

# RULES

## on Liquidity Ratio

With reference to Article 12 of the Central Bank Act No. 36/2001, the Governors of the Central Bank of Iceland have adopted the following Rules on the liquidity ratio for credit institutions subject to minimum reserve requirements.

### Article 1

#### *Scope*

These Rules apply to commercial banks, savings banks, other institutions and companies which are authorised by law to accept deposits from the general public for custody and investment, and other credit institutions which operate in accordance with the law and are obliged to fulfil Central Bank Rules on Minimum Reserve Requirements.

### Article 2

#### *Evaluation of liquidity*

Credit institutions, cf. Article 1, shall make every effort to have sufficient liquid funds to meet their payment obligations. Liquid funds shall be classified into the following four periods:

- a) Liquid within one month
- b) Liquid after one month and up to three months
- c) Liquid after three months and up to six months
- d) Liquid after six months and up to twelve months

The liquidity ratio as defined in these Rules shall be calculated monthly on the basis of data for the end of each month, in a separate report to the Central Bank of Iceland.

### Article 3

#### *Minimum liquidity ratio*

Liquidity ratio refers to the ratio between liquid claims and liquid liabilities, cf. Articles 5 and 6 of these Rules. The liquidity ratio of credit institutions shall not be lower than 1 for each item a) and b) in Article 2, paragraph 1. If the liquidity ratio according to item a) is higher than 1, the outstanding amount may be transferred to item b).

Credit institutions shall also report the liquidity ratios for other periods, i.e. according to items c) and d) of Article 2, paragraph 1.

### Article 4

#### *Penalties*

If the liquidity ratio fails to meet the minimums set in Article 3, paragraph 1, periodic penalty payments shall be calculated on the amounts by which it is short, cf. Article 2, paragraph 1 of the current Rules on the Imposition of Periodic Penalty Payments. 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 Central Bank may debit calculated penalties from the current accounts that the respective credit institution or company has with the Bank a minimum of seven days after it was notified of the periodic penalties, cf. Article 6, paragraph 3 of the Rules specified in paragraph 1 above. A credit institution maintaining the minimum reserve of another which

is subject to minimum reserve requirements shall authorise the Central Bank to debit penalties for the relevant institution from its account with the Bank.

#### Article 5

##### *Definition of liquid claims*

The following assets of a credit institution shall be regarded as liquid and are included under item a) in Article 2, paragraph 1:

- a) Cash in domestic and foreign currencies.
  - b) Sight deposits with the Central Bank, including those in a reserve account. The main current account of a savings bank with Sparisjóðabanki Íslands hf., including a savings bank's deposit with it in connection with its intermediary role in maintaining minimum reserves under Article 8 of the current Rules on Minimum Reserve Requirements. If a separate payment system reserve account is used as authorised under Article 9 of the Central Bank's Rules on Minimum Reserve Requirements, this shall be regarded both as a minimum reserve deposit and as a required collateral security amount in payment systems.
  - c) Repurchase agreements where the counterparty is the Central Bank.
  - d) 5% of committed revolving credit facilities to credit institutions on account of production and operational credits.
  - e) Nostro accounts with credit institutions.
  - f) 5% of overdraft loans and production credits.
  - g) 15% of all arrears of more than 30 days, including paid but unrealised guarantees.
  - h) 90% of the market value of domestic Treasury bills, other securities which are eligible as collateral in repurchase agreements with the Central Bank, and foreign treasury bills.
  - i) 80% of the market value of credit institutions' bills for which there is a market maker and which are listed on a stock exchange or an organised OTC market, listed foreign market securities, listed foreign equities and units in securities funds.
  - j) 50% of the market value of classes of listed bills and bonds for which there is a market maker but which are not eligible as collateral in repurchase agreements with the Central Bank, and equities included in the Iceland Stock Exchange ICEX-15 index.
  - k) 25% of the market value of other listed domestic equities.
  - l) 10% of the market value of other listed bonds for which there is no market maker.
  - m) 80% of any unused committed revolving credit facility with domestic and foreign credit institutions denominated in Icelandic currency.
  - n) Claims on account of any unused committed revolving credit facility with domestic and foreign credit institutions denominated in foreign currency.
  - o) 10% of unused credit lines denominated in domestic and foreign currency.
- The following other assets shall be classified under the appropriate item of Article 2, paragraph 1 depending on the remainder of their required reserve period:
- a) Central Bank certificates of deposit.
  - b) 90% of repayments on account of claims against domestic credit institutions, excluding nostro accounts.
  - c) Repayments on account of claims against foreign credit institutions, denominated in either domestic or foreign currency, excluding nostro accounts.
  - d) 80% of repayments on account of claims against other parties than credit institutions, excluding claims in arrears, overdrafts and production credits.
  - e) 90% of claims on account of securities repurchase agreements in which the counterparty is not the Central Bank. However, this ratio shall be 100% in the case of Sparisjóðabanki's intermediary role for savings banks.

- f) 90% of the positive market value (unrealised gain) of all off-balance-sheet agreements, including futures, swaps and options.
- g) 80% of claims on account of underwriting.

#### Article 6

##### *Definition of liquid liabilities*

The following liabilities of credit institutions shall be regarded as liquid liabilities and be included under item a) of Article 2, paragraph 1:

- a) Liabilities due to the Central Bank, including the calculated minimum reserve under Central Bank Rules on Minimum Reserve Requirements and Settlement Obligations for Payment Systems.
- b) Reverse repurchase agreements where the counterparty is the Central Bank.
- c) 5% of credit agreements with credit institutions on account of production and operational credits.
- d) 5% of time deposits in Icelandic currency and 10% of other deposits.
- e) 80% of liabilities on account of any unused committed revolving credit facility granted to domestic and foreign credit institutions and denominated in Icelandic currency.
- f) 100% of liabilities on account of any unused committed revolving credit facility granted to domestic and foreign credit institutions and denominated in foreign currency.
- g) 25% of liabilities on account of any unused committed revolving credit facility granted to other parties than credit institutions, denominated in domestic and foreign currencies.
- h) 10% of guarantees.
- i) 5% of domestic credit card authorisations.
- j) 0.5% of foreign credit card authorisations.

The following other liabilities shall be classified under the appropriate item of Article 2, paragraph 1, depending upon their time to maturity:

- a) Repayments on liabilities, other than those on account of production and operational credits, with domestic and foreign credit institutions.
- b) Repayments of market securities issues.
- c) Repayments of other borrowing.
- d) 100% of liabilities on account of reverse repurchase agreements where the counterparty is not the Central Bank.
- e) 100% of the negative market value (unrealised loss) of all off-balance-sheet agreements, including forwards, futures, swaps and options.
- f) 25% of the equivalent of liabilities on account of underwriting.
- g) 80% of liabilities on account of approved loan commitments.
- h) Payments on account of approved dividends.

#### Article 7

##### *Further information about off-balance-sheet transactions*

The following assets and liabilities shall be classified under the relevant item of Article 2, paragraph 1, depending upon their time to maturity and whether foreign or domestic currency is involved:

- a) Principle amount of forward and futures agreements.
- b) Cash flow on swaps.
- c) Principle amount of options.

The above items are not included in calculations of liquidity ratio.

Article 8  
*Reporting*

Reports on liquidity shall be received by the Central Bank within 15 days from the end of each month and the Bank may impose periodic penalty payments for failure to report, under Article 2, paragraph 2 of the current Rules on the Imposition of Periodic Penalty Payments. 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 and debiting of periodic penalty payments from the relevant parties is subject to the provisions of Article 4, paragraph 2 above, where appropriate.

A credit institution's internal auditor, if there is one, or chief accountant, shall examine the methods for reporting liquidity at least once a year and send the Central Bank a written declaration about it. Such a declaration shall also be sent when the credit institution's first report is prepared according to these Rules.

Article 9  
*Entry into force, etc.*

These Rules enter into force on September 1, 2002. At the same time, the Central Bank's Rules on Liquidity Ratio, No. 905 of September 27, 1999, are abrogated.

Reykjavík, May 29, 2002  
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