

# RULES

## on the Central Bank of Iceland Interbank Payment System

### Chapter I

#### General provisions

##### Article 1

###### *Scope and legislation*

These Rules apply to the Central Bank of Iceland interbank payment system, referred to hereinafter as the *interbank system*, as the Central Bank is required pursuant to Article 2, Paragraph 1 of the Act on the Central Bank of Iceland, no. 92/2019, to handle payment intermediation in Iceland.

The interbank system is governed by the Act on the Security of Transfer Orders in Payment Systems and Securities Settlement Systems, no. 90/1999.

##### Article 2

###### *Definitions*

For the purposes of these Rules, the following definitions shall apply:

<i>Main account:</i>	An account in the name of a participant in the Central Bank of Iceland interbank system, which is used to execute payments and settlement in the gross settlement component of the interbank system. It is possible to have separate settlement accounts and a credit account that are linked to the main account and are settled in the main account. The main account may not have a negative balance. The main accounts of participants that are eligible for Central Bank facilities pursuant to the Rules on Central Bank of Iceland Facilities for Financial Undertakings, as published at any given time, bear interest. The Central Bank decides whether the main accounts of other participants shall be non-interest-bearing or shall bear interest, which the Bank decides explicitly.
<i>Incident:</i>	A disruption in interbank system operations that can be traced to errors in the behaviour or software of the system, the behaviour of participants, or integration with other systems.
<i>Overnight loan:</i>	A loan granted until the following business day against collateral that the Central Bank deems eligible.
<i>Transfer order:</i>	A set of instructions as defined in Article 2, Item 7, Point (a) of Act no. 90/1999.
<i>Payment limit:</i>	The maximum amount applying to each component of the interbank system.
<i>Overdraft limit:</i>	The amount that a participant is authorised to withdraw from an account in excess of the account balance.

<i>Minimum intraday balance:</i>	The minimum balance that the Central Bank requires interbank system participants to maintain.
<i>Credit account:</i>	An account that maintains the overdraft used at any given time in the gross settlement component of the system.
<i>Interbank system:</i>	The system defined in Article 2, Item 1 of Act no. 90/1999. In the interbank system, real-time settlement takes place in Icelandic krónur between system participants. The interbank system is divided into two components, the gross settlement component and the retail component.
<i>Indirect participant:</i>	An institution, intermediary, clearing institution, settlement agent, or system administrator that has a contractual relationship with an interbank system participant, enabling them to send transfer orders through the system.
<i>Available funds:</i>	<p>A participant's available funds in the gross settlement component of the system is the balance on the participant's main account, plus the unutilised overdraft limit.</p> <p>A participant's available funds in the retail component of the system is the balance on the participant's retail account, plus the unutilised overdraft limit.</p>
<i>Retail component:</i>	That part of the system that nets out payments below the gross settlement threshold; i.e., converts many claims and obligations into a single claim or obligation for participants' payment or payment obligation, and sends the single claim onwards to the gross settlement component of the system at predetermined times.
<i>Retail account:</i>	A participant's account in the retail component of the system. The entry of a payment to a participant's retail account is the equivalent of a confirmation that payment has been remitted.
<i>Gross settlement component:</i>	The part of the system where large-value payments are transferred from one account to another. A large-value payment is a payment exceeding a specified amount defined by the Central Bank. Settlement of payments in the gross settlement component takes place simultaneously with the entry of orders to the main account; i.e., real-time gross settlement.
<i>Settlement account:</i>	A participant's account in the gross settlement component of the system where settlement of payments takes place. The settlement account comprises the main account, the account for settlement of retail payments, and the securities settlement account.
<i>Securities settlement system:</i>	A system that satisfies the requirements laid down in Act no. 90/1999. The system receives confirmations of terms of business for securities transactions, determines the rights and obligations associated with the transactions, and settles the transactions by delivering

	the securities against secure payment (delivery versus payment, DvP).
<i>Reference overdraft limit:</i>	The initial overdraft limit granted to the retail component after each settlement.
<i>Reference price of securities:</i>	The price of securities in a regulated securities market, or the price determined by the Central Bank in any given instance.
<i>Business day:</i>	Days on which financial institutions are open for business.
<i>Participant:</i>	An institution or other party that the Central Bank approves as a participant in the interbank system.

## Chapter II

### Participation

#### Article 3

##### *Participants*

The Central Bank of Iceland takes a decision on the membership of new system participants and exclusion from system membership.

Participants may be institutions as defined in Article 2, Item 2 of Act no. 90/1999 and other parties approved by the Central Bank, provided that they satisfy the requirements for participation in Article 4 of these Rules.

Financial institutions established and licensed abroad that have operations in Iceland may only be granted membership of the interbank system if they are subject to supervision in their home state that is comparable to that provided for in the Act on Official Supervision of Financial Activities, no. 87/1998.

Intermediaries, settlement agents, and clearing institutions as provided for in Article 2, Items 3, 4, and 8 of Act no. 90/1999 may participate in the interbank system upon receiving approval from the Central Bank of Iceland. Their rights and responsibilities, as well as those of other indirect participants, shall be in accordance with Act no. 90/1999 and Articles 3 and 4 of these Rules, as applicable.

The Central Bank of Iceland is a direct participant in the interbank system.

The Central Bank of Iceland may decide to view an indirect interbank system participant as a direct participant if the Bank considers this favourable with respect to systemic risk. This does not limit the responsibility of the direct participant, which enables an indirect participant to send transfer orders through the system; cf. Article 3(b) of Act no. 90/1999.

#### Article 4

##### *Requirements for participation*

In addition to the requirements in Article 3, a party requesting to become a participant in the interbank system shall demonstrate upon filing the application that it satisfies all of the following requirements:

1. It must be subject to official supervision pursuant to the Act on Official Supervision of Financial Activities, no. 87/1998, or official supervision in the European Economic Area if it is a branch of a foreign financial institution, or, comparable supervision if it is a financial institution outside the European Economic Area.
2. It must hold a valid operating licence from the relevant supervisory authority and fulfils that supervisory authority's requirements, including those on capital adequacy and liquidity ratio.
3. It has adopted written rules and maintains internal controls aimed to prevent the operations from being used for money laundering or terrorist financing; cf. the provisions of the Act on

Measures Against Money Laundering and Terrorist Financing, no. 140/2018, and the relevant rules and guidelines. Branches of financial institutions outside the European Economic Area shall demonstrate that their rules and internal controls are comparable to those required according to Act no. 140/2018.

4. It must be deemed by the Central Bank to have, at all times, the necessary management capability and employee expertise for participation.
5. It must be deemed by the Central Bank to have a sound system in place to monitor risks in connection with participation in the system, including cybersecurity and other operational risks.
6. It must have reached an agreement on an overdraft limit and provided adequate collateral security to the Central Bank of Iceland; cf. also Chapter V of the Rules.
7. It must have paid or negotiated the payment of the participation fee.
8. It must submit its own contingency plan in the event of disruptions to interbank system functioning.

The provisions of Paragraph 1, Items 1, 2, 3, and 6 do not apply to the Central Bank of Iceland as a participant in the system.

The requirements according to this provision shall always be satisfied by the participant for as long as it continues to participate in the interbank system, and the Central Bank may always request information or statements from participants about the points specified in Items 1-8.

## Article 5

### *Participants' obligations*

During the term of participation in the interbank system, the participant must satisfy the requirements in Article 4 of these Rules, as well as the following:

1. It must be deemed by the Central Bank to have, at all times, the necessary technological equipment and must satisfy supervisors' information system security requirements for participation; cf. also Article 25 of these Rules.
2. It must always have an employee at work while the gross settlement component of the system is open, including conventional opening hours according to Article 7.
3. Participants are required to take part in testing upgrades to the interbank system if the Central Bank so requests, and in contingency exercises.
4. Participants must have in place a valid interbank system participation agreement according to Article 14.

## Article 6

### *Termination of participation*

If, in the Central Bank's assessment, a participant no longer satisfies the requirements according to Articles 3-5, violates these Rules, fails to satisfy other requirements for participation that are published on the Central Bank website and have been notified to the participant, or jeopardises the stability of the interbank system in some way, the Bank may exclude that party from further participation in the interbank system without prior notice or announcement.

If a participant is denied further participation in the interbank system, that participant must settle its accounts with the Central Bank that same day.

### Chapter III

#### **Opening hours and payment limits**

##### Article 7

###### *Opening hours*

Each component of the interbank system has its own opening hours. Information on opening hours and settlement times for each component can be found on the Central Bank website.

The Central Bank may authorise more frequent settlement than is published in the event of incidents, for example, or if market conditions require it.

##### Article 8

###### *Extension of opening hours*

In the event of unforeseen circumstances or incidents, the Central Bank may lengthen the opening hours of the gross settlement component of the interbank system, and participants will be so notified in advance. If the opening hours of the system are lengthened, the participant is required to monitor the gross settlement component while it is open.

For the same reasons as are listed in Paragraph 1, the Central Bank may close the interbank system temporarily.

##### Article 9

###### *Payment limits*

The Central Bank sets the payment limits for the system and publishes them on its website. The Bank may temporarily raise or the lower gross settlement limit if it considers this warranted. The change in the gross settlement limit shall be notified to participants by e-mail and posted on the Bank's website.

Transfer orders may not be split in order to prevent them from being covered by the gross settlement component of the system.

Transfers below the gross settlement limit for the settlement of special settlement accounts are covered by the gross settlement component of the system.

### Chapter IV

#### **Transfer orders and legal effect**

##### Article 10

###### *Transfer orders*

In the interbank system, transfer orders are considered payment instructions, sent by a participant and received by the system, requesting that funds be delivered to a specified counterparty by means of a deposit of a specified amount to that counterparty's account.

The names and account numbers of participants – i.e., payers and payees – shall be entered and stored in the interbank system. Information in the interbank system is not traceable to individuals.

##### Article 11

###### *Request for execution of a transfer order*

A request for the execution of a transfer order is submitted to the interbank system via participants' electronic connections with the system.

The Central Bank may authorise other means than are provided for in Paragraph 1; for instance, if the participant's connection to the system has been severed. The Central Bank shall be informed immediately if one or more participants' connections to the system are severed.

## Article 12

### *Confirmation of transfer orders*

Transfer orders are considered to have been received by the interbank system as soon as the system has recorded them as received and time-stamped them. The interbank system holds a precise time sheet for received and confirmed transfer orders and for final settlement of transfer orders.

## Article 13

### *Legal effect of confirmation of receipt of a transfer order*

Transfer orders confirmed with an interbank system time stamp are thereby confirmed by the interbank system, and they are binding upon third parties and cannot be rescinded; cf. the provisions of Chapter II of Act no. 90/1999. Transfer orders are considered settled and irrevocable upon entry to the participant's interbank system account. Claims that are transferred from the retail component of the interbank system for settlement in the gross settlement component do not affect final settlement in the sense of Act no. 90/1999.

## Chapter V

### **Overdraft limits and settlement collateral**

## Article 14

### *Agreements on overdraft limits and settlement collateral*

Participants enter into a written contract with the Central Bank concerning their overdraft limit in the interbank system. The limit applies to the participant's combined balance in the system's gross settlement and retail components. The Central Bank stipulates the participant's minimum intraday balance in the system, with reference to, among other things, movements in the main account and the overdraft utilised by the participant concerned over the previous twelve (12) months.

To cover the overdraft, the participant shall provide collateral that the Central Bank evaluates and approves, in accordance with further provisions in these Rules. The amount of the collateral, adjusted for deductions, may not fall below the amount of the overdraft limit of the participant concerned.

The Act on Financial Collateral Arrangements, no. 46/2005, shall apply to settlement collateral for overdraft limits in the interbank system.

## Article 15

### *Distribution of overdraft limit between gross settlement component and retail component*

The interbank system overdraft limit for which the participant has concluded a contract according to Article 14 is recorded in the gross settlement component of the system. With the agreement, a portion of the overdraft is allocated to the retail component of the system.

When the retail account approaches the set overdraft limit, the system automatically seeks an additional overdraft from the gross settlement component of the system. If there is a sufficient overdraft limit, the requested additional overdraft is granted to the retail component. When retail payments are settled, the overdraft limit is reset to the reference limit for the retail component of the system.

The participant's reference overdraft limit in the retail component of the system is specified in the agreement according to Article 14 of these Rules, as are the utilisation ratio that triggers the automatic increase in the overdraft and the increase ratio.

## Article 16

### *Changes in the overdraft amount*

The Central Bank reassesses the amount of each participant's minimum intraday balance and reference overdraft limit according to Articles 14 and 15 at least once a year, with reference to,

among other things, movements in the relevant participant's main account balance over the previous twelve (12) months.

In reassessing the overdraft limit, care shall be taken to ensure that the participant concerned always has adequate scope to meet unexpected fluctuations in its payment position.

The Central Bank may demand that an interbank market participant's overdraft limit be increased if this is considered warranted.

A participant may request a change in the amount of the overdraft limit, provided that collateral according to Articles 14 and 18 be provided in accordance with that request. Changes in the amount of an overdraft limit is subject to approval by the Central Bank.

#### Article 17

##### *Transfer orders in excess of overdraft limits*

Participants' transfer orders that would cause them to exceed their overdraft limits shall be rejected. An automated notification is sent to the participant, stating that the transfer order has been rejected because the overdraft limit has been reached.

#### Article 18

##### *Eligible collateral for overdraft limits*

A list of interbank system collateral deemed eligible by the Central Bank is posted on the Central Bank website.

#### Article 19

##### *Limits on eligibility of securities as collateral*

The participant is responsible for ensuring that securities provided as collateral are free of liens and encumbrances.

If no reference value of the securities is available on a regulated securities market, the Central Bank shall determine the reference value.

The Central Bank may refuse to accept securities in connection with a collateral agreement if it considers the eligibility of the securities as collateral to be in doubt.

#### Article 20

##### *Valuation of eligible collateral securities*

In assessing the value of securities and other collateral provided in connection with a collateral agreement and deemed satisfactory by the Central Bank, a haircut shall be calculated on the reference price. The haircut on securities and other eligible collateral is published on the Central Bank website. The Central Bank may calculate a haircut in excess of that posted on its website if the Bank considers this necessary; for instance, due to market conditions.

#### Article 21

##### *Additional collateral*

The Central Bank reassesses the value of collateral as often as is needed, and at least on a daily basis. The Central Bank may demand additional collateral without prior notice if the value of collateral declines. The value of the collateral shall always be equal to or higher than the participant's overdraft limit. If the value of the collateral falls below the defined minimum, the participant shall, at the Central Bank's demand, provide additional collateral so as to restore the defined minimum.

If the Central Bank considers there to be a need for additional collateral, cf. Paragraph 1, the participant shall provide sufficient collateral within the time limit decided by the Bank, but never later than within the same business day. The Central Bank may temporarily reduce the participant's overdraft limit by a corresponding amount until additional collateral has been provided.

## Article 22

### *Custody of securities*

Securities provided as collateral shall be registered with a securities depository that has been granted an operating licence pursuant to the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020. It is permissible to submit securities that are electronically registered at a foreign securities depository that has been licensed to operate in its home state and is subject to supervision comparable to that provided for in the Act on Official Supervision of Financial Activities, no. 87/1998.

Securities that are registered at an Icelandic securities depository shall be stored in the securities depository and registered to the participant concerned, and they shall be hypothecated to the Central Bank by means of a special statement to this effect.

The registration of the collateral shall be handled in accordance with the provisions of Chapter IV of the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020.

## Article 23

### *Overnight loans*

Participants authorised to take overnight loans in accordance with the Rules on Current Accounts in the Central Bank of Iceland as published at any given time, will automatically be granted an overnight loan if the balance on the credit account has not been settled, provided that the Central Bank deems the underlying collateral eligible.

The participant must pay interest on overnight loans, and the interest is automatically debited on the following morning.

## Chapter VI

### **Monitoring, contingency, etc.**

## Article 24

### *Qualifications of participants' employees*

Participants' employees shall receive education and training in the use of the interbank system.

At least once a year, the Central Bank holds courses that all participants' employees who use the interbank system are required to attend.

## Article 25

### *Technological equipment and risk monitoring system*

Participants shall at all times have at their disposal satisfactory technological equipment in accordance with the Central Bank's criteria and requirements for participation in the interbank system.

Participants shall always have in place a reliable system for monitoring risk in connection with the use of the interbank system, including cybersecurity, money laundering, and other operational risks.

The Central Bank records all incidents that occur in the interbank system.

Participants shall notify the Central Bank without delay of all incidents that occur in their own systems and in their hosts' systems, as well as any other factors that could affect the interbank system.<sup>1</sup>

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<sup>1</sup> Further information on the incident reporting procedure can be found on the Central Bank website.



## Article 26

### *Monitoring of payment position and response*

Each participant shall have at its disposal technological equipment to monitor the payment position on their accounts in the interbank system.

Participants must monitor their payment position in the interbank system in order to act in a timely manner to prevent rejection of transfer orders due to fully utilised overdraft limits.

## Article 27

### *Participants' contingency plans*

When applying for participation in the interbank system, each participant shall submit a contingency plan describing both the participant's responses in the event of a disruption in interbank system operations and the procedures that are related to the plan. The contingency plan shall be updated and submitted to the Central Bank annually, and more often if changes are made to it.

## Article 28

### *Central Bank contingency plan*

The Central Bank prepares and maintains a contingency plan describing the Bank's responses to disruptions in interbank system operations.

## Article 29

### *Participation in contingency exercises*

Each participant is required to participate in contingency exercises, which are organised by the Central Bank in cooperation with tech service providers and participants and are announced with suitable prior notice. Such exercises shall be held on a regular basis, so as to test operational security and responses to problems that could arise in connection with interbank system operations, or if the Central Bank considers them warranted for other reasons.

The procedures for contingency exercises and their results shall be documented. The results shall be analysed and, if improvements are needed, this shall also be documented, and attempts shall be made to ensure that they are implemented.

## Chapter VII

### **Tariff, oversight, etc.**

## Article 30

### *Tariff and fees*

The Central Bank of Iceland determines the tariff for interbank system operations in accordance with Article 43 of the Act on the Central Bank of Iceland, no. 92/2019. The tariff is revised annually and published on the Central Bank website. Further provisions on fees shall be included in participants' contractual agreements with the Central Bank of Iceland.

## Article 31

### *Oversight and supervision*

The Central Bank is responsible for the day-to-day operation of the interbank system and oversees its operation on the basis of statutory provisions and internationally recognised criteria laid down in rules on best practice<sup>2</sup> for operational security, efficacy, and efficiency.

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<sup>2</sup> The BIS/IOSCO Core Principles for Financial Market Infrastructures (PFMI).

## Article 32

### *Information disclosure*

The Central Bank and system participants shall provide one another in a timely manner with information on all system modifications that could affect operations, as well as on other factors concerning the security and efficacy of the interbank system.

Participants shall provide information on their participation in the interbank system to any party that so requests and has legitimate interests at stake; cf. Article 10 of Act no. 90/1999.

The Central Bank publishes an advertisement in the *Official Gazette [Lögbirtingablaðið]* and on its website, listing the names of interbank system participants, and shall update the information if any changes occur.

Further provisions on information disclosure are laid down in the contractual agreement according to Article 14.

## Article 33

### *Terms and conditions*

The Central Bank sets further terms and conditions concerning the interbank system. The Bank provides such information to participants by e-mail and posts it on the Bank's website.

## Article 34

### *Entry into effect*

These Rules, which are issued on the basis of Article 46, Paragraph 2 of the Act on the Central Bank of Iceland, no. 92/2019, shall take effect on 26 October 2020.

### **Temporary provision**

The Central Bank of Iceland's new interbank payment system will be brought into use on 26 October 2020 and will take the place of the Bank's real-time gross settlement (RTGS) system and the netting system. Notwithstanding the entry into effect of these Rules, the Rules on the Central Bank of Iceland Real-Time Gross Settlement System, no. 703 of 13 August 2009, with subsequent amendments, and the Rules on the Activities of Netting Systems, no. 704 of 13 August 2009, with subsequent amendments, shall apply to transfers that have been effected or may be effected in the Central Bank's real-time gross settlement system and the netting system.

Reykjavík, 22 October 2020

*Central Bank of Iceland*

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