

Cooperation Agreement between the Financial Supervisory Authority and Central Bank of Iceland

The Board of Directors of the Financial Supervisory Authority (FME) and the Board of Governors of the Central Bank of Iceland, hereafter named the contracting parties, have made the following Cooperation Agreement, in accordance with Article 15, paragraph 4 of Act No. 87/1998 on Official Supervision of Financial Activities and Article 35 of Act No. 36/2001 on the Central Bank of Iceland.

The Agreement concerns the contracting parties' cooperation on oversight and supervision but does not affect in other respects their legal and contractual obligations.

1. Aim of the Cooperation Agreement

The aim of the Agreement is for cooperation between the contracting parties to be guided by the following principles:

- Clarifying the responsibility of each party and division of tasks between them, both with respect to each other and vis-à-vis companies in financial markets and the general public.
- Ensuring that all duplication of tasks in their joint activities shall be kept to an absolute minimum, both to prevent inconvenience for stakeholders and to minimise the cost of the contracting parties' activities.
- Smooth and swift information exchange between the parties.
- Reciprocal provision of information at the first possible instance when indications of difficulties in financial markets arise.
- Ensuring coordinated responses by the FME and Central Bank to conceivable systemic risks in financial markets.
- Promoting efficiency and safety of payment and settlement systems and ensuring that the systems fulfil the demands made towards them.

2. Roles and division of tasks of contracting parties

2.1 The activities and role of the FME are governed by the legislation in force concerning it, currently Act no. 87/1998 on Official Supervision of Financial Activities, provisions of specific laws, and regulations and rules set on the basis of those laws.

The activities and role of the Central Bank are governed by the legislation in force concerning it, currently Act no. 36/2001, provisions of specific laws, and regulations and rules set on the basis of those laws.

2.2 The contracting parties shall respect each other's field of operation. They shall attempt to define clearly the fields of operation and responsibility of each party when their tasks overlap.

3. Division of tasks in connection with oversight and supervision of payment and settlement systems

- 3.1 Among the principles set out by the Bank for International Settlements (BIS) are that central banks should ensure that the payment systems they operate comply with the Core Principles and oversee compliance with them by third-party systems.

In accordance with the BIS principles, the Central Bank of Iceland performs systemic oversight of the activities of important payment and settlement systems with respect to their safety, effectiveness and efficiency. In doing so, the Central Bank focuses in particular on system structure, operational risk and the main operational inputs. Furthermore, the Bank monitors compliance with legal and regulatory provisions on payment system operations. Above all, Central Bank oversight extends to the payment systems themselves, but not to the infrastructure or organisation of individual participants. Central Bank involvement does not limit the responsibility of individual owners or operators of payment systems.

- 3.2 The FME supervises implementation of rules governing payment and settlement systems by individual participants in them.

The FME monitors the risk of each participant, i.e. arrangements for risk management and internal audit to ensure compliance with the rules in effect within the systems.

- 3.3 Contracting parties shall maintain a joint contingency plan for payment and settlement systems which is approved by both the Director General of the FME and the Board of Governors of the Central Bank.

4. Meetings of the contracting parties

- 4.1 The Director General of the FME and the Board of Governors of the Central Bank shall hold meetings to discuss issues concerning the state of the financial markets and companies operating in them, and exchange information which is not communicated regularly in accordance with Article 5 of this Agreement. These meetings shall be held as a rule at least every four months. Attendance on the part of each contracting party will depend upon the agenda and be at their discretion in each instance.

- 4.2 Topics discussed at the regular meetings of the contracting parties in accordance with Article 4.1 shall include the Central Bank's evaluation of developments in the operating environment of companies in financial markets and the conceivable impact on their profitability. The FME's evaluation of the financial position of the main parties subject to official supervision shall also be discussed, especially those engaged in transactions with the Central Bank.

- 4.3 FME and Central Bank experts on indications of systemic risk in financial markets shall hold meetings at least every four months. Other expert staff of the contracting parties shall hold regular meetings as deemed appropriate. Each contracting party shall nominate contacts in connection with this work.

- 4.4 The Central Bank and FME shall hold regular contingency exercises, normally every other year. In this context, reference is made to the Memorandum of Understanding between the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, Financial Supervisory Authority and Central Bank of Iceland, on consultation concerning financial stability and contingency plans, from February 21, 2006.

5. Notification, information exchange and acquisition of information by the contracting parties

- 5.1 The contracting parties agree that access to information is necessary in order for them to be able to perform their duties according to law and this Agreement. The contracting parties shall consult with each other concerning the acquisition of regular information about companies in the financial markets. It is underlined that the contracting parties shall not seek similar information separately, and that each shall collect the information most pertinent to it.

The Appendix to this Agreement specifies the data to be collected by the respective contracting parties, and states which information shall be provided to the other and in what form, i.e. paper, e-mail or any other form. The Appendix shall be reviewed regularly.

As a rule it shall be aimed to send the information, which one contracting party acquires and provides to the other in accordance with this Article, at the first possible instance and no later than one week after it is available. Presentation of material shall be at the discretion of the sender.

- 5.2 If examinations by the FME reveal suspicions about shortcomings in the financial position of parties which are subject to official supervision and are engaged in transactions with the Central Bank or operate extensively in the markets, or about the risk of a systemic crisis in the financial markets in other respects, the FME shall immediately notify the Board of Governors of the Central Bank.

If examinations by the Central Bank reveal suspicions of shortcomings in the financial position of companies in the financial markets, or of serious difficulties in the financial markets in other respects, the Central Bank shall immediately notify the Director General of the FME.

In the above cases, the Director General of the FME and the Board of Governors of the Central Bank shall respond in accordance with their institution's respective internal procedures.

- 5.3 The contracting parties shall inform each other if they become aware of any infringement of the rules that are in effect within the payment and settlement systems.

Furthermore, contracting parties shall at least annually outline to each other the implementation of their oversight and supervision of payment and settlement systems.

- 5.4 The contracting parties shall provide each other with full access to data which they store and are used in their own activities in accordance with Article 2.

6. Setting of rules

The contracting parties shall inform each other of rules that they plan to set concerning the activities of companies in financial markets.

7. Cooperation on measures

- 7.1 In their cooperation the contracting parties shall seek to develop methodologies to predict, as early as possible, problems in the operating environment in financial market and in the activities of individual companies.

- 7.2 The contracting parties shall outline to each other measures that they intend to adopt which have a significant bearing upon the activity of financial market companies or the financial market operating environment.

When substantial difficulties occur in the operation of a company which is important in the financial markets, such as when it is faced with liquidity problems or bankruptcy, the contracting parties shall consult about their actions. The same applies when the problems concern more companies in the financial markets, or the financial markets as a whole. If the Central Bank considers the possibility of providing a loan or guarantee to a credit institution in accordance with Article 7, paragraph 2 of Act no. 36/2001, it will act in close collaboration and consultation with the FME on resolving the problem that may have arisen.

- 7.3 If a systemic risk is present or pending, the experts referred to in Article 4.3 shall collaborate on proposals for joint measures by the FME and Central Bank, and other responses.

- 7.4 Each contracting party is independently responsible for measures which it is authorised to adopt in accordance with its role according to Article 2.

8. Participation in international cooperation

Contracting parties shall consult with each other on participating in international cooperation and attending meetings connected with the role of them both. Furthermore, each contracting party shall inform the other of matters which arise in international cooperation and concern the role of the other.

9. Confidentiality

Information provided by one contracting party to the other is confidential by law. Such information shall only be used in the contracting parties' activities.

The contracting parties shall ensure that they do not disclose information on the basis of the Information Act without consultation with the party that acquired it.

10. Other matters

This Agreement replaces the Cooperation Agreement from March 28, 2003, the Agreement on Payment and Settlement Systems of the same date and the Memorandum of Understanding between the FME and Central Bank of Iceland on contingencies to meet conceivable problems in the financial markets' operating environment from the same time.

This Agreement shall be reviewed if so requested by either of the contracting parties.

Appendices and protocols to this Agreement may be amended with the signatures of the Director General of the FME and the Board of Governors of the Central Bank.

Reykjavík, October 3, 2006

Financial Supervisory Authority:

Central Bank of Iceland:

Appendix: Data acquisition by the contracting parties

Translated from the Icelandic. In the event of any discrepancies between the translation and the text in Icelandic, the original text shall take precedence.