

RULES on the Foreign Exchange Market

Article 1

Membership to the interbank foreign exchange market

In addition to the Central Bank of Iceland, any holder of an unrestricted licence to act as an intermediary in foreign exchange transactions on the basis of Article 8, Paragraph 2 of Act no. 87/1992, cf. Article 9, Paragraph 1 of Regulation no. 679/1994, may become a member of the interbank foreign exchange market (market maker) provided that it undertakes the responsibilities and duties of market makers for euros against the Icelandic króna in accordance with the provisions of these Rules.

A market maker applies for membership to the foreign exchange market according to these Rules in any form determined by the Central Bank of Iceland. The Central Bank shall process the application within two weeks of receiving it. If the Bank approves the application, it will notify all market participants five business days before the applicant's membership takes effect.

Cancellation of market making is covered by Article 13.

Article 2

Duties of market makers

A market maker is obliged to present a binding two-way quote for euros if requested by another market participant. If the amount is not specified, the market maker shall use a reference of 100,000 euros, and he is obliged to trade for that amount at the specified quote price. A market maker with a different amount in mind shall specify it but need not state whether the intention is to buy or sell. A market maker is not obliged to present a quote for any amount other than 100,000 euros. The Central Bank is exempt from this provision and may also trade with market makers outside the regular market hours stated in Article 3.

Transactions in currencies other than the euro are subject to the approval of both parties.

Article 3

Market hours

The interbank foreign exchange market is open from 9:15 to 16:00 on all business days.

Article 4

Indicative quotes and trade frequency

Market makers pledge to update indicative quotes for buying and selling euros at regular intervals, on a special page in the Reuters information system to which market makers have sole access. Indicative quotes shall be updated at intervals of no more than 30 seconds. Normally these will show the price at which a market maker is prepared to buy and sell 100,000 euros.

If the market maker has received a quote from another market maker and conducted a transaction, at least five minutes must pass before it may ask the same market maker for a new quote.

Article 5

Market makers' disclosure requirements

Market makers shall submit to the Central Bank of Iceland three types of statement – intraday, daily, and monthly – on foreign exchange transactions in the interbank market and on their foreign exchange balance. These statements shall be in the format prescribed by the Central Bank. Intraday information on market makers' foreign exchange transactions in the interbank market shall be entered in real time in the market makers' systems and sent directly to the Central Bank's system. Data for each business day shall be received before 14:00 the following day, and the monthly statement shall be received no later than 16:00 on the seventh business day of the following month.

The Central Bank of Iceland is authorised to request other data related to the foreign exchange market and to transactions in that market. All information requested by the Central Bank shall be given appropriate priority by the market makers.

Article 6

The Central Bank's disclosure requirements

The Central Bank shall provide market makers with regular information about total trading in the interbank foreign exchange market.

Article 7

Fixing of the official exchange rate

The Central Bank shall fix the official exchange rate of the Icelandic króna with reference to market makers' indicative quotes or the price that has been formed in transactions with the Central Bank. On each business day between 10:45 and 11:00, the Central Bank shall examine the quotes of all market makers, calculate the central exchange rate of the euro, fix the official exchange rate on that basis, and calculate the exchange rate of other currencies in its official exchange rate fixing. The Central Bank may also fix the official exchange rate on the basis of the last trading price for that same day.

The Central Bank of Iceland determines the currencies for which the official exchange rate will be fixed.

The Central Bank publishes the official exchange rate on its website and on foreign information systems.

Article 8

Transactions by the Central Bank

The Central Bank is not obliged to trade with other market participants even if they request that it do so. A market maker, however, is obliged to trade with the Central Bank in accordance with these Rules.

Article 9

Number of decimal places in quotes

The number of decimal places in market makers' quotes shall be the same as in the official exchange rate fixed by the Central Bank.

Article 10

Validation date for trades

Foreign exchange trading shall be subject to the same rules as those applying in foreign exchange markets in other countries as regards validation dates and transfers of funds to foreign bank accounts.

Article 11

Qualifications

Market makers shall inform the Central Bank of the identity of the persons handling interbank foreign exchange trading on their behalf. Market makers shall ensure that their employees who handle trading in the interbank market are adequately qualified to deal with foreign exchange transactions. Market makers shall operate satisfactory internal audit systems for evaluation and management of foreign exchange trading risks. In their internal organisational structure, market makers shall make a clear separation between foreign exchange transactions and their finalisation. Upon request, a market maker shall provide the Central Bank with information about the internal audit systems and rules that it has established for foreign exchange trading. If the activities of a market maker change or new senior executives are appointed for its foreign exchange transactions, the Central Bank shall be notified in advance. Market makers shall also inform the Central Bank of the identity of the persons handling interbank foreign exchange trading on their behalf.

Article 12

Meetings of market makers, codes of ethics, etc.

Market makers shall appoint contact persons for their dealings with the Central Bank, normally the managers of their foreign exchange trading unit. The Central Bank shall conduct advisory meetings with market makers on a regular basis. Market makers shall promote sound business practices, including setting a code of ethics for the interbank foreign exchange market, taking into account international codes of ethics.

Market makers shall monitor all indications of abnormal conduct with respect to the scope, frequency and finalisation of trading, and shall notify the Central Bank if they become aware of this or any other activity that may be regarded as abnormal.

Article 13

Cancellation of market making, and penalties

A market maker that intends to cancel its membership to the interbank market in accordance with these Rules shall notify the Central Bank of this decision in writing with a minimum of one month's notice.

Should the Central Bank consider that a market maker has not honoured its obligations under these Rules, it may revoke that market maker's right to trade with the Bank.

Article 14

Contingency measures

If the foreign exchange market becomes non-functional for a period of time, either because of equipment malfunctions or due to other uncontrollable causes, the Central Bank may decide without prior notice that trading shall be conducted in a manner different than that described in

these Rules, and it shall so notify all market participants without delay. If a market maker is temporarily deprived of access to necessary information because of a temporary equipment malfunction, it may decline to quote a price even when requested under the provisions of Article 2.

Article 15

Entry into force

These rules are set pursuant to Article 18 of the Act on the Central Bank of Iceland, no. 36/2001, cf. also the provisions of Article 8 of the Foreign Exchange Act, no. 87/1992, and shall enter into force on December 4, 2008. At the same time, the Rules on the Foreign Exchange Market, no. 913 of December 20, 2002, with subsequent amendments, are abrogated.

Temporary provisions

Notwithstanding the provisions contained in the third sentence of Article 1, Paragraph 2, the Central Bank of Iceland may, until January 1, 2009, decide that an applicant's membership to the interbank foreign exchange market shall take effect immediately upon the Central Bank's approval of the application.

Until December 31, 2008, the Central Bank shall fix the exchange rate index at the same time as the official exchange rate and shall publish it on its website and on other information systems.

Reykjavík, December 3, 2008

Central Bank of Iceland

Davíð Oddsson
Chairman of the
Board of Governors

Eiríkur Guðnason
Governor

Ingimundur Friðriksson
Governor