, the Supervisory Board may decide to derogate from this rule.
- 8.4 In general, Supervisory Board meetings shall be held on a monthly basis. A meeting shall always be held, however, if two Board members so request.
- 8.5 The Internal Auditor is entitled to attend Supervisory Board meetings.
- 8.6 The Bank's external auditors attend Supervisory Board meetings when the agenda includes financial statements that they ratify.
- 8.7 The Governor participates in discussions at Supervisory Board meetings and has the right to present proposals. The Governor, Internal Auditor, and/or Board secretary shall leave the meeting if the Supervisory Board so decides. If the Board secretary leaves the meeting, an entry shall be made to indicate who has taken over the writing of the minutes.
- 8.8 At each Supervisory Board meeting, the Governor shall give an account of key aspects of the Bank's activities since the previous meeting. Furthermore, the Governor shall inform the Supervisory Board of the main aspects of the Bank's policy and of the rules it sets.
- 8.9 Meetings of the Supervisory Board shall be deemed to have a quorum if a majority of members are in attendance.
- 8.10 Decisions shall be taken by majority vote at Supervisory Board meetings. In the case of a tie, the Board chair shall cast the deciding vote.
- 8.11 If principal Board members cannot attend, their alternates shall be called to attend Board meetings in their stead. Principal members shall notify the Board secretary of their absence, and the secretary shall call an alternate to attend.
- 8.12 The vice-chair shall perform the Board chair's role in the latter's absence. If both are absent, Board members shall select a person from among their ranks to preside over the meeting.

Article 9

Work programme and meeting documents

- 9.1 Before the beginning of each calendar year, the chair of the Supervisory Board shall present a work programme and a draft schedule of Board meetings for the year in question.
- 9.2 In general, meeting documents shall be distributed no later than three (3) days prior to each meeting. Meeting documents shall be numbered to accord with the relevant agenda items.

Article 10

Minutes of Supervisory Board meetings

- 10.1 Minutes shall be kept of the meetings of the Supervisory Board. The secretary shall undertake the writing of the minutes and the storage of meeting documents.
- 10.2 The minutes shall include the following, at a minimum:
 - 10.2.1 Place and time of the Supervisory Board meeting, its beginning, and its end.
 - 10.2.2 Names of Board members in attendance and names of Central Bank employees and/or guests who participate in the meeting.
 - 10.3.3 The meeting agenda.
 - 10.2.4 Documents presented at the meeting under each agenda item. The minutes shall specify which documents were sent out prior to the meeting and which were presented at the meeting itself.
 - 10.2.5 Whether any Board members recuse themselves due to ineligibility.
 - 10.2.6 The topics taken for substantive discussion.
 - 10.2.7 Decisions taken by the Supervisory Board.
 - 10.2.8 Decisions and tasks that await the following meeting.
 - 10.2.9 Statements made for the record by individual Board members.
 - 10.2.10 The name of the person who wrote the minutes.
- 10.3 A draft of the minutes from the previous meeting shall be sent to Supervisory Board members and the Governor within two (2) weeks following the meeting in question. If an alternate attended the meeting in question, that person shall also receive a copy of the draft for comment.
- 10.4 The minutes shall be signed by Board members and the Governor at the beginning of the Board meeting immediately following. Board members who were not in attendance at the meeting to which the minutes apply shall also indicate with their signatures that they have acquainted themselves with the minutes.
- 10.5 The approved minutes shall be distributed to the Governor, principal and alternate Board members, and the Internal Auditor no later than one (1) week following their approval.
- 10.6 Board members are authorised to acquaint themselves with the minutes of previous Supervisory Boards.

Article 11

Ineligibility

- 11.1 Principal and alternate Supervisory Board members shall not participate in the preparation, treatment, or discharge of any matters that pertain to them personally or to any entity they represent, own, or manage. The same applies to any matter that pertains to a third party if they have material interests at stake in the outcome of such a matter.
- 11.2 Principal and alternate Board members are required to inform the Supervisory Board in advance of any circumstances or occurrences relating to a given matter that could render them ineligible or cast doubt on their eligibility. The Supervisory Board shall then decide whether the principal or alternate member in question shall recuse themselves from the handling of the matter concerned.
- 10.3 Supervisory Board members shall assess their own eligibility and may also make comments on the eligibility of specified members to handle individual matters.

Article 12

Confidentiality

- 12.1 Principal and alternate Supervisory Board members are obliged to observe confidentiality

concerning the affairs of the Bank's customers; transactions and operations of supervised entities, related parties, or others; and the affairs of the Bank itself, as well as other matters of which they may become aware in the course of their work and which should remain secret in accordance with law or the nature of the case, unless a judge rules that information must be disclosed in court or to law enforcement officers, or there is a legal obligation to provide the information. The obligation to observe confidentiality remains in effect after their work for the Board ceases.

- 12.2 Principal and alternate Supervisory Board members are prohibited to use confidential information that they acquire through their work for the Central Bank, including using it for financial gain or to avoid financial loss in business transactions.
- 12.3 Board members shall ensure that confidential documents that they have received in connection with their work for the Board do not fall into the hands of unauthorised parties.

Article 13

On the Supervisory Board Rules of Procedure

- 13.1 If any provisions of these Rules of Procedure conflict in any way with the provisions of the Act on the Central Bank of Iceland, no. 92/2019, or any other legislation pertaining to the Bank's operations, the law shall take precedence.
- 13.2 The Supervisory Board Rules of Procedure may be amended with the approval of a majority of Board members.
- 13.3 The original copy of the Supervisory Board Rules of Procedure shall be signed by Board members. The Governor and alternate Board members shall confirm with their signatures that they have acquainted themselves with the substance of the Rules.
- 13.4 The Supervisory Board Rules of Procedure shall be published on the Central Bank of Iceland website.
- 13.5 These Rules of Procedure shall take effect on 1 January 2020.

Approved at a meeting of the Central Bank of Iceland Supervisory Board 16 December 2019