

## **AGREEMENT**

### **between the Ministry of Finance and Central Bank Iceland on Treasury debt management**

#### **1. Foundation of the Agreement**

Pursuant to Article 1 of the Act on the Government Debt Management, no. 43/1990, with subsequent amendments, the Minister of Finance shall administer domestic and foreign borrowings for the Treasury and for Government institutions, handle the issuance and sale of Treasury bonds in the domestic market, and carry out other debt management for the Treasury, as well as administering relending of borrowed funds, Government guarantees, and the State Guarantee Fund.

Article 6 of the same Act stipulates that it is permissible to come to an agreement with the Central Bank of Iceland, under which the Bank will handle debt management, Government guarantees, and Government relending, as well as other tasks under the auspices of the Minister of Finance.

On the basis of the above statutory authority, this Agreement assigns the Central Bank the task of administering domestic and foreign debt and carrying out the other tasks specified herein.

#### **2. Purpose of the Agreement**

The purpose of this Agreement is to promote more economical, efficient and effective debt administration for the Treasury, based on the Ministry of Finance's debt strategy. This entails minimising the Treasury's domestic and foreign interest and financial expense by seeking economical financing proposals for the Treasury, both domestically and abroad. The Treasury's exposure to exchange rate, interest rate, and price level risks shall be distributed in the most advantageous way possible, and the risk incurred by the Treasury as a result of guarantees and relending shall be minimised.

#### **3. Division of tasks between the parties to the Agreement**

Responsibility for the administration of Government debt management lies with the Ministry of Finance. The Ministry of Finance takes decisions on Treasury borrowing and bond issuance, payment of Government debt, and Treasury liquidity management. Furthermore, the Ministry determines the yield on accepted bids in auctions of Treasury instruments in accordance with set criteria; determines the structure, maturity, and characteristics of individual debt issues; handles buybacks and/or swap agreements; and administers other matters set forth in this Agreement. This applies equally to borrowings and bond issues in domestic and foreign markets.

The Central Bank of Iceland administers debt affairs and debt management with the authorisation of the Ministry of Finance and in accordance with guidelines set by the Ministry.

The Central Bank is responsible for ensuring that borrowing and debt management are carried out in accordance with the strategy drawn up by the Ministry.

## **4. Functions covered by this Agreement**

The Central Bank of Iceland issues marketable Treasury securities domestically and abroad, strengthens the market for Treasury instruments, reinforces the Republic of Iceland's creditworthiness in global credit markets, and advises the Ministry of Finance on matters related to these tasks.

### **4.1. Management of domestic Treasury securities**

#### *4.1.1. Supervision and auctions*

The Central Bank prepares and carries out auctions and buybacks of Treasury instruments in accordance with the Treasury's estimated borrowing requirement. A representative of the Ministry of Finance is present at the opening of auctions and decides, in accordance with established procedure, which bids are to be accepted. The Central Bank, on behalf of the Ministry of Finance, notifies the OMX exchange and the news media of the auction results. The Central Bank also prepares prospectuses for Treasury benchmark issues and handles their listing with OMX and the Icelandic Securities Depository.

#### *4.1.2. Buybacks and redemption of Treasury instruments*

The Central Bank handles buybacks of Treasury instruments in accordance with plans made by the Ministry of Finance to expedite debt repayment or restructure benchmark issues. The Central Bank shall also redeem marketable Treasury securities in accordance with the terms and conditions of the securities concerned.

#### *4.1.3. Primary dealer agreements and repurchase agreements*

The Central Bank makes agreements with market participants on issues of Treasury instruments and market making in the secondary market, subject to the approval of the Ministry of Finance. The purpose of these agreements is to strengthen the Treasury's access to credit and to enhance price formation in the secondary market for Treasury securities. Furthermore, in order to support market making, the Central Bank provides special short-term securities lending facilities to primary dealers upon receipt of collateral in eligible securities. The Central Bank is responsible for the implementation of these agreements. Costs and commissions for primary dealer agreements are paid by the Ministry of Finance.

#### *4.1.4. Settlement and accounting*

The Central Bank carries out settlement and finalisation pertaining to the sale and redemption of Treasury instruments and securities lending arrangements. The material and form in which information is documented and delivered to the government accounting system shall be approved by the State Accounting Office; cf. Appendix 1 to this Agreement.

#### *4.1.5. Secondary market*

The Central Bank shall attempt to ensure the existence of an active secondary market for domestic Treasury instruments.

## **4.2. Management of foreign debt**

### *4.2.1. Disclosure of information on global credit market conditions*

The Central Bank monitors global credit market conditions and informs the Ministry of Finance on a regular basis.

### *4.2.2. Relations with foreign credit institutions*

The Central Bank shall handle communication and dissemination of information on Icelandic economic affairs to foreign credit institutions. In its communications with foreign credit institutions, the Central Bank shall take into account the Ministry of Finance's emphases regarding information related to Government debt management issues.

### *4.2.3. Foreign borrowing, swap agreements, and short-term borrowing*

The Central Bank shall manage the Treasury's foreign borrowing, interest rate and currency swaps on foreign debt, and short-term foreign debt maintenance, in addition to handling the foreign debt assumed by the Treasury in accordance with decisions made by the Ministry of Finance at any given time.

### *4.2.4. Accounting and payment*

The Central Bank shall handle accounting and payment for Treasury foreign borrowing in accordance with the instructions of the State Accounting Office; see Appendix 1.

## **4.3. Government guarantees and relending**

The Central Bank handles the administration of Government guarantees and assesses the Treasury's risk due to such guarantees. The Bank provides the Ministry with opinions on Government guarantees, grants such guarantees in accordance with ministerial decisions, and collects fees for them.

The Central Bank handles the issuance of bonds for relending, while the State Accounting Office handles their disbursement and collection. The Central Bank monitors developments in individual guarantees and the total stock of guarantees. It also assesses the risk to the Treasury and the depreciation requirements as a result of such guarantees.

Furthermore, the Central Bank administers the redemption of claims against the Treasury as a result of guarantees it has granted, as well as collecting such claims.

Government guarantees are subject to the provisions of the State Guarantee Act, no. 121/1997; cf. the Regulation on State Guarantees, the State Guarantee Fund, and Treasury Relending, no. 237/1998,

which was set pursuant to that Act, with subsequent amendments. The Act includes provisions concerning processing fees and fees charged for guarantees granted.

The Central Bank maintains a special register of guarantees granted and uses that register as the basis for levying guarantee fees. The Ministry of Finance grants the Central Bank of Iceland access to the Treasury credit accounting system for this purpose. Payment of processing fees and guarantee fees is subject to rules set by the State Accounting Office.

#### **4.4. Information disclosure**

##### *4.4.1. Disclosure of information to market participants*

The Central Bank, on behalf of the Ministry of Finance, and in the name of Government Debt Management (GDM), handles the regular disclosure of information on the Treasury's domestic and foreign loan stock to market participants, and publishes information on auction days and planned volume of issuance for the year on the basis of the Government's estimated borrowing requirement. The Central Bank shall also handle communications with the OMX exchange and the Icelandic Securities Depository, as well as issuing press releases on planned auctions, auction results, and other matters related to Government debt management. All such information shall be prepared by the Central Bank, on behalf of the Ministry of Finance, but published in the name of Government Debt Management (GDM).

Central Bank information involving debt management for the Treasury shall be published independently of other Central Bank publications or announcements. In general, such information shall be published under the auspices of Government Debt Management and/or the Ministry of Finance.

The Central Bank shall handle daily communications with market agents; it shall hold regular meetings with them and with end investors.

##### *4.4.2. Disclosure of information to the Ministry of Finance*

The Central Bank shall submit quarterly reports on the implementation of the Treasury's domestic and foreign borrowing in accordance with Treasury debt management criteria set by the Ministry of Finance.

A more detailed report covering the main aspects of borrowing by the Treasury and by holders of Treasury guarantees shall be submitted to the Ministry on an annual basis.

At any time, the Ministry of Finance may request other information and reports on the implementation of this Agreement.

##### *4.4.3. Oversight and maintenance of website*

The Central Bank shall oversee, maintain, and update the websites [www.bonds.is](http://www.bonds.is) and [www.lanasysla.is](http://www.lanasysla.is). The Central Bank shall take account of the Ministry of Finance's emphases in presenting information related to Government debt management.

#### **4.5. Risk management and liquidity management**

The Central Bank of Iceland carries out risk management and liquidity management in accordance with Treasury portfolio management criteria set by the Ministry of Finance. These criteria focus on minimising the Treasury's borrowing costs within an acceptable degree of exposure from its debt, guarantees, and relending.

#### **5. Contractual payments**

For the service provided by the Central Bank of Iceland under this Agreement, the Ministry of Finance pays the Central Bank 97 m.kr. per year, in accordance with the following. One-twelfth of this sum shall be paid each month, in accordance with an invoice from the Central Bank, with payment for a given month rendered on the first business day of the following month, beginning on the date this Agreement is signed. The contract amount shall change at each year-end, beginning in January 2011, in accordance with changes in the consumer price index from January to January, with a base index value of 362.9 points.

Included in the contractual payments are all expenses for the project as it is specified in this Agreement, including salaries and related expenses, all facilities and equipment necessary to provide the service, travel expense, and expenses for access to information systems.

In addition to the contractual payments, the Treasury shall pay expenses for commissions to primary dealers for market making. The Treasury shall also receive interest income from securities repurchase agreements. The Treasury shall also pay the connection and membership fees for the OMX Nordic Exchange and the Icelandic Securities Depository, as well as other fees related to the issuance and administration of Government securities. It shall also cover expenses for credit ratings on individual domestic and foreign Government bond issues, as well as special expenses due to individual foreign borrowings, including expenses for outsourced legal advice and road shows.

The Central Bank receives all income from service charges generated by securities lending. If income from service charges is less than 10 m.kr. per calendar year, the fixed commission as is specified in Paragraph 1, shall increase to match the difference. The difference must be paid by the Ministry of Finance by 1 February of the following calendar year. The Central Bank also receives a commission in the form of a 0.03% discount rate due to securities lending.

#### **6. Consultative committee on debt management**

The Minister of Finance appoints a consultative committee on Treasury debt management. The membership comprises representatives of the Ministry and others nominated by the Central Bank of Iceland.

The committee shall serve as a forum for the exchange of views on the position of and outlook for capital markets, and on the Treasury's domestic and foreign borrowing and borrowing plans. It is intended to promote reforms in the domestic credit market as it deems appropriate.

The committee shall prepare and submit to the Ministry of Finance a proposal for a medium-term debt management strategy. The debt management strategy shall be available at any given time, and an extract from the strategy shall be presented to market agents. The committee presents proposals to the Ministry of Finance on the format and arrangements for individual bond issues and their maturity and volume, as well as arrangements for market making and auctions. Furthermore, the committee proposes risk management criteria for the Treasury's domestic and foreign debt portfolio. It discusses and passes proposals for Treasury issuance programmes in domestic and foreign markets and for action taken by the Treasury in credit markets. The strategy shall cover the volume of issuance for given periods, dates of issue, and prospective debt management activities during the period covered by the strategy. The strategy shall be approved by the Ministry of Finance and announced to market participants.

In general, the committee shall meet once a month, or more often if necessary.

## **7. Entry into force, duration, review and revocation**

This Agreement shall enter into force on 1 March 201 and shall remain in effect for an indefinite period. Upon the signing of this Agreement, the 18 October 2010 Government debt management agreement between the parties shall expire.

Either party may request a review of the Agreement at any time during its period of validity. If such discussions result in a consensus on amendments to this Agreement, the review process shall be expedited insofar as is possible.

The Agreement may be revoked by either party with six months' notice.

Reykjavík, 29 January 2019

Ministry of Finance

Central Bank of Iceland