



8 April 2020

## Special temporary collateralised loan facilities

The Central Bank has decided to offer its counterparties special temporary credit facilities in the form of collateralised loans. The first auction will be held on 22 April 2020. The collateralised lending facilities are part of the Bank's response to the unprecedented situation currently prevailing and are intended as a means of offering financial institutions increased access to liquidity on a temporary basis. The financial institutions' liquidity is sound, but due to the current uncertainty, it is important that the Central Bank have such a measure at its disposal. The Bank will also expand, on a temporary basis, the list of assets it deems eligible as collateral for the credit facilities. In accordance with the above, the Bank will amend its Rules on Central Bank of Iceland Facilities for Financial Undertakings, no. 1200/2019. If the Bank should decide that there is no longer a need for this measure as currently structured, it can discontinue or amend it.

Key information on the execution of the collateralised lending facilities:

- Each week, collateralised seven-day and three-month loans will be offered.
- The loans will bear interest at the collateralised lending rate, currently 2.5%, but the interest rate will change in line with the decisions of the Monetary Policy Committee.
- The transactions will take place on Wednesdays, and counterparties will be notified of the collateralised loan auction the day before.
- Interest rates will remain unchanged for the term of each loan.
- The loans cannot be paid off before maturity.
- Instruments maturing during the term of the loan are not acceptable as collateral.
- If the Bank considers it necessary to amend the structure of the auctions, it will issue an explicit notification to this effect.

The main changes that will be made to the list of eligible collateral are as follows:

- Requirements under current rules on covered bonds, including those concerning market making and capped amounts, will be relaxed.
- Commercial banks' money market loans to the Treasury with maturities of up to three months will be accepted as collateral.
- Collateralised instruments backed by loan portfolios will be accepted as collateral for three-month loans. These collateralised instruments will be in a standard form provided by the Central Bank.
- Changes will be made to haircuts, and the changes will be published on the Central Bank website once amendments have been made to Rules no. 1200/2019.