



# FRAMEWORK TERMS AND CONDITIONS FOR REPURCHASE TRANSACTIONS

between the Central Bank of Iceland and [•] as the Customer

## 1. Scope, purpose, and premises for transactions

- 1.1. These framework terms and conditions apply to repurchase 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 hereinafter as the Central Bank), and the customer, and are set on the basis of Article 10 of the current contractual agreement between the Central Bank and primary dealers for issuance of Treasury securities and market making in the secondary market. The purpose of the framework terms and conditions is to describe the legal relationship between the Central Bank and the customer.
- 1.2. The Central Bank's Government Debt Management Department administers agreements on repurchase transactions on behalf of the Treasury.
- 1.3. These framework terms and conditions are subject to the Act on Financial Collateral Arrangements, no. 46/2005. Agreements made on the basis of these framework terms and conditions are agreements on financial collateral arrangements in the sense of the Act.
- 1.4. All agreements made between parties concerning transactions undertaken on the basis of these framework terms and conditions constitute a single agreement between the parties.
- 1.5. The premise upon which the Central Bank enters into transactions on the basis of these framework terms and conditions is that the transactions shall be as risk-free for the Bank as is authorised under Icelandic law.

## 2. Execution of repurchase transactions

- 2.1. According to these framework terms and conditions, the customer purchases Treasury securities from the Central Bank, with settlement taking place on the date of purchase. At the same time, an agreement is made for the forward sale of the same securities by the customer on the repurchase date. Payment for Treasury bonds according to repurchase agreements shall be made in cash. The trading system referred to in these framework terms and conditions is the Bloomberg trading system or another system that the parties agree to use.
- 2.2. A customer may request a repurchase agreement on any business day, during the opening hours of the Nasdaq Iceland exchange. Requests for repurchase agreements shall be received by the Central Bank before 10:00 hrs. if they are to be processed before 11:00 hrs. that same day.
- 2.3. Securities eligible for repurchase transactions are all Treasury securities with market making. Each customer's maximum purchase in each Treasury series is 1 b.kr. nominal value; however, the maximum rises to 2 b.kr. when the size of the issue

has reached 20 b.kr. nominal value. Requests for repurchase agreements shall be in multiples of 1 m.kr.

- 2.4. Requests for repurchase agreements shall be submitted in the trading system. Requests shall include the following: *identity code and nominal price of the bond series, purchase date, and repurchase date*. The maximum time between purchase date and repurchase date is fourteen (14) days; i.e., from a given weekday until the same weekday two weeks later. If there are fewer than fourteen (14) days until the maturity date of the bond series in question, the contract period may not be extended [beyond that date].
- 2.5. When the Central Bank approves a request for a repurchase transaction in the trading system, a binding agreement providing for a repurchase transaction between the parties is established. In exceptional circumstances, a binding agreement may be reached by e-mail if the transaction cannot be carried out in the trading system provided for in Article 2.1.
- 2.6. The purchase price that the customer pays in cash in repurchase transactions consists of the market price of the Treasury bond (cf. Article 4.2) at the outset, together with accrued interest and indexation. In addition to the purchase price, the customer pays a risk fee equaling 5.0% of the purchase price in order to secure the repurchase agreement. The repurchase agreement is not made if the purchase price and risk fee are not paid in accordance with these framework terms and conditions.
- 2.7. The transaction shall be settled on the same day by means of a structured delivery-versus-payment (DvP) settlement arrangement. If the transaction is not settled by the end of the day, it is automatically rendered void.
- 2.8. If a customer wishes to conclude a new contractual agreement concerning an outstanding repurchase agreement on the repurchase date, with or without amendments, the customer shall request it before 14:00 hrs. that same day. When a new agreement is made concerning an outstanding transaction, a new purchase price is set and the difference vis-à-vis the older agreement is settled. In other respects, the request for a new agreement shall include the same information as is provided when an initial repurchase agreement is made; cf. Article 2.4.
- 2.9. Should the repurchase date or payment due date fall on a day that is not a banking day, the repurchase date or payment date shall be moved to the banking day immediately preceding. For the purposes of these framework terms and conditions, a banking day is a business day when banks and the securities exchange are open in Iceland.
- 2.10. Parties are prohibited from closing out agreements prior to maturity unless explicitly authorised to do so in these framework terms and conditions.



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### 3. Payments during the term of the agreement

- 3.1. If it should become necessary to remit principal, instalments, interest, or other payments on purchased Treasury bonds during the term of a repurchase agreement, the Central Bank is authorised to deduct (net out) the amount in question from the customer's account. This aim of this provision is that payment flows from the Treasury bonds to which the repurchase agreement pertains shall remain outside the scope of the repurchase agreement.
- 3.2. The Central Bank calculates interest on an amount corresponding to the purchase price, risk fee, and additional risk fee, as applicable, at the rate on deposit institutions' current accounts with the Central Bank on the purchase date of the repurchase agreement, less 0.2%, which is the Central Bank's commission for the transaction. Interest rates are set by the Central Bank of Iceland at any given time and are published on the Bank's website.
- 3.3. The interest period is the number of days on which interest is calculated at any given time. Interest is calculated from the first day of each interest period through the last day of the period. The interest period of the repurchase agreement begins on the purchase date and ends on the repurchase date. The interest payment date is the last day of the interest period. Banking day rules apply to settlement on the interest payment date.
- 3.4. 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.

### 4. Risk coverage for repurchase agreements

- 4.1. The risk fee for repurchase agreements is paid by the customer in cash. The risk fee equals 5% of the purchase price of the Treasury bonds at the outset. The risk fee and the purchase price combined constitute the risk coverage base of the repurchase agreement, which equals 105%.
- 4.2. Both the current market value of the securities in the repurchase agreement and the risk coverage shall be determined with reference to the most recent market price, plus accrued interest and indexation. The market price is based on the most favourable asking price for the securities in the repurchase agreement.
- 4.3. If the market price of securities in repurchase agreements rises by two (2) percentage points from the last time the risk fee was remitted, the customer shall remit an additional risk fee in order to secure the transaction, so that the risk coverage base is restored. By the same token, the customer may request reimbursement of the risk fee if the risk coverage falls by two (2) percentage points, until the risk coverage base is restored.
- 4.4. If the Central Bank requires a risk fee or an additional risk fee, the customer shall comply with the request that same day. The Central Bank shall send the customer a notification each time an additional risk fee is requested or the customer is reimbursed for a risk fee.

### 5. Finalisation of repurchase agreements

- 5.1. Repurchase agreements shall be settled by means of a structured securities settlement arrangement no later than 14:00 hrs. on the purchase date. The Central Bank's payment for the settlement of the transaction equals the sum of the purchase price, the risk

fee, and the additional risk fee, if applicable. After the repurchase agreement has been settled, the Central Bank pays the interest to the customer, less the Bank's commission as provided for in Article 3.2 and a processing fee of 5,000 kr.

- 5.2. The Bank is authorised to direct-debit the customer's real-time gross settlement account for transactions undertaken on the basis of these framework terms and conditions, and for any type of settlement of the transactions. This also applies to the new purchase price, provided for in Article 2.8; the additional risk fee; the netting out of payments during the term of the agreement, provided for in Article 3.1; the settlement claim; or other costs due to repurchase agreements. The authorisation for direct debit also applies to the purchase price and the risk fee if settlement takes place outside the structured securities settlement arrangement.

### 6. Netting for settlement

- 6.1. In the instances of default listed below, the Central Bank and the customer are authorised to terminate the repurchase agreement via close-out netting:
  - (a) If the customer requests a moratorium on payment or a composition agreement, if a request is made for the participant's estate to be subjected to insolvency proceedings, or if the participant in some other way acknowledges insolvency; for instance, by engaging in discussions with creditors concerning restructuring of financial claims against the customer.
  - (b) If an interim board of directors is appointed for the customer; if a request is made for the revocation of the customer's operating licence or for the customer to be subjected to winding-up proceedings in accordance with the Act on Financial Undertakings, no. 161/2002; or if a determination is made that the financial undertaking is in financial distress, cf. Article 34 of the Act on Recovery and Resolution of Credit Institutions and Investment Firms, no. 70/2020.
  - (c) If the customer does not deliver the Treasury securities on the repurchase date. The same applies if the Central Bank does not remit payment on the repurchase date.
  - (d) If there are insufficient funds in the customer's real-time gross settlement account to pay the additional risk fee provided for in Article 3.1.
  - (e) If the customer or the Central Bank fails to honour other obligations under these framework terms and conditions and the non-performance persists for more than thirty (30) days from the time the party in question was notified of it.
  - (f) If the customer is no longer a member of a registered securities exchange or central securities depository.
- 6.2. The calculation date for the netting of debt for final settlement shall be based on the date the Central Bank or the customer decides to exercise its authorisation to net out debt for settlement.
- 6.3. A party that is authorised to net out debt for final settlement may call in claims due to outstanding repurchase agreements, assess the monetary value of financial claims, and net them out, leaving a single monetary claim (settlement claim) that the debtor settles vis-à-vis the creditor, all in accordance with the



## LÁNAMÁL RÍKISINS

- provisions of the Act on Financial Collateral Arrangements, no. 46/2005.
- 6.4. The monetary value of a party's financial claims due to Treasury securities shall be assessed based on the most favourable asking price in the relevant trading system at the end of the day before the assessment is made. If, in the Central Bank's opinion, price formation on that day was abnormal – for instance, due to severe market disturbances – it is permissible to base the assessment on the purchase price of the securities on the date of purchase.
  - 6.5. For each and every repurchase agreement according to Article 3, reciprocal obligations between the parties concerning payments during the term of the agreement shall be recalculated through the repurchase date at the time netting is carried out for final settlement.
  - 6.6. All notifications according to Article 6, including those on the exercise of the authorisation to net out debt for final settlement, the calculation of financial claims, and the calculation of the settlement claim may be sent by postal mail or e-mail. The settlement claim must be paid no later than on the business day after the notification of the netting of debt for final settlement is sent.
  - 6.7. The customer or, as applicable, the Central Bank shall pay penalty interest on the Central Bank's settlement claim, beginning on the payment due date, and the claim shall bear penalty interest in accordance with the decision of the Central Bank of Iceland at any given time concerning the penalty interest base and default surcharge, 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 payment due date until the date payment is made.
  - 6.8. Unpaid penalty interest is added to the principal of the debt every twelve (12) months, beginning twelve (12) months after the maturity date.
  - 6.9. In the event that the customer or the Central Bank defaults on its obligations under these terms and conditions, the defaulting party pledges to pay to the counterparty, with interest and penalty interest, all reasonable and fair expenses that the counterparty 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.
- 7. Liability for contracts, statement of indemnity**
- 7.1. The Central Bank or the customer is not liable for any direct or indirect damage or loss that the Bank or the customer may sustain as a direct or indirect result of malfunctions in the Bank's or the customer's equipment or computers, or other similar causes; i.e., due to use of postal systems, telephones, or e-mail. Furthermore, the Central Bank and the customer are not liable for damage or loss stemming directly or indirectly from third-party information or actions.
  - 7.2. The Central Bank or the customer is not liable for direct or indirect damage or loss stemming from circumstances beyond human control (*force majeure*); i.e., acts of war or imminent armed conflict, acts of terrorism, natural disasters, strikes, work stoppages, border closures, trade embargoes, or harbour restrictions.

## **8. Miscellaneous provisions**

- 8.1. In exceptional cases, a transaction may be settled without a structured DvP settlement arrangement. In those instances, the Central Bank direct-debits the purchase price and risk fee for the Treasury securities in cash on the purchase date, and instructions to deliver without payment will be sent to the central securities depository.  
When the transaction is settled without structured DvP settlement at a central securities depository, the customer shall ensure that there are sufficient funds in its real-time gross settlement account to cover the repurchase agreement no later than 16:00 hrs. on the purchase date in question. If there are insufficient funds in the customer's account, the transaction is automatically rendered void, and the Central Bank does not deliver the securities.
- 8.2. Furthermore, in exceptional cases, a transaction may be settled without a structured DvP settlement arrangement on the repurchase date. In those instances, the customer shall deliver the Treasury securities to the Central Bank without payment at the central securities depository no later than 14:00 hrs.
- 8.3. The Central Bank of Iceland may, without prior notice, exclude a customer from further transactions in accordance with these framework terms and conditions if the customer has not complied with the provisions herein.
- 8.4. 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 framework terms and conditions.
- 8.5. The customer shall designate an employee to act as liaison with the Central Bank in connection with transactions undertaken on the basis of these framework terms and conditions. The customer is responsible for those parties that represent it in interactions with the Central Bank.
- 8.6. These terms and conditions and any agreements made on the basis of them are governed by Icelandic law. If a dispute should arise about the interpretation of these framework terms and conditions or any agreements made on the basis of them, legal action proceeding from the dispute shall be referred to the District Court of Reykjavík.
- 8.7. The headings in these framework terms and conditions are for explanatory purposes only.
- 8.8. All notifications in accordance with these framework terms and conditions may be sent by e-mail or postal mail, as follows:

For the customer:

[Address]

Att'n: [●]

Tel: [●]

E-mail: [●]

For the Central Bank:

Kalkofnsvegur 1  
101 Reykjavík  
Iceland



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Att'n: Government Debt Management  
Tel: +354 569 9000  
E-mail: [vidskipti@lanamal.is](mailto:vidskipti@lanamal.is)

effect at any given time. The framework terms and conditions remain in effect even if primary dealer agreements are amended.

8.9. These framework terms and conditions and agreements based on them are set on the basis of the primary dealer agreements in

In confirmation of the foregoing are the signatures of representatives of the Central Bank, on behalf of the Treasury, and the customer.

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City and date

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Central Bank of Iceland, on behalf of  
the Treasury

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On behalf of [●], as customer pursuant  
to these framework terms and  
conditions