



Terms of Auction

for Central Bank of Iceland purchases of Icelandic krónur in exchange for foreign currency

23 May 2011

1. The Central Bank of Iceland advertises herewith for offers to sell Icelandic krónur for cash payment in foreign currency. Market makers in the interbank foreign exchange market are invited to act, in their own names, as intermediaries for the transactions. This auction is an element in the removal of restrictions on capital transactions with foreign currency, in accordance with the Central Bank's capital account liberalisation strategy, dated 25 March 2011, and is carried out with reference to Article 18, Paragraph 1 of the Act on the Central Bank of Iceland, no. 36/2001. Movement of capital in domestic currency, for collateral and/or for settlement of transactions in accordance with this auction, and the allocation of foreign currency acquired by participants upon settlement of transactions based on accepted offers in this auction, are exempt from the restrictions set forth in the Rules on Foreign Exchange, no. 370/2010; cf. Temporary Provision I of the Foreign Exchange Act, no. 87/1992.
2. The Central Bank offers to purchase the following total amount of Icelandic krónur:
Auction amount: ISK 15,000,000,000.00
The Central Bank reserves the right to raise or lower the auction amount.
3. Market makers send offers to the Central Bank through the Bloomberg Auction System between 10:00 hrs. and 11:00 hrs. Icelandic time on the transaction date. The deadline for submittal is at 11:00 hrs. on Tuesday 7 June 2011 (the transaction date). The results of the auction will be published on the Central Bank website at the close of business on the transaction date and sent to market makers via the Bloomberg Auction System. Market makers shall then notify their customers of the results.
4. The auction will be structured so that all accepted offers are based on the exchange rates submitted by the market maker. The Central Bank reserves full right to determine the lowest price (minimum price) after the deadline has passed. Accepted offers *above* the minimum price will be accepted in full, and accepted offers *as high as* the minimum price will be accepted on a *pro rata* basis. Offers *below* the minimum price will not be accepted. The auction will therefore have a multi-price format (so-called American auction).
5. The Central Bank reserves the right to accept some or all of the offers submitted, or to reject all of them.
6. Market makers (currently Arion Bank, Íslandsbanki, and Landsbankinn) – that is, those that participate in the interbank foreign exchange market, cf. Article 1 of the Rules on the Foreign Exchange Market, no. 1098/2008 – shall collect their customers' offers to sell Icelandic krónur. Offers made between them shall be binding, with the limitations deriving from the auction. Market makers submit offers to the Central Bank *in their own names*. Market makers are authorised to submit as many offers as necessary, based on the offers of their customers.
7. Market makers shall only collect offers from customers that are non-residents or offers that are based on residents' króna holdings in foreign banks, provided that they have been owned continuously by the party in question since 28 November 2008. Offers made by other residents shall be excluded. This auction is directed solely to capital account transactions. For the purposes of this auction, monies arising from, or directed to payments for current transactions, are excluded. The terms *resident* and *non-resident* shall be defined as is set forth in the Foreign Exchange Act, no. 87/1992. The term *payments for current transactions* shall be defined as set forth in Article XXX(d) of the IMF's Articles of Agreement.
8. At a minimum, offers shall include information on the following: amount, number of Icelandic krónur offered for sale, and price in krónur per euro, with two significant digits. The minimum amount of each offer from a market maker shall be one hundred million krónur (ISK 100,000,000.00), with larger amounts in multiples of one million krónur (ISK 1,000,000.00). The same shall apply to each offer received by market makers from their customers.
9. The Central Bank will withdraw the payment for foreign currency according to accepted offers from the market maker's account with the Central Bank on Wednesday 8 June 2011 at 14:00 hrs., and the foreign currency will be deposited to the market maker's account with the Central Bank that same day, after the direct debit transaction is complete. If a market maker does not honour its offer (including if there are insufficient funds on the market maker's account), the Central Bank reserves the right to cancel the transactions immediately and accept another offer, and to charge the market maker the maximum legal penalty interest for the duration of the delay, without further notice and without liability vis-à-vis the market maker's customer.
10. No later than Friday 10 June 2011, the market maker shall deliver foreign currency to the customer, in accordance with the customer's offer, which the market maker accepted on its own behalf. The market maker divides the foreign currency among its customers, either in full or on a *pro rata* basis, in accordance with the offers collected by the market maker. All distribution of foreign currency is the responsibility of the market maker.
11. The Central Bank declares itself free of all liability for offers that do not reach the Central Bank due to system error or for any other reason. The Central Bank is authorised to cancel an auction in its entirety due to technical difficulties. Market makers may request confirmation of receipt of offers by contacting the International and Market Operations Department of the Central Bank of Iceland. Offers that reach the Central Bank and are registered to individual terminals in the Bloomberg Auction System are binding and are the responsibility of the person who is registered for that terminal. It is permissible to amend or withdraw offers by sending an appropriate message through the Bloomberg Auction System to the Central Bank before 11:00 hrs. on the auction date.
12. These terms and conditions apply between the Central Bank and the market maker as a participant in the auction. The Central Bank is not liable for any obligation of the market maker vis-à-vis its customer due to foreign exchange transactions between them as a result of the market maker's participation in the auction.
13. These Terms of Auction have been translated into English; however, the Icelandic original shall be considered the authoritative text.