

# RULES

## on the Central Bank of Iceland Real-Time Gross Settlement System

### Article 1

#### *Definitions*

*Intraday overdraft:* Facility for participants to meet fluctuations within one day in the negative position on their real-time gross settlement (RTGS) accounts, to a specified maximum, until the time that the account is settled and the debt position cleared at the end of each business day.

*Netting system:* A payment system which receives requests from participants for the implementation 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 it uses to manage the netting balance vis-à-vis another participant.

*Payment system:* A formal arrangement among three or more participants based on collective rules and a standardised arrangement for the implementation of payment orders among them, provided that at least one of the participants has a main office in Iceland, and which fulfils the demands made of it and has been announced in accordance with Act No. 90/1999, on the Security of Payment Orders in Payment Systems.

*Real-time gross settlement (RTGS) system:* The Central Bank of Iceland's payment system which processes payment orders whereby payment is only transferred from the payer's settlement account and into the payee's settlement account if there is a sufficient balance on the payer's account or a sufficient negotiated intraday overdraft facility and 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 a real-time gross settlement).

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

*Securities settlement system:* A system which 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.

*Settlement account:* An RTGS account used for making settlements in the payment system or securities settlement system.

### Article 2

#### *Participants*

The Central Bank of Iceland decides on the approval 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 Act No. 90/1999, on the Security of Payment Orders in Payment Systems, provided that they fulfil the conditions for participation according to Article 3 of these Rules in other respects.

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

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

### 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:

- a. be subject to regulation by a financial supervisory authority in the European Economic Area,
- b. fulfil the requirements made by the relevant supervisory authority, including provisions for capital adequacy and liquidity ratio,
- c. have the necessary technical resources for participation,
- d. have the necessary management capability and employee expertise for participation,
- e. have a reliable system for monitoring risks in connection with participation in the system,
- f. have negotiated on adequate collateral security with the Central Bank and have submitted it,
- g. have paid, or negotiated payment of, a normal participation fee.

The provisions of paragraph 1, items a., b., f. and g. do not apply to the Central Bank of Iceland.

### Article 4

#### *Payment amounts (gross payment limits)*

Payment orders to the amount of 10 m.kr. or more are covered by the RTGS system. Payment orders of less than 10 m.kr. are covered by the netting system. However, transfers in connection with settlements in a netting system and securities settlement system are covered by the RTGS system irrespective of their amount.

In consultation with the boards of other payment systems, the Central Bank of Iceland may decide that specific payments which are lower than the limits defined in paragraph 1 shall be covered by the RTGS system.

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 Act No. 90/1999, on the Security of Payment Orders in Payment Systems.

### 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.

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

- a. From 08.45 to 09.00 on regular banking days, payment orders in connection with the settlement of securities transactions shall be processed. Their settlement shall take priority over that of other payment orders. If payment orders in connection with the settlement of securities transactions cannot be processed before 09.00, the

Central Bank may postpone the settlement of other payment orders until the former have been cleared.

- b. From 17.00 to 17.30 on regular banking days, participants may use the RTGS system to settle payments among themselves and clear debt positions in the system. During this time, the RTGS system shall be closed for settlement of payment orders involving the participants' customers.
  - c. Under exceptional circumstances, the Central Bank may open the RTGS system outside its regular operating times.
  - d. The Central Bank decides the operating times of the RTGS system on New Year's Eve and other days when the banking system operates for part of the day.
- The Central Bank may close the RTGS system under exceptional circumstances.

#### 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 obliges it or relieves it of the obligation to make over payment in the sense of this term as 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 implementation of a payment order*

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

#### Article 9

##### *Time limits for payment orders*

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 bankruptcy on the part of a participant is determined by the Bankruptcy Act, currently Act No. 21/1991, and Act No. 90/1999, on the Security of Payment Orders in Payment Systems.

#### Article 11

##### *Intraday overdraft*

A participant shall make an agreement in writing with the Central Bank on a sufficient intraday overdraft facility in the RTGS system for it to meet fluctuations within the day in the negative position of its RTGS account until the time the account is settled and the debt position cleared at the end of each business day. The Central Bank shall propose the amount of the intraday overdraft with reference to fluctuations in the position 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.

A condition for an intraday overdraft is that the participant in question shall submit collateral security to match the intraday overdraft amount, cf. Article 14.

Participants may not exceed the negotiated intraday overdraft.

#### Article 12

##### *Changes in the intraday overdraft amount*

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

In reassessments 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. A participant that has repeatedly used its intraday overdraft to the full limit is obliged to increase it or negotiate with the Central Bank on periodic penalty interest payments on the balance in excess of the intraday overdraft.

A participant may request a change in its intraday overdraft facility on condition that collateral security according to Article 14 matches the new intraday overdraft amount.

#### Article 13

##### *Rejection of a request to implement a payment order*

If the RTGS system receives a request for settlement of a payment order which would, were it made, 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.

The Central Bank may grant an exemption from this provision.

#### Article 14

##### *Collateral security for settlements*

A participant shall provide sufficient collateral security for settlement of its payment position in the RTGS system and a written agreement to this effect shall be made with the Central Bank.

The amount of the collateral security shall not be lower than the respective participant's intraday overdraft amount, cf. Article 11.

The Central Bank of Iceland assesses and approves the collateral security. Collateral security for settlements shall be in the form of securities which are eligible for Central Bank repurchase transactions, cf. the rules to that effect, currently Rules No. 385 of May 29, 2002, on Facilities with the Central Bank for Credit Institutions Subject to Minimum Reserve Requirements. Collateral security for settlements may also be in the form of cash in a participant's blocked collateral account with the Central Bank. The Central Bank specifies conditions for the use of the account, in an agreement to that effect.

#### Article 15

##### *Authorisation to dispose of collateral security in the event of a settlement default*

In the event that a participant defaults on its settlement obligations in the RTGS system, the Central Bank may redeem collateral security and/or new cash in a blocked collateral account and dispose of it, without advance notice or notification, for settlement and clearance of a debt position in the system.

If an agreement on an intraday overdraft and collateral security extends to both the RTGS system and a netting system, the division of collateral between the respective payment systems shall not be specified in the blocked collateral account or the securities portfolio that the participant in question has pledged as collateral for the settlement. In the event of a settlement default, the Central Bank may redeem the collateral and dispose of it for completion of a settlement irrespective of which share of the collateral is involved.

#### Article 16

##### *Requirements for technical resources*

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

#### Article 17

##### *Risk surveillance system*

Participants shall at all times have a secure surveillance system for risks associated with the use of the RTGS system and other payment and securities settlement systems in which they participate.

#### Article 18

##### *Training*

Participants shall ensure that their employees receive adequate information and training regarding use of the RTGS system.

#### Article 19

##### *Monitoring of payment position*

Each participant is obliged to monitor its payment position in the RTGS system with the aim of preventing, in good time, the rejection of a request for implementation of a payment order.

Each participant shall have technical resources which facilitate monitoring of the payment position.

#### Article 20

##### *Response to payment position*

A participant is obliged to make every effort to prevent the maximum limit of an intraday overdraft from being reached.

#### Article 21

##### *Participant's contingency plan*

Each participant shall develop a contingency plan outlining its own responses to disruptions in the operation of the RTGS system.

#### Article 22

##### *The Central Bank's contingency plan*

The Central Bank of Iceland shall develop a contingency plan outlining responses to disruptions in the operation of the RTGS system.

## Article 23

*Tariff*

The Central Bank may set a tariff for participants in connection with the operation and activities of the RTGS system. This tariff shall be accessible.

## Article 24

*Oversight and supervision*

The Central Bank performs systemic oversight of the operations of the RTGS system with respect to its operational security, effectiveness and efficiency. The Financial Supervisory Authority performs supervision of individual participants' implementation of these Rules.

## Article 25

*Provision of information*

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 which may disrupt or may have disrupted the system activities.

Participants shall inform any person who so requests, and has legitimate interests to safeguard, of their participation in the RTGS system.

The Central Bank shall announce in the Legal Gazette the names of participants in the RTGS system. A new announcement shall be made if participation changes.

## Article 26

*Procedural rules*

The Central Bank may set more specific procedural rules on activities of the system, conditions for participation, exclusion from participation, requirements for technical resources, implementation of payment orders and contingency plans.

## Article 27

*Entry into force*

These Rules, which are adopted in accordance with Article 38, cf. Article 4, of Act No. 36/2001, on the Central Bank of Iceland, enter into force on November 1, 2003. From the same time, Rules No. 951 from December 29, 2000, on Access to Settlement Accounts with the Central Bank of Iceland, cease to be in force.

*Transitional provision*

Notwithstanding the provisions of Article 14, paragraph 3, participants shall be allowed, until January 1, 2004, to use deposits in a blocked required reserve account as settlement guarantees in accordance with Article 9 of Rules No. 388 of May 29, 2002, on Minimum Reserve Requirements, cf. Article 2 of Rules No. 180 of March 10, 2003, amending them.

*Reykjavík, October 20, 2003*

*Central Bank of Iceland,*

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Chairman, Board of Governors

**Eiríkur Guðnason**  
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**Jón Sigurðsson**  
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