

# RULES

## on Minimum Reserve Requirements

### Article 1

#### *Scope and definitions*

The following Rules apply to the calculation and settlement of minimum reserve requirements of financial undertakings (credit institutions) which are licensed to operate under Article 4, Points 1, 2 and 3 of Act No. 161/2002, on Financial Undertakings, based on the Central Bank of Iceland Statistics Department's itemised report form for calculation of minimum reserve requirements, cf. Article 7.

The following definitions apply to Articles 4 and 5 of these Rules:

*Deposits:* Amounts owed to creditors by a party subject to minimum reserve requirements, other than those arising from issuing negotiable securities.

*Deposits with an agreed maturity:* Non-transferable deposits which cannot be liquidated before an agreed fixed term or that can only be converted into cash before that agreed term provided that the holder is charged some kind of penalty.

*Deposits redeemable at notice:* Non-transferable deposits without any agreed maturity which cannot be liquidated without a period of prior notice, before the term of which the conversion into cash is not possible or possible only with a penalty.

*Repo (repurchase agreement):* The counterpart of cash received in exchange for securities sold by a party subject to minimum reserve requirements at a given price under a commitment to repurchase the same (or similar securities) at a fixed price on a specified future date.

*Debt securities issued:* Holdings of securities other than equities or money market paper, which are issued by a party subject to minimum reserve requirements, are negotiable and are traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution. This item includes securities (except money market paper) which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specific date (or dates) or starting from a date defined at the time of issue. It also includes negotiable loans that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.

*Money market securities:* Holdings of marketable instruments, issued by financial undertakings, that have a high degree of liquidity because they are traded on liquid money markets (i.e. markets with a high turnover and sizeable amounts of financial instruments, that provide immediate and low-cost convertibility of such instruments into cash and have low default and interest rate risks), in which the participants are mainly financial institutions. Iceland Stock Exchange is considered a money market in the sense of these Rules.

### Article 2

#### *Parties subject to minimum reserve requirements*

Minimum reserve requirements apply to commercial banks and savings banks, credit undertakings which are authorised by law to accept deposits from the public for custody and investment, and financial undertakings operating on the basis of Article 4, Point 3 of Act No. 161/2002, and which are not bound by the provisions of specific laws or of the Treasury budget at any time with respect to the procurement of funds for their activities.

### Article 3

#### *Minimum reserve amounts*

After calculation of the minimum reserve requirement at each time the minimum reserve amount, together with accrued, outstanding interest on it, shall be found by applying the reserve ratio to the reserve base as defined in Articles 4 and 5 of these Rules.

If an institution subject to minimum reserve requirements neglects to submit an itemised report for calculation of the required reserve within the deadline stated in Article 7 of these Rules, the Central Bank may decide the reserve amount by averaging provisions based on the two most recent reports for calculating the minimum reserve requirement that have been submitted by the relevant institution, plus a surcharge of 10% for each month and a proportion thereof for a part of a month.

### Article 4

#### *Reserve base*

The following liability items constitute the reserve base of an institution subject to minimum reserve requirements:

- a. Deposits.
- b. Debt securities issued.
- c. Money market paper.

Liabilities towards the Central Bank of Iceland are not included in the reserve base.

### Article 5

#### *Reserve ratios*

A reserve ratio of 0% applies to the following items in the reserve base:

- a. Deposits with an agreed maturity over two years.
- b. Deposits redeemable at notice over two years.
- c. Repos.
- d. Debt securities issued with an agreed term over two years.

A reserve ratio of 2% applies to all other items included in the reserve base.

### Article 6

#### *Settlement of reserve requirements*

The minimum reserve amount is calculated before the 21st of each calendar month based on averaging provisions for the reserve base in accordance with Articles 4, 5 and 7 at the end of the preceding two months. The maintenance period is from the 21st of each calendar month until the 20th of the following month inclusive, and institutions subject to minimum reserve requirements shall be notified of the reserve amount before this period commences.

Institutions subject to minimum reserve requirements shall ensure that the average balance on their reserve account with the Central Bank during each maintenance period is not lower than the announced minimum reserve amount. If the average reserve balance during the maintenance period is lower than the stipulated minimum reserve amount, the Central Bank shall calculate periodic penalty payments in accordance with Article 2, paragraph 1 of the current Rules on the Imposition of Periodic Penalty Payments, on the amount by which the average balance falls short of the reserve. Penalty payments shall be debited from the current account of the institution in question a minimum of seven days after it has been notified of the decision to impose them, cf. Article 6, paragraph 3 of the said Rules. Determination of periodic penalty payments, the right of appeal and collection

are subject where appropriate to the provisions of Articles 6, 7 and 8 of the aforementioned Rules on the Imposition of Periodic Penalty Payments.

The Board of Governors of the Central Bank decides the rate of interest on required reserves separately. An average balance in excess of the minimum reserve amount is remunerated at the same rate of interest as that decided by the Board of Governors for current accounts with the Central Bank held by institutions subject to minimum reserve requirements.

#### Article 7

##### *Reporting*

For the calculation of the minimum reserve, monthly itemised reports from institutions subject to minimum reserve requirements, stating data on the minimum reserve in accordance with the definitions of Articles 4 and 5 in these Rules, shall have reached the Central Bank no later than the 11th day of each calendar month, or the preceding day if the day of submission is a general bank holiday.

#### Article 8

##### *Indirect holding of minimum reserves through an intermediary*

An institution subject to minimum reserve requirements may assign an intermediary to hold its reserve on its behalf. Nonetheless, all institutions subject to minimum reserve requirements shall submit data to the Central Bank in accordance with Article 7. The Bank shall notify institutions that hold minimum reserves as an intermediary about their minimum reserve amounts. The total minimum reserve amount of the intermediary shall equal the sum of its own minimum reserves and those of each institution for which it holds reserves.

Institutions subject to minimum reserve requirements which assign the holding of their minimum reserves to an intermediary shall notify the Central Bank of this with at least one month's notice and the Bank shall be notified of the revocation of such an arrangement with at least three months' notice. Parties to such an arrangement shall make a separate agreement which includes a provision that the same penalties as specified in Article 6 of these Rules shall be imposed for non-compliance with minimum reserve requirements. These agreements shall be subject to approval by the Central Bank.

The provisions of paragraphs 1 and 2 now apply solely to the intermediary role of Sparisjóðabanki Íslands hf. on behalf of savings banks that assign it to hold minimum reserves on their behalf.

#### Article 9

##### *Entry into force*

These Rules, which are set on the basis of Articles 6 and 7 of Act No. 36/2001, on the Central Bank of Iceland, enter into force on December 21, 2003. At the same time Rules No. 388 from May 29, 2002, on Minimum Reserve Requirements (as amended), are abrogated. The Rules shall first apply to calculation of the minimum reserve in December 2003.

Reykjavík, June 21, 2002  
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