



# TERMS AND CONDITIONS FOR SECURITIES LENDING

from the Central Bank of Iceland, on behalf of the Treasury, to primary dealers in Treasury securities, as the customer

## 1. Scope and purpose

- 1.1. These terms and conditions apply to transactions between the Central Bank of Iceland, on behalf of the Ministry of Finance and Economic Affairs, in the name Government Debt Management (referred to herein as the Central Bank) and the customer for securities lending, which are set on the basis of Article 10 of the current contractual agreement between the Central Bank and the primary dealers for issuance of Treasury securities and market making in the secondary market. The Government Debt Management department of the Central Bank administers securities lending on behalf of the Treasury.
- 1.2. The terms apply to securities loans granted to primary dealers and are intended to describe the legal relationship between the Central Bank and the customer. The terms discuss, among other things, how agreements are made between the parties and how communications take place, what collateral the Central Bank requires for the transactions, and under what circumstances the Central Bank is authorised to call in a securities loan.

## 2. Execution of transactions

- 2.1. In accordance with these terms, the customer may request a securities loan from the Central Bank, against collateral in the form of cash.
- 2.2. A customer may request a securities loan on any business day, during the opening hours of the Nasdaq Iceland exchange. Requests for securities loans shall be received by the Central Bank before 10:00 hrs. if they are to be processed before 11:00 hrs. that same day. If a customer wishes to conclude a new contractual agreement concerning outstanding loaned securities on the maturity date, with or without amendments, the customer shall request it before 14:00 hrs. that same day.
- 2.3. All Treasury securities with market making through the Central Bank are eligible for securities loans. The maximum amount loaned in each Treasury series to each customer is 1 b.kr. nominal value. This maximum increases to 2 b.kr. when the size of the series in question has reached 20 b.kr. nominal value. Requests for securities loans shall be in multiples of 1 m.kr.
- 2.4. Requests for securities loans shall be submitted through the Bloomberg trading system. Requests for securities loans shall specify the following: identity code of the bond series, nominal amount to be borrowed, date of loan, and maturity date. The maximum loan period is 14 days; that is, from a given day of the week until the same day two weeks later.
- 2.5. Upon the Central Bank's acceptance of a securities loan request in the Bloomberg system, a binding agreement is established between the parties. If the transaction cannot be carried out in the Bloomberg system, a binding agreement may be reached by e-mail.
- 2.6. Customers pay a commission amounting to 0.20% annual interest on the amount of the collateral. They also pay a service charge of 5,000 kr. on each borrowed series. The commission and the service charge are paid by direct debit on the date of the contractual agreement; cf. Articles 6.1 and 6.4.

- 2.7. When the Central Bank has received the collateral, it will grant the securities loan from its account with the securities depository to the customer's account with the securities depository.
- 2.8. Should the maturity date fall on a day that is not a banking day, the maturity date shall be moved to the banking day immediately preceding. For the purposes of these terms and conditions, a banking day is a business day when banks and the securities exchange are open in Iceland.
- 2.9. The interest period is the number of days on which interest is calculated at any given time. Interest is calculated beginning of the first day of each interest period through the last day of the period. The interest period for the agreement begins on the date of the loan according to the agreement and ends on the maturity date. The interest payment date is the last day of the interest period. Banking day rules apply to settlement on the interest payment date.
- 2.10. The day count rule for calculation of interest (proportional number of days) is Actual/360; i.e., the number of calendar days divided by 360. The interest rate is multiplied by the number of calendar days in each interest period and divided by 360.
- 2.11. The parties are not authorised to terminate agreements prior to the maturity date.

## 3. Collateral

- 3.1. Financial collateral arrangements in connection with transactions on the basis of these terms and conditions are governed by the Act on Financial Collateral Arrangements, no. 46/2005.
- 3.2. When the customer is required to provide collateral to ensure prompt payment, without penalty, of all of the customer's debts and obligations according to these terms and conditions, a separate written collateral agreement shall be made.
- 3.3. Only cash in Icelandic krónur may be provided as collateral for securities loans.
- 3.4. During the period of the agreement, the Central Bank shall pay interest on collateral provided, at the rate on deposit institutions' current accounts as determined by the Central Bank of Iceland at any given time and published on the Bank's website, net of commission and service charge; cf. Item 2.6.
- 3.5. After the transaction is settled, interest on the collateral is delivered to the customer, together with the collateral.
- 3.6. At the beginning of the contract period, the customer shall provide collateral with a minimum collateral coverage of 105% of the market value of the loaned securities.
- 3.7. The market value of the loaned securities and the collateral coverage shall be determined with reference to the most recent market value from the Bloomberg trading system, plus accrued interest and indexation. The market value is based on the most favourable asking price for the loaned securities.
- 3.8. If the collateral coverage declines by two (2) percentage points from the minimum collateral coverage level defined above, the customer shall provide additional collateral in order to restore the minimum. By the same token, the customer may request the



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return of collateral if the collateral coverage increases by two (2) percentage points from the minimum collateral coverage level defined above, the customer shall provide additional collateral in order to restore the minimum.

- 3.9. The customer guarantees that the collateral provided is free of liens and encumbrances. The customer is prohibited to transfer, hypothecate, or otherwise dispose of the collateral that it has provided to the Central Bank according to these terms and conditions.
- 3.10. If the Central Bank demands collateral or additional collateral, the customer shall comply with the request that same day. The Central Bank may make a demand for collateral or additional collateral according to Article 3.10 by e-mail.

#### 4. Default and acceleration

- 4.1. If the customer defaults on its obligations but not in a manner deemed significant, the customer has two (2) banking days to remedy the situation that led to the said default. This grace period shall begin on the date the default is considered to have occurred.
- 4.2. If the customer defaults significantly on its obligations, the Central Bank is authorised to call in the contractual agreement concerned.
- 4.3. The instances below shall always be viewed as significant events of default, provided that the customer has not remedied the situation within three (3) banking days of the time the Central Bank notifies the customer that an event of default has been discovered:
- (a) If the customer does not deliver the loaned securities or does not pay a claim on the maturity date.
  - (b) If the customer does not provide acceptable collateral
  - (c) If the customer does not comply with the Central Bank's demand for additional collateral; cf. Article 3.10
  - (d) If the customer has not remedied a default situation within two (2) banking days
  - (e) If the customer is in default vis-à-vis the Central Bank, on behalf of the Treasury, in an amount exceeding 100,000,000 kr. on obligations other than those falling under these terms and conditions and has not remedied the situation within two (2) banking days from the time the default occurred, or is repeatedly in default vis-à-vis the Bank. This item could include default on money market loans that the Central Bank, on behalf of the Treasury, has granted to financial undertakings.
  - (f) If the customer has neglected to notify the Central Bank of a decision to undertake a merger, to divide itself into more than one independent company, or to make major changes in its operational purpose that affects its capacity to fulfil the obligations established on the basis of these terms and conditions.
- 4.4. The Central Bank shall notify the customer when its obligation has been called in due to significant default. Such a notification and the notification according to Article 4.3 shall be sent to the customer in writing.
- 4.5. If the contractual agreement is accelerated, the Central Bank shall calculate the customer's profit or loss on the agreement in question. The Central Bank shall send this calculation to the

customer no later than fifteen (15) banking days after the agreement is called in.

- 4.6. When the debt is due and payable according to the above, the Central Bank is authorised to appropriate the collateral to the extent necessary to satisfy its claims. On the day that the Central Bank decides to exercise the authorisation to appropriate the collateral, the value of the loaned securities shall be determined based on the most favourable asking price at the close of the day in the relevant trading system on the day before the valuation is made. If the Bank deems price formation on that day to have been abnormal – i.e., due to disturbances in the market – it is permissible to base the valuation on the value of the loaned securities on the date of the loan.
- 4.7. The customer shall pay penalty interest on the Central Bank claim, beginning on the maturity date, and the claim shall bear penalty interest in accordance with the decision of the Central Bank of Iceland at any given time concerning penalty interest and default margins, cf. Article 6, Paragraph 1 of the Act on Interest and Price Indexation, no. 38/2001, on the amount due and payable or the amount called in, from the maturity date until the date payment is made.
- 4.8. Unpaid penalty interest is added to the principal of the debt every twelve (12) months, beginning twelve (12) months after the maturity date.
- 4.9. In the event that the customer defaults on its obligations, the customer pledges to pay to the central Bank, with interest and penalty interest, all reasonable and fair expenses that the Central Bank must pay in connection with the default, such as costs due to legal action or other court costs, legal fees or other legal expense due to collection, plus other reasonable and fair expenses.
- #### 5. Liability for contractual agreements, statement of indemnity
- 5.1. The Central Bank is not liable for any direct or indirect damage or losses that the customer may sustain as a direct or indirect result of malfunctions in the Bank's equipment or computers, or other similar causes; i.e., due to use of postal systems, telephones, or e-mail. Furthermore, the Central Bank is not liable for any damage or loss caused directly or indirectly by information from or actions taken by a third party.
- 5.2. The Central Bank is not liable for any direct or indirect damage or loss stemming from *force majeure*; i.e., war or imminent war, acts of terrorism, natural disasters, strikes, work stoppages, border closings, trade embargoes, or blockades.
- 5.3. The Central Bank is not liable for any direct or indirect damage or loss stemming from events of a political, social, financial, or economic nature that are likely to prevent, interrupt, or disturb, wholly or in part, the service provided by the Central Bank, even if such events are not classified as *force majeure*.
- #### 6. Settlement and finalisation of transactions
- 6.1. The Central Bank is authorised to make direct debits from the customer's real-time gross settlement (RTGS) account for the transactions undertaken on the basis of these terms and conditions and for any type of settlement of transactions connected with them.
- 6.2. If the customer has loaned securities that bear annual interest, it is required to pay the interest on the securities to the Central



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- Bank on the relevant interest payment date. Interest is paid by the Central Bank's charging the amount of the interest to the customer's collateral account.
- 6.3. The customer shall ensure that the balance on its RTGS account is sufficient to serve as collateral for the securities loan no later than 16:00 hrs. on the date of the loan. When the Central Bank has received the collateral, it will grant the securities loan from its account with the securities depository to the customer's account with the securities depository.
  - 6.4. On the maturity date, the customer shall deliver the loaned securities to Treasury Relending at the securities depository no later than 14:00 hrs. When this is done, the Central Bank deducts all expenses in connection with the securities loan from the collateral in the customer's account before the collateral is returned.
  - 6.5. Cash provided by the customer as collateral is stored in the customer's account with the Central Bank and is pledged to the Central Bank in accordance with a separate statement to this effect.
- 7. Miscellaneous provisions**
- 7.1. The Central Bank of Iceland may, without prior notice, exclude a customer from further transactions in accordance with these terms and conditions if the customer has not complied with the provisions herein.
  - 7.2. The customer is required to notify the Central Bank without delay of any circumstances that may affect the business relationship between the parties, including all existing or foreseeable events of default or all events that could lead to default on the customer's obligations according to these terms and conditions.
  - 7.3. The customer shall designate an employee to act as liaison with the Central Bank in connection with transactions undertaken on the basis of these terms and conditions. The customer is responsible for those parties that represent it in interactions with the Central Bank.
  - 7.4. These terms and conditions and the agreements made on the basis of them are governed by Icelandic law. In the event of a dispute on the interpretation of these terms and conditions or agreements made on the basis of them, legal action associated with the dispute shall be referred to the District Court of Reykjavík.
  - 7.5. The Central Bank reserves the right to cancel, add to, or otherwise amend these terms and conditions at any time. Amendments to these terms and conditions in accordance with this provision do not affect agreements in existence at the time the amendments are made. The Central Bank shall inform the customer with sufficient notice of proposed amendments to these terms and conditions.
  - 7.6. The headings in these terms and conditions are for explanatory purposes only.
  - 7.7. These terms and conditions and rules based on them are set on the basis of primary dealer agreements in effect at any given time. The terms and conditions shall remain valid even if the primary dealer agreements are amended. When these terms and conditions take effect, the previous rules on securities loans from the Central Bank of Iceland, on behalf of the Treasury, to primary dealers in Treasury securities, dated 31 March 2015, shall expire. These terms and conditions shall take effect upon publication.
  - 7.8. This agreement is translated into English; however, the Icelandic original shall be considered the authoritative text.
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Treasury and Market Operations  
Government Debt Management  
Central Bank of Iceland