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VERÐBRÉFASKRÁNING ÍSLANDS
ICELANDIC SECURITIES DEPOSITORY

RULES

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1 General Provisions

1.1 Law and regulation basis

- 1.1.1 These rules are based on Act no. 131/1997 on Electronic Registration of Title to Securities, including subsequent changes, (hereafter Act no. 131/1997) and Regulation on Electronic Registration of Title to Securities in a Central Securities Depository, no. 397/2000, (hereafter Regulation no. 397/2000) which is based on the Act.

1.2 Entry into effect, publishing and executing changes to the rules of the VS

- 1.2.1 These rules enter into effect upon confirmation by the board of VS. The VS-board shall decide on changes to these rules and appendices there to. The parties that have entered into an agreement of association with VS, shall, as far as possible, be notified of all changes four weeks before they enter into effect. The VS-board is, however, authorized to depart from the aforementioned time limit under special circumstances.

1.3 Definitions and abbreviations

- 1.3.1 **Account holder:** The registered owner of a VS-account created by an account operator, provided that conditions in articles 10 or 11 of Regulation no. 397/2000 have been met. Account holders can be any natural and legal persons that are entitled to legal rights.
- 1.3.2 **Account operator:** An enterprise or institution which, on the basis of an agreement of association with VS, serves as intermediary in the registration of title to electronic security certificates in the VS-system.
- 1.3.3 **Agreement of association:** A contract between VS and an account operator, the issuer of market securities according to second paragraph of article 11 of Act no. 131/1997, a foreign central securities depository or account operator according to number 1 of second paragraph of article 12 of Act no. 131/1997. An agreement of association is required for aforementioned parties to be able to intercede in registering title to securities or accessing a central securities depository, cf. first paragraph of article 11 of Act no. 131/1997.
- 1.3.4 **Electronic security certificate:** A transferable, electronically registered security, cf. article 2 of Act no. 131/1997.
- 1.3.5 **Member of a stock exchange:** A party having the right to submit bids and accept offers for securities on a stock exchange, cf. article 14

of the Act on Activities of Stock Exchanges and Regulated OTC Markets, no. 110/2007.

- 1.3.6 **Pledgee and pledger:** *Pledgee* refers to a receiver of a pledge, and *Pledger* refers to an owner of a security that has been pledged.
- 1.3.7 **Final entry:** Final testing and entry of registration in the VS-system in accordance with notifications sent to it by an account operator, cf. article 2 of Act no. 131/1997.
- 1.3.8 **IP-address:** A unique identity for computer connections used by an account operator for connections to the VS-system.
- 1.3.9 **VS:** Icelandic Securities Depository Ltd. VS carries all rights of an account's operator within the VS-system, except that VS cannot be a direct party to a transaction.
- 1.3.10 **VS-account:** A list of final entries of an account holder of electronic security certificates in a central securities depository, cf. article 2 of Act no. 131/1997.
- 1.3.11 **Issue agreement:** An agreement between the issuer and VS about the issue of securities (electronic security certificates) in the VS-system.
- 1.3.12 **Issue description:** A description of the identity of a securities category to be issued in the VS-system, cf. article 4 of Regulation no. 397/2000.
- 1.3.13 **Netting:** Transforming many claims or commitments, resulting from transfer orders given or received by one or many participants, into one claim or commitment so that only one (net) claim or commitment regarding payment or payment obligation of a participant remains.
- 1.3.14 **Preliminary account:** An account (list) in the VS-system where transactions with electronic security certificates in a stock exchange are registered temporarily until an account operator registers information about the final buyer/seller.
- 1.3.15 **Prospectus:** A description of the identity of a securities category in accordance with the provisions of Regulation no. 434/1999, on the official registration of securities in a stock exchange.
- 1.3.16 **Registration:** Issuing of electronic security certificates in a central securities depository and registration of proprietary titles to them, cf. article 2 of Act no. 131/1997.

- 1.3.17 **Settlement agent:** An account operator that creates and manages settlement accounts for other account operators that are not settlement agents. This operator settles transfer orders from account operators and provides loans for that purpose as needed.
- 1.3.18 **Settlement account:** A bank account used for storing deposits for transfer settlements between participants in a payment system.
- 1.3.19 **System:** A formal arrangement between three or more participants based on mutual rules and a standardized arrangement for executing transfer orders between them, cf. number 1 of article 2 of the Act respecting the security of transfer orders in payment systems, no 90/1999.
- 1.3.20 **Transfer orders:** Any orders from a participant stating that a receiver mentioned therein is to receive payment by transferring a specified amount into an account in an organization, central bank, or an accounting party, or any instruction that commit him to or release him from an obligation to render payment as further specified in the rules of the payment system. Also any instructions from a participant to transfer any direct or indirect proprietary rights to securities by electronic registration, or other such instructions.

2 Account operators

2.1 Rules of association

- 2.1.1 The parties enumerated in article 10 and number 1 of second paragraph of article 12 of Act no. 131/1997 are authorized to act as intermediaries for making proprietary registrations in the VS-system, and be considered account operators provided that requirements in this section are met. By undertakings in securities services according to number 4 of article 10 of Act no. 131/1997 is meant undertakings that are authorized to manage trust funds according to the Act on securities transactions, no. 108/2007.

Application

- 2.1.2 Applications for participating in the VS-system shall be made in writing and sent to the board. The application shall contain:
1. Name, address and ID number of a legal person.
 2. Name, address and ID number of the manager.
 3. Names of board members, their ID numbers, and addresses.
 4. Names of chartered accountants, their ID numbers, and addresses.
 5. Confirmation of permission to practice securities brokerage by a legal authority in the legal person's home country.
 6. All branches of the legal person that will be connected to the VS-system.
- 2.1.3 The board of VS will decide on the application within two months from receiving a completed application. VS will announce its decision in writing. Reasons shall always be presented when declining applications. Before deciding on an application based on number 1 of second paragraph of article 12 of Act no. 131/1997 (foreign account operator or depository) the board of VS shall seek the approval of the Financial Supervisory Authority before consenting an application, cf. third paragraph of article 2 of Regulation no. 397/2000.

Requirements for association

- 2.1.4 An account operator shall before signing an agreement of association, as well as afterwards, meet the following requirements:
1. An agreement of association with VS shall be signed, cf. second paragraph of article 11 of Act no. 131/1997.
 2. The contacts mentioned in appendix 1 to the agreement of associations shall be appointed and the list shall be kept updated while the agreement of association is valid.
 3. The employees who at each time have access to the VS-system according to appendix 3 to the agreement of association shall fulfill the conditions stated in chapter VI of Regulation no. 397/2000.
 4. Information regarding technical connection to the VS-system which fulfill VS standards and are otherwise in accordance with the provisions of chapter 2.2 shall be provided at the request of VS.
 5. Rules on confidential information in accordance with Act no. 108/2007, on security transactions, shall be set.
 6. Rules of procedures which fulfill VS standards shall be set within three months from signing an agreement of association.
 7. Provision 2.1.5 on participation in the guarantee fund or a settlement agent's declaration shall be fulfilled.

Guarantee fund or settlement agent's declaration

- 2.1.5 An account operator, which is a settlement agent, shall make an agreement for participation in a guarantee fund for netting. A confirmation of such agreement shall be enclosed with the application. An account operator, which is not a settlement agent, shall obtain a written declaration from a settlement agent which is party to a guarantee fund for netting. A confirmed copy of the declaration shall be included with the account operator's application to the board of VS.

Defaults

- 2.1.6 Should an account operator fail to fulfill requirements of laws, regulations, VS-rules, or the agreement of association, it shall immediately notify VS and explain why.
- 2.1.7 Should an account operator fail to comply with provisions of law, regulations, VS-rules, or the agreement of association, the board of VS is authorized to:
1. Fine the account operator according to a list of rates.
 2. Request improvements be made within a set time limit, under penalty of daily fines according to a list of rates.
 3. Temporarily suspend the account operator's access to the VS-system.
 4. Terminate the agreement of association. Should the board of VS decide to terminate the participation, it shall specify from what time the termination takes effect. The board of VS is authorized to terminate the agreement immediately and to suspend the account operator's access to the VS-system, should the account operator violate the aforementioned provisions in a repeated or serious manner.

Termination of association

- 2.1.8 Should an account operator wish to resign its association, it shall do so in writing with a six months notice from end of month, or sooner if agreed upon.
- 2.1.9 Should an account operator decide on a merger with another account operator, or make other decisions that can affect its structure or operations in another manner, it shall send VS a notification thereof with an enclosed report. VS reserves a right to review the account operator's participation and ask for appropriate information.

- 2.1.10 The agreement of association is automatically cancelled in the event of the following:
1. The operating license of the account operator expires or is revoked by a legal authority.
 2. The account operator undergoes bankruptcy proceedings, a petition has been filed for bankruptcy of the account operator, an unsuccessful attachment has been made at the account operator, a petition has been made for suspension of payments by the account operator, or other such indications exist of the insolvency of the account operator.
 3. Other events, not specified in number 2, that could compromise registered titles in the VS-system.
- 2.1.11 Decisions on termination of association or penalties according to 2.1.7 shall be well reasoned and the relevant party shall be notified in writing.
- 2.1.12 When the termination takes effect, VS unilaterally closes the account operator's access to the VS-system. In other respects, the provisions of 2.2.16 apply.

2.2 Access to the VS-system

General matters

- 2.2.1 VS operates a computerized system for proprietary registrations, (The VS-system), according to further description in these rules, and an operation manual for the system. Account operators and others have access to the system according to an agreement thereof. The VS-system is open for registration of proprietary titles all weekdays between 09.15 and 18.00. VS will inform account operators of any deviations from the opening hours or if the VS system will be temporarily out of order.

Software etc.

- 2.2.2 VS provides an account operator with the necessary software for connection with the VS-system. An account operator provides connections with the VS-system, including lines and equipment between his place of operation and VS and is responsible for monitoring and guarding the connections.
- 2.2.3 An account operator is responsible for the safety of the connections mentioned in 2.2.2 according to generally accepted requirements for the safety of software, databases and external computer communications at each time, including the access and operation by its employees, and protection from access and operation of a third party. Should VS consider that the requirements in this article are not

fulfilled by an account operator, or if an account operator is for some reason incapable to fulfill the requirements, it shall notify VS immediately and make arrangements for improvements.

- 2.2.4 Access to the VS-system by an account operator is access to the current version of the VS-system at each time. VS is authorized to produce new and/or changed versions of the VS-system and equipment connected to it, as the system develops, and users are under obligation to implement them at the time required and in accordance with instructions from VS. Older versions shall thereby be considered invalid and their use prohibited.
- 2.2.5 Access to the VS-system by an account operator includes firstly that the account operator has the right and obligation to create VS-accounts and to act as an intermediary in registering proprietary rights to them, and secondly to provide owners of rights with information about registered titles, and the account operator's use shall be in accordance with such use. An account operator is prohibited from changing the system or using it in any manner that does not comply with VS' interest or the owners of titles registered therein. An account operator has no authority to give access to the VS-system without prior consent by VS. An account operator has no authority to change equipment supplied by VS.

Access permissions

- 2.2.6 VS gives an account operator, that has entered into an agreement of association with VS, one or more access permits to the VS-system.
- 2.2.7 On the basis of an access permit, the account operator assigns a user ID and an access word to an employee, which may not be used by other employees of the account operator. If the account operator's access permission to the VS-system is via a central operating system of the account operator (group access) the account operator shall limit the access to those employees that need it for their work.
- 2.2.8 An account operator shall specify the names and ID numbers of all employees that will receive access according to 2.2.7 in the agreement of association, as well as the extent of each employee's access.

- 2.2.9 An account operator shall report any changes in staff according to 2.2.7 immediately to VS. VS issues a new user ID and an access word.
- 2.2.10 An account operator guarantees that those employees that it wants to give access to the VS-system according to 2.2.7 have the necessary knowledge of the VS-system, and of the law and regulations on electronic registration of title to securities in effect at each time.

IP-addresses

- 2.2.11 An account operator shall provide VS with the IP-addresses that the account operator wants access to the VS system for. Any use of IP-addresses is the responsibility of the account operator, and the account operator shall be able to trace any use of the IP-address to the employee using the IP-address.

Reconciliation

- 2.2.12 An account operator shall store in its own system all electronic registrations of titles to electronic security certificates that it makes in the VS-system and make copies of them.
- 2.2.13 An account operator retrieves a reconciliation file which VS prepares, and contains all registrations that the account operator makes in the VS-system. The account operator reconciles the registration entries with the requests and data they are based on. Should there be any inconsistencies between the reconciliation file and the registration entries that the account operator has registered according to the aforementioned date, the account operator is obligated to correct them.

Other matters

- 2.2.14 Information passed between an account operator and VS regarding, e.g., software, access by individual users, and safety issues of the account operator, shall be treated as confidential. The obligation to observe confidentiality remains after the account operator's membership to VS is withdrawn.
- 2.2.15 If VS has reasonable suspicion that an account operator is violating the rules of section 2.2, VS is authorized to access all data, documents and other such items from the account operator, that VS deems necessary for investigating whether a violation has occurred or whether there is risk of such a violation being made. The account

operator is also under obligation to provide any information requested under such an investigation.

- 2.2.16 If an agreement of association with an account operator is terminated, the account operator shall return the software it was provided with for the VS-system, as well as all data/files that are bases for registration of proprietary rights on VS-accounts created by the account operator as long as other account operator hasn't taken over its rights and obligations. VS is authorized to appoint an independent party to make sure that all the aforementioned data is returned, and to supervise such a return.

2.3 Rights and obligations of account operators

Creating a VS-account

- 2.3.1 The condition for creating a VS-account for an individual are stipulated in the first paragraph of article 10 of Regulation no. 397/2000. The condition for creating a VS-account on behalf of a company or other parties having legal rights and obligations are stipulated in the second paragraph of article 10 of Regulation no. 397/2000. The condition for creating a VS-account for an individual that has neither residence in Iceland nor an Icelandic ID-number or on behalf of a company or other parties having legal rights and obligations, and which do not have a registered office in Iceland nor an Icelandic ID-number are stipulated in the third and fourth paragraphs of article 10 of Regulation no. 397/2000.
- 2.3.2 An account operator is authorized to create accounts in the VS-system without inspecting personal identification papers according to article 10 of Regulation no. 397/2000 if the conditions of article 11 of Regulation no 397/2000 are fulfilled.
- 2.3.3 The account operator sends a notification to VS to the effect that a VS-account has been created by the respective account operator. The notification shall at a minimum disclose the following:
1. Name, address and ID number of the account holder.
 2. Name, ID-number, and address of the legal recipient of all payments that VS shall distribute according to the transfer orders it receives, and the bank account number of the recipient.
 3. The name or names of joint owners when applicable.
 4. Name of a legal guardian or representative when applicable.

- 2.3.4 An account operator is responsible towards VS and shall if requested demonstrate that the necessary investigation of personal identification or legitimate documentation (certificates) of the establishment of legal entities, as applicable, has been carried out upon the creation of an account, cf. first paragraph of article 12 of Regulation no. 397/2000.

Nominee registration

- 2.3.5 When a VS-account is created as a nominee account the following information shall be stated:
1. The name of the account operator.
 2. The nominee-identification number which VS has allocated to the account operator.
- 2.3.6 An account operator shall keep a registration of ownership on a nominee account in accordance with the Act on security transactions, no. 108/2007.

Closing a VS-account

- 2.3.7 An account operator has the authority to close an account if no electronic security certificates have been registered in it for one year. Should a VS-account be created by mistake and no electronic security certificates have been registered in it the account operator is authorized to close it without notice.

Transfer of electronic security certificates

- 2.3.8 An account operator is allowed to transfer electronic security certificates from a VS-account with VS to a VS-account under its own supervision if one of the following permissions is available:
1. A request from the owner of the electronic security certificate.
 2. Custodial authority from the owner of the electronic security certificate.
 3. The pledgee or the owner of other limited rights shall hand out to an account operator documents which the account operator, having investigated the documents, is of the opinion that the document is sufficient. The VS-account which is created on that purpose shall be in the name of the pledgee (or the one that the restrictions is aimed at).
- 2.3.9 If an account operator cannot provide sufficient explanations for a transfer of electronic security certificates according to 2.3.8 the account operator shall be subject to penalties according to 2.1.7.

- 2.3.10 An account operator shall immediately, upon request from an account holder, transfer electronic security certificates in possession of the account holder into his VS-account within another account operator. The account operator which takes care of the transfer shall without delay inform the account operator in question about the transfer.
- 2.3.11 An account operator is, however, under no circumstances authorized to transfer electronic security certificates, according to 2.3.10, that:
1. Have been registered provisionally according to article 17, of Act no. 131/1997.
 2. Referrals have been made for according to article 25 of Act no. 131/1997.
 3. Have been pledged.
 4. Have been attached or are subject to other kinds of guarantees of satisfaction of a claim by a claimant.

Inspection of balance

- 2.3.12 An account operator is allowed to inspect account holders' balance on VS-accounts with VS if there is a permission, cf. 2.3.8. If an account operator has inspected an account holder's balance without permission the account operator shall be subject to penalties according to 2.1.7.

Intercession for proprietary registration

Inspection and registration obligation

- 2.3.13 Upon receipt of a request for registration of title an account operator shall thoroughly inspect whether the reported proprietary titles verifiably originate from the requestor, and whether necessary information is available by requesting the certificates and documents mentioned in article 10 of Regulation no. 397/2000 and examine the validity of the documents the request is based on.
- 2.3.14 An account operator is responsible towards VS and shall if requested demonstrate that satisfactory documentation has been submitted to prove the right of a rightholder to an electronic security certificate, cf. number 2 and 3 of article 12 of Regulation no. 397/2000.
- 2.3.15 If a party in question presents satisfactory information concerning the bases of a request an account operator is obliged to notify VS without delay of a request for registration, cf. fifth paragraph of article 16 of Act no. 131/1997. The time at which the request for registration of title was received by the account operator shall be confirmed if so requested.

Registration of endorsement

- 2.3.16 An entry of an endorsement shall disclose the following:
1. The ID-numbers of the buyer and the seller which also indicates the names and addresses of the parties.
 2. The identity and number of units of the electronic security certificates named in the endorsement.
 3. The names of the account operators the buyer and seller are using.
- 2.3.17 The VS-system does not include information on the initial price of securities. An account operator shall acquire information about the initial price from the holder of the security certificate, or by other means and collect tax on capital income when they are sold, according to the Act on payments of capital income tax, no. 94/1996.

Registration of pledge etc.

- 2.3.18 When registering pledges and other registrable rights or when registering title based on a court sentence or other official legal decrees, the following shall be disclosed:
1. The electronic security certificates covered by the rights. Should a right only refer to a specific portion of electronic security certificates within the same securities category, registered to the same VS-account, the object of the rights shall be defined by registering the specific portion of electronic security certificates to be registered.
 2. Name, address and ID number of the rights holder.
 3. The time limit of the rights and the name of the account operator that stores the documents providing for the rights.

Relieving rights

- 2.3.19 When relieving rights to electronic security certificates, the following shall be disclosed:
1. The electronic security certificates included in the relief.
 2. Name, address and ID number of the holder of the rights.
 3. The time limit for the relief and the name of the account operator where the basic data for the relief is kept, such as a confirmation of the completion of a pledge.

Request for registration of title rejected

- 2.3.20 An account operator shall reject requests for registrations of title when:
1. The electronic security certificate is not registered to an account managed by the account operator.
 2. The contents of the title that is the subject of the request cannot be registered.
 3. The request does not fulfill the requirements of article 21 of Regulation no. 397/2000.
- 2.3.21 An account operator shall inform the party that has requested registration of the reasons for the rejection as well as the rights of the requestor to appeal the decision to an arbitration committee according to article 25 of Act no. 131/1997.

Provisional registration

- 2.3.22 Provisional registration is governed by articles 30 and 31 of Regulation no. 397/2000.

Notification to relevant parties of registration of title

- 2.3.23 An account operator, one or more as applicable, shall notify all relevant parties of each registration of title it handles no later than two days after the account operator receives a request for registration of title, unless the account holder has made other arrangements, cf. first and second paragraph of article 18 of Act no. 131/1997. The notification shall specify the items listed in the first paragraph of article 35 of Regulation no. 397/2000. Relevant parties include account holders, pledgees, or other holders of titles to the electronic security certificate referred to in the registration of title.

Correcting registrations of title

- 2.3.24 Before an account operator makes a correction to a registration of title, cf. Article 22 of Act no. 131/1997, the rightholders concerned shall be notified as to what corrections are to be made and given the opportunity to express their opinions. Once a change has been effected the parties concerned shall be notified thereof, cf. article 18 of Act no. 131/1997. An account operator may correct obvious mistakes or incorrect entries, provided notification of such is sent, cf.

article 18 of Act no. 131/1997, to the parties concerned after the correction has been made.

- 2.3.25 An account operator is responsible towards VS and shall demonstrate upon request the time it requested a correction according to article 22 of Act no. 131/1997, cf. number 4 of article 12 of regulation no. 397/2000.

Data storage

- 2.3.26 Data according to article 12 of Regulation no. 397/2000 shall be stored no less than 10 years from the expiry of rights to the relevant VS-account. An account operator shall also store all necessary data regarding the issue of those securities classes in the VS-system for which it has handled the issue.

VS-statement

- 2.3.27 VS shall issue a statement of account listing the rights registered there once a year, cf. article 24 of Act no. 131/1997. The statement shall contain the information listed in article 38 of Regulation no. 397/2000.
- 2.3.28 When invalidating tangible bonds or when electronically registering title according to stocks or unit shares according to section VII of Regulation no. 397/2000 an account operator shall send a statement to the account holder or other right holders as soon as possible, but no later than three months from the creation of the account, cf. article 62 of Regulation no. 397/2000.
- 2.3.29 An account operator may upon request from a registered title holder, send him additional statements, cf. second paragraph of article 24 of Act no. 131/1997 and second paragraph of article 62 of Regulation no. 397/2000.

Eradication of title

- 2.3.30 Eradication of title is subject to articles 40 – 49 of Regulation no. 397/2000.

Access to VS-accounts in the name of deceased individuals or unregistered parties

Deceased individuals

- 2.3.31 When the VS-system has been informed from the national register of Statistics Iceland that an account owner is deceased it locks-up the deceased's VS-account.
- 2.3.32 VS extends information to an account operator about all electronic securities certificates of the deceased in the VS-system, if an heir has the county magistrates permit to gather information from a third party about the estates' assets and debts, cf. article 24 of Act no. 20/1991, on partitions of estates and other things, and the heir has presented it to the account operator. The account operators request shall be enclosed with the relevant permit.
- 2.3.33 On the basis of the following permits an account operator can request that VS unlocks a deceased's VS-account(s):
1. A permit for private administration of an estate.
 2. A commission to an official who supervises the administration of an estate.
 3. An endorsement from the county magistrate according to the first paragraph of article 25, the second paragraph of article 26 and the second paragraph of article 11 of Act no. 20/1991, on partitions of estates and other things.
 4. Inheritance report.
 5. The county magistrates permit to the long-lived spouse on staying in an indivisible estate.

Unregistered parties

- 2.3.34 If a party is not registered in the company register of Statistics Iceland or in other company registers the VS-system locks-up the party's VS-account. VS opens the party's account when presented documents that prove ownership over the relevant electronic securities certificates.

3 Issuing of electronic security certificates etc.

3.1 General provisions

- 3.1.1 VS issues all securities that can be subject to transactions and fulfill requirements in laws, regulations, and the VS-rules. The board of VS shall assess whether securities fulfill the requirements for being issued in the VS-system.

International identification of securities

- 3.1.2 All securities registered in the VS-system carry an ISIN¹ identity which are based on the ISO 6166 standard and issued by VS. VS acts as a National Numbering Agency for Iceland and issues identities to all securities that fulfill requirements for registration.

3.2 Issuing of electronic security certificates

- 3.2.1 In this chapter the term issuing of electronic security certificates stands for registration of securities through a public offering or on the grounds of a list of owners and a recall of tangible securities is not needed (*electronic registration of securities*), cf. chapter 3.3.

Application

- 3.2.2 An issuer shall make an agreement with an account operator regarding the proposed issue, cf. though 3.2.3. An application shall meet the requirements stated in the issue description. A party signing the application for the issue of electronic security certificates on behalf of an issuer, shall present a satisfactory authority to commit the respective issuer.
- 3.2.3 An issuer does not have to make an agreement with an account operator regarding the proposed issue if:
1. A regulated securities market has approved a prospectus for the issue, which fulfills the requirements in the issue description and the documents specified in section 4 of the issue description are enclosed.
 2. The Financial Supervisory Authority has approved a public announcement for a General Public Offering, cf. chapter IV of Act on securities transactions, no. 108/2007, and it fulfills the requirement of an issue description and the documents specified in section 4 of the issue description are enclosed.
 3. An agreement of association has been made with an issuer under third paragraph of article 11 of Act no. 131/1997.
 4. The issuer is an account operator and renders its own issue description.
- 3.2.4 The board of VS will answer the application in writing within four weeks from receiving completed applications. The board of VS shall

¹ ISIN stands for *International Securities Identification Number* according to ISO 6166.

provide reasons for its decision if the application is declined, cf. article 13 of Act no. 131/1997. When the board of VS has accepted the application from the issuer, an issue agreement between the issuer and VS shall be signed.

Guarantee of issue

- 3.2.5 The board of the issuer shall guarantee that all decisions and arrangements regarding the issue are made according to current legislation and resolutions of the issuer, and comply with the rules of VS at each time. The Issuer further guarantees that all information submitted to VS on the basis of these decisions is correct.
- 3.2.6 An account operator cf. 3.2.2 shall guarantee that all information enclosed in a issue description and appendices are to its best knowledge correct and fulfill provisions in the rules of VS.

Issue process

- 3.2.7 When issuing electronic security certificates the issuer shall follow the issue process supported by VS. Should an issuer or account operator require exceptions from the issue procedures VS should be notified immediately. The issuer and account operator shall bear the cost of these exceptions and be in consultation with VS regarding the issue.

3.3 Electronic registration of previously issued securities

Rules regarding electronic registration of previously issued securities

Application

- 3.3.1 If an issuer of previously issued securities has registered the issue on a regulated securities market a prospectus, which meets the conditions for issue description, is sufficient, enclosed with the data required by section 4 of the issue description.
- 3.3.2 If the issuer's securities have not been registered on a regulated securities market provisions 3.2.2 and 3.2.4 apply. If a regulated securities market has approved a prospectus or the Financial Supervisory Authority has approved a prospectus number 1 or 2 of provision 3.2.3 apply. Regarding the handling of applications and signing of issue agreements, see 3.2.7.

Recall

- 3.3.3 An issuer shall invalidate tangible securities with a recall in accordance with section VII of Regulation no. 397/2000.

Written notification

- 3.3.4 The board of the issuer shall send a written notification to all registered owners of stocks or units in collective investments in undertakings containing a description of the proposed electronic registration of securities. The announcement shall be sent one month prior to the electronic registration. Notifications that are sent along with other data from the company shall be sufficiently separated.

Pledge registration in electronic registration of securities

Shares

- 3.3.5 When the board of a limited company announces the recall of tangible shares in accordance with section VII of Regulation no. 397/2000, a pledgee can make his rights known to an account operator.
- 3.3.6 When electronic registration of securities takes place an account operator shall transfer the electronic security certificates to be pledged to an VS-account under their management but in the name of the pledger on the condition that the provisions of article 10 or 11 of Regulation no. 397/2000 are fulfilled. The registration of a pledge takes place according to provision 2.3.20.

Bonds

- 3.3.7 Should an issuer announce a recall in accordance with Regulation no. 397/2000, a pledgee to a bond can make his rights known to the account operator from that date.

- 3.3.8 An account operator that has received a tangible bond shall transfer it, on the condition that the provisions of article 10 or 11 of Regulation no. 397/2000 are fulfilled, from an issue account managed by VS, to an VS-account managed by the account operator in the name of the pledger and shall register the pledge in accordance with the submitted documents, cf. 2.3.20. In the event of hypothecation, the account operator shall register the pledge as soon as the pledger hands over the bond for electronic registration.²
- 3.3.9 Bonds that are not handed over for electronic registration remain valid and the pledgee may keep the bond in his custody until the pledge has been relieved.

Unit shares

- 3.3.10 Electronic registration of unit shares is subject to the aforementioned rules on registration of pledges in electronic registration of shares and bonds.

3.4 Corporate actions

Payments of dividends

- 3.4.1 If an issuer wishes to pay dividend through the VS-system he shall notify VS about the proposed payment date. With the notification the issuer shall also authorize VS to disburse funds from the issuer's bank account with a settlement agent into the shareholders bank accounts. The notification shall also include the reference date for dividend payment, i.e. at the end of which date the dividend payments are based on.
- 3.4.2 The bank account mentioned in 3.4.1 shall, at a minimum, include the dividend amount three weekdays prior to the dividend payment. The issuer's account operator can also issue a statement three weekdays before payment is due confirming that financial resources are available, or that payment is ensured.
- 3.4.3 VS provides information on shareholders' assets on the reference date for dividend payment. The issuer or its account operator calculate the dividend payment to each shareholder.

² Paragraph 2 of article 43 of Act no. 75/1997 states: "In order to gain legal protection for hypothecation in a marketable security the security certificate itself must be signed with the pledge"

- 3.4.4 In the notice from the public limited company's board of directors announcing an intended shareholders' meeting, it should be stated that the dividend payments are based on the register of shares as it appears by the end of the reference date.

Bond payments

- 3.4.5 VS provides an issuer, who wishes to pay installments or interests through the VS-system, with a list of total amount each account operator shall pay. The issuer pays each account operator the amount which pertains the owners of VS-accounts under its supervision. Account operator pays the owners minus capital tax.

Title day

- 3.4.6 Title is determined by reference to registration of ownership at VS at the end of the day to which title applies. The title day for bonds is based upon the last banking day before the date due for the payment of instalment and interest. The title day for shares is determined by the relevant corporation.

Increase of share capital

Subscription to new shares

- 3.4.6 In a notice of increase of share capital with subscription to new shares, cf. the provisions in section V in the Act on Public Limited Companies, no. 2/1995, the issuer shall specify the authorization for the subscription. The notification should also state the category of shares to which the new shares shall belong, if there are or will be categories of shares in the company. A party signing a notification relating to the increase of share capital on behalf of a company, shall present a satisfactory authorization to commit the respective company.
- 3.4.7 The notification shall be accompanied by:
1. A certified transcription from the Register of Limited Companies.
 2. A list of recipients of the new shares.

Issue of compensation shares

- 3.4.8 In a notification about issue of compensation shares, cf. article 43 of the Act on public limited companies, no. 2/1995, the issuer shall specify the authorization for the issue. The notification should also state the category of shares to which the new shares shall belong, if there are or will be categories of shares in the company. A party signing the notification of issue of compensation shares on behalf of a

company, shall present a satisfactory authorization to commit the respective company.

- 3.4.9 A certified transcription from the Register of Limited Companies shall accompany the notification.

Reduction of share capital

- 3.4.10 In a notification about reduction of share capital, cf. section VII of the Act on public limited companies, no. 2/1995, the issuer shall specify the authorization for the reduction. A party signing the notification of issue of compensation shares on behalf of a company, shall present a satisfactory authorization to commit the respective company.
- 3.4.11 A certified transcription from the Register of Limited Companies shall accompany the notification.

Merger

- 3.4.12 The party signing the notification from boards of public limited companies about mergers or take-overs, cf. section XIV of the Act respecting Public Limited Companies, no. 2/1995 shall present a satisfactory authorization to commit the respective company.
- 3.4.13 The notice of a merger shall be accompanied by:
1. A merger schedule, confirmed and signed by the board of directors of the respective companies, where the proportion of shares of each company in the new company is specified.
 2. A certified transcript from the Register of Limited Companies.

Division

- 3.4.14 A party signing the notification of a company's decision regarding division, cf. article 133 of the Act on public limited companies, no. 2/1995, shall present a satisfactory authorization to commit the respective company.

- 3.4.15 The notification shall be accompanied with:
1. A certified and signed division schedule from the board of directors containing, inter alia, a detailed description of the electronic security certificates allocated to each recipient company.
 2. A certified transcription from the Register of Limited Companies confirming that the recipient companies are registered in the Register of Companies.

Other actions

- 3.4.16 VS executes other actions of the issuer at the request of the issuer or its account operator, provided that conditions in acts, regulations, and rules of VS, are abided to.
- 3.4.17 VS reserves the right to claim that account operators prepare certain actions in the VS-system.

3.5 Issuer's access to information

- 3.5.1 The board of a public limited company can at any time request a new list of shareholders and the transactions of the company's shares that have taken place. A public limited company can at any time request a direct connection with the VS system for access to information about shareholders of the respective company, provided that the regulations, that apply to access to VS system, are abided with. The register of shares shall always be kept in the office of the respective public limited company, cf. the seventh paragraph of article 30 of Act no 2/1995, and responsibility for it shall be in compliance with Section IV, of Act no. 2/1995.
- 3.5.2 The rules that apply for access of public limited companies to information about their shareholders shall also apply for mutual funds regarding access to information about the owners of unit shares.

3.6 End of registration

- 3.6.1 The issuer's electronic security certificates shall be registered in the VS-system unless he requests that they be removed from registration, cf. article 44 of Regulation no. 397/2000.
- 3.6.2 Article 45 of Regulation no. 397/2000 shall apply in the event of bankruptcy, realization, mergers, or other such events that might lead to the end of registration of a securities category.

4 Settlement of transactions

4.1 Settlement of transactions

General provisions

- 4.1.1 VS investigates the parties' possessions in electronic securities certificates and undertakes their delivery after receiving confirmation of reliability of their transfer order. The Central Bank of Iceland settles the transfer order in ISK.
- 4.1.2 An account operator who has entered into an agreement with VS, being both a stock exchange member and a settlement agent, is a party to netting in the payment system. If the account operator is a settlement agent for other account operators, he shall protect his interests with guarantees.

Payment settlement of transactions, cp. Annex II on Procedure for Settlement of Securities Transactions dated 25 August 2009, and amendments to Annex II dated 16 September 2009.

- 4.1.3 At the end of a transaction day VS sends settlement agents provisional information on their payment commitments with respect to the next settlement date. The same information is sent to the Central Bank and to account operators at the same time.
- 4.1.4 At 9:00 on the settlement day, VS sends transfer orders to the Icelandic Banks Data Centre (RB), which performs netting of transfer orders between settlement agents on behalf of VS. After this the Banks Data Centre (RB) transfers, in accord with authority granted to VS by the settlement agents, funds from the RTGS account of the settlement agent to the securities settlement account in the Central Bank's RTGS system. These funds will be transferred at 11.00 am on the settlement date.
- 4.1.5 At 11:15 VS again sends transfer orders, to confirm or amend transfer orders for settlement. An amendment occurs only if a transaction has had to be cancelled due to lack of securities. Should an amendment have been made due to cancellation, the Banks Data Centre (RB) transfers the difference, cp. 4.1.4. The Banks Data Centre will attempt a transfer between the participant's RTGS account and its securities settlement account. Should funds or credit be insufficient at 11:15, the transfer is retried every three minutes until 11:45.

4.1.6 At 11:46 the Central Bank sends confirmation of the status of transfer orders. If the settlement agent has not succeeded in meeting the transfer orders at that point, VS may commence further cancellations at 12:00 noon. VS will not reopen the system until the settlement of assets and payments is balanced. VS determines which transactions will be cancelled, on the principle of achieving settlement by the smallest possible number of cancellations.

4.1.7. Settlement agents which do not settle payments with respect to securities settlement by 12:00 noon on the settlement date will be subjected to penalties under VS rules, cp. 2.1.7.

Asset settlement of transactions, cp. Annex I on VS's TRS system and Annex II on Procedure for Settlement of Securities Transactions dated 25 August 2009, and amendments to Annex II dated 16 September 2009.

4.1.8. When transactions of electronic security certificates have taken place between account operators, the AOs in question must send to VS all necessary information in order to match the trades in the TRS (Transaction Reporting System) of VS. After matching, the matched notifications are sent to temporary accounts in the VS system of those account operators that are parties to the transactions, not later than the day before settlement. An account operator shall transfer all electronic security certificates from its temporary account to the buyer's or seller's VS account by 11:00 on the settlement date. Changes to allocations are prohibited after 11:00.

4.1.9. Should an account operator not clear the temporary account under 4.1.8. on the settlement date, VS reserves the right to clear the temporary account of the account operator and transfer the relevant transaction to a VS account of that account operator.

4.1.10 If there are not sufficient assets in electronic security certificates on the seller's VS account by 11.00 on the day before the day of settlement, the relevant transaction will be revoked that day, as follows:

1. At 11.00 the transaction is revoked, together with the appropriate transfer order.
2. VS sends to the Banks Data Center a new payment file at 11.15.

3. VS notifies the relevant AO of the revocation of the transaction as soon as possible after 11:00.
4. The parties submit a new notification to the TRS system of VS, with a new settlement date.
5. The seller's AO is responsible for all costs arising from the above-mentioned measures by VS, cp. 4.1.13.

4.1.11 Notwithstanding the provisions of 4.1.10, VS is authorized to mediate in the purchase of electronic securities certificates in order to complete a settlement. The seller's account operator is responsible for all costs arising from the above-mentioned measures by VS.

4.1.12 Account operators which have entered into an agreement of association with VS are jointly responsible for costs arising from the provisions of item 4.1.11

Defaults

4.1.13 Should an account operator not clear its temporary account before settlement under 4.1.9, or be unable to carry out settlement of payment under 4.1.3 – 4.1.7 or settlement of assets under 4.1.10 within the specified time limit, VS reserves the right to impose a penalty on the account operator under 2.1.7. In this context the causes of the relevant account operator's inability to honor its commitment shall be considered. The account operator bears all costs arising from measures due to default on settlement.

5 Various provisions

5.1 Investors

- 5.1.1 Based on item 3, paragraph 2, article 12 of Act no. 131/1997, the board of VS is authorized, on the basis of the agreement of association, to authorize specific investors to retrieve information concerning their own VS accounts directly from VS. The board of VS shall set a reference limit regarding which parties may enter into an agreement of association with VS for this purpose.
- 5.1.2 An investor requesting access to the VS system shall send an application for membership to VS. The board of VS will decide on the application within four weeks from receiving a completed application. Reasons shall always be presented when declining applications.
- 5.1.3 The board of VS is authorized, on the basis of an agreement of association, to give an investor the right to create VS accounts in his own name in the VS system. The investor is authorized to save his own electronic security certificates on these VS accounts, transfer them from one of his VS accounts to another, and retrieve information about them from VS, without the intervention of an account operator.
- 5.1.4 An investor guarantees that an account operator acts as an intermediary for all registrations of title to the investor's security certificates.

5.2 Information centers

- 5.2.1 Parties requesting information from the VS system for statistical purposes, cf. the second paragraph of article 14 of Act no. 131/1997, shall submit a written application to VS. The board of VS shall decide on the application in writing within two weeks from receiving statement from the Data Protection Authority. Reason shall always be presented when declining applications
- 5.2.2 Parties that have access to information in the VS system shall handle this information in accordance with the provisions of the Act on the Protection of Individuals with regard to the Processing of Personal Data, no. 77/2000, as well as section V of the Act on securities transactions, no. 108/2007, where applicable.

5.3 Stock exchanges

- 5.3.1 VS and a stock exchange which has been granted operating licence in accordance with Act no. 110/2007 on activities of stock exchanges and regulated OTC markets, shall reach a written agreement on the relations between the companies which is submitted to the board of VS for approval. In the agreement, the roles of VS and the stock exchange shall each be specified in relation to transactions with electronic security certificates and coordinated operations on the market.

Annex I

Rules on the Icelandic Securities Depository (VS) Transaction Reporting System (TRS)

Opening hours:

The TRS system opens at 9:00 for notification of transactions.

The TRS system closes at 17:15 for notification of transactions which are to be settled on the next business day, i.e. transactions to be allocated on the same day. Otherwise the TRS system is open until 18:00. During that time notifications can be submitted of transactions to be settled after the next business day. At that time it is also possible to submit enquiries in the usual way.

Matching of transactions:

The following information must be consistent in order for the transaction to be matched in the TRS system:

Exchange trade (Saxess transactions):

1. Correct information on the transaction partner
2. ISIN number
3. Quantity
4. Transaction date
5. Settlement date
6. Currency
7. Total amount within ISK 100.

In case of discrepancy the seller's price applies.

8. Order book, allocated by Saxess
9. Trade number, allocated by Saxess

Off-market trade (Non-Saxess transactions):

1. Correct information on the transaction partner
2. ISIN number
3. Quantity
4. Transaction date
5. Settlement date
6. Currency
7. Total amount within ISK 100.

In case of any discrepancy the seller's price applies.

Where two or more possible transactions exist, the TRS system matches the transactions where the difference in total price is smallest.

When searching for transactions to match, the TRS system does not search transactions which have been revoked.

Annex II

Appendix

SI-52765

Agreement on procedure for settlement of securities transactions

The Central Bank of Iceland, ID no. 560269-4129, Kalkofnsvegi 1, Reykjavík, (hereinafter termed the Central Bank), and the Icelandic Securities Depository plc, ID no. 500797-3209, Laugavegi 182 (hereinafter termed VS), make the following agreement on procedure with respect to settlement of securities transactions, cp. Act no. 131/1997 Act on Electronic Registration of Rights of Title to Securities.

The purpose of this agreement between the Central Bank and VS is to safeguard the interests of purchasers and vendors of securities, which entails that vendors should not have access to funds paid for the securities unless they have been delivered, and vice versa.

1. Definitions

In these rules, the following meanings apply:

- 1.1 Delivery vs. payment [DVP]:** Linking of delivery of securities and payments, or equivalent arrangements to ensure that the vendor of securities does not have access to the funds paid for securities sold unless they have been delivered, and vice versa, in accord with the recommendations of the Bank for International Settlements and the [IOSCO] Technical Committee: Recommendations for securities settlement systems 2001.
- 1.2 Normal banking days:** Business days of commercial banks and savings banks from Monday to Friday inclusive.
- 1.3 Transfer orders:** Orders sent electronically into an RTGS system to transfer funds from the payer's account and pay it into the payee's account. The transfer order includes the information on the owners of the account and on the transaction to enable completion of the payment.
- 1.4 Liquid assets for settlement:** Funds used for financial settlement of securities transactions are claims on the Central Bank.
- 1.5 Netting Box:** The VS netting/TRS system (Trade Reporting System) receives notifications from account operators of transactions which are to be settled

between parties through the mediation of VS. All transactions which are to be settled in the securities settlement system are notified to the netting box/TRS system, where they are netted. Only netted transactions are settled.

- 1.6 Account operator:** An enterprise or institution which, on the basis of an agreement of association with VS, is authorised to mediate registration of title to electronic security certificates in the VS system.
- 1.7 Operational security:** Risk relating to the settlement process and the operation of the RTGS system on the one hand, and the operation of the securities settlement system on the other. Operational security also applies to VS and to the Banks Data Centre (RB) which performs the technical operation of the above-named systems.
- 1.8 RTGS system:** RTGS system of the Central Bank of Iceland.
- 1.9 Settlement finality:** Settlement finality is when securities and funds change hands. The securities are transferred from the vendor to the purchaser for an agreed payment, and thereby the transaction is irreversible and is deemed fulfilled.
- 1.10 Settlement day:** The day (S) on which settlement finality is based.
- 1.11 Settlement agent:** An institution, cp. Item 2 art. 2, Act no. 90/1999, which is a party to the Central Bank's RTGS system and performs financial mediation for an account operator's settlements in the RTGS system.
- 1.12 Allocation account:** Account in securities settlement system where netted transactions are kept in the names of the account operators until the account operator has entered information on the identity of the final purchaser/vendor.
- 1.13 Securities settlement system:** Securities settlement system owned by VS which received confirmations of transaction terms for securities transactions, and determines (allocates) rights and obligations with regard to the transaction, and settles the transaction by delivering the securities in return for a guaranteed payment.
- 1.14 Securities settlement accounts:** A special account in the Central Banks RTGS system used for financial settlement of securities transactions.
- 1.15 Securities transaction:** Transaction with electronic securities, registered with VS.
- 1.16 Contingency plan:** Response plan for possible problems which might arise in the settlement process of the Central Bank and the RTGS system on the hand, and at VS on the other, or its service provider, the Banks Data Centre (RB), together with guidelines for response to problems in the operating environment, in order to enable finalisation of securities settlement within the required time limit, notwithstanding any operational disruption.
- 1.17 Transaction day:** The transaction day (T) is the day on which purchase and sale of securities take place. T+1, T+2, T+3 etc. are references to the number of days which elapse from the transaction day until settlement.
- 1.18 VS account:** An account in the VS system, in which electronic securities issued by VS are stored, cp. Act no. 131/1997 on electronic registration of rights of title to securities.

2. Participation

2.1 Membership of securities/monetary settlement

An account operator is authorised to register title in a securities settlement system, and if it is also a party to the Central Bank RTGS system it has the status of a settlement agent. An account operator which is not a party to the RTGS system must make an agreement with a settlement agent (a party to the Central Bank RTGS system) on the monetary settlement of its securities transactions. Account operators and settlement agents shall make formal contracts with the Central Bank and VS in accord with the provisions of the current rules of each party (see further Central Bank rules for the RTGS system, no. 703/2009 (Appendix A), and summary of the rules for participation by account holders in the VS system (Appendix B)).

A settlement agent which undertakes monetary settlement of securities transactions on behalf of an account holder is responsible, in addition to its own transactions, for the monetary settlement of the relevant account holder. VS shall send the Central Bank a copy of the settlement agent's declaration with regard to its service to an account holder in connection with monetary settlement of securities transactions.

3. Settlement of electronic securities at the Icelandic Securities Depository (VS)

3.1. Basis and system of settlement

Securities settlement by VS is based upon delivery of securities vs. payment (DVP) in accord with the recommendations of the Bank for International Settlements of November 2001. All accepted bids to buy and sell with respect to stock exchange transactions regarding electronic securities for which VS handles settlement are notified to the VS netting box. Transactions outside the stock exchange, which are to be settled through the VS system, may also be notified to the netting box for settlement.

The system is open for notification of transactions from 09:00 to 17:45 on normal banking days. Parties can send bids to buy and sell into the netting box until 17:45 on the day before settlement.

Netted transactions are saved in allocation accounts in the names of account holders, until the account operator has entered information on the identity of the final purchaser/vendor.

3.2. Responsibility of vendors of securities and VS measures

Vendors are responsible for producing the securities as agreed on their account within the stated time limit. After a transaction has been registered on the account of the final vendor, and it has been ensured that sufficient holdings exist to complete the transaction, those securities are set aside until settlement has been made. Should the vendor not have produced the agreed securities within the stated time limit, VS cancels those transactions which are in a negative position before final transfer orders are sent to the Banks Data Centre

(RB) for processing. VS sends the vendor and purchaser information on the transaction which was cancelled, and information on the prospective payment obligation. The Central Bank also receives information on such cases.

Purchasers and vendors must re-enter the transaction cancelled by VS into the VS netting box, and they are due for settlement the following day or later.

3.3. Tasks of the Banks Data Centre (RB)

Under a contract between VS and the Banks Data Centre (RB), RB handles netting of payment instructions for netted transactions on behalf of VS in accord with accepted bids to buy and sell, and then sends, on behalf of VS, net payment instructions to the RTGS system, on the basis of the authority granted to VS by settlement agents.

4. Monetary settlement of securities transactions at the Central Bank

4.1. System of monetary settlement

Monetary settlement of securities transactions is carried out during the business hours of the RTGS system. (The Central Bank does not close the RTGS system for securities settlement, and this arrangement is intended to minimise disruption of the payment flow of the RTGS system). The Central Bank establishes special interest-free securities settlement accounts in the name of each settlement agent, which are used to put aside liquid funds for securities settlement. Securities settlement accounts are sub-accounts of the RTGS accounts of the same bodies, whose purpose is to handle the monetary side of securities settlement. The Central Bank alone has access to the securities settlement accounts. Settlement agents can themselves make deposits in their securities settlement accounts, but the Central Bank alone has authority to issue transfer orders entailing payment from these accounts in accord with requests from VS for settlement of securities transactions.

Settlement agents can assign the Central Bank to make deposits which exceed the limits of the RTGS system on their securities settlement systems in accord with the net payment instructions received from VS. Responsibility for completion is not, however, transferred to the Central Bank in the case of conditions not being met.

Monetary settlement is carried out by the Central Bank transferring/entering net payments between the securities settlement accounts of the participants, in accord with confirmed underlying securities transactions based on netting amounts handled by RB on behalf of VS in accord with transfer orders sent in from the VS system, and sent on VS's responsibility, in accord with existing authority from settlement agents. After this, the Central Bank notifies VS that the monetary settlement of the underlying securities is guaranteed.

4.2. Vendor's access to net sale value of securities

When confirmation has been given that transfer of electronic securities has been completed, the Central Bank transfers/enters the transferred funds to the vendors' RTGS accounts, after which the vendors have full access to the net sales value of the securities.

Both aspects of the settlement are to be carried out simultaneously at 12:05, provided that confirmation has been given that the underlying securities and funds are available and accessible for settlement by VS and the Central Bank.

5. Business hours – final settlement

The securities settlement system operates from 9:00 to 17:45 on normal banking days.

5.1. Times and processes in securities settlement

Securities settlement takes place at 12:05 on normal banking days. Before this, the following preparatory steps shall have been completed at the following times, according to the normal settlement procedure:

- 17:50. The day before securities settlement (S-1), VS sends settlement agents provisional information on their payment obligations with respect to the settlement. These payment obligations do not change the following day, unless it proves necessary to cancel transactions. This information is also sent to the Central Bank, at the same time as to the settlement agents.
- 11:00. Netted transactions are kept on allocation accounts until the account operator has entered information on the identity of the final purchaser/vendor. This shall have been completed by 11:00.
- 11:00. Settlement agents must have deposited funds in their securities settlement accounts at the Central Bank on the settlement day before 11:00 in accord with the information sent out by VS at 17:50 on the day before settlement (S-1). The Central Bank confirms to VS whether purchasers have met this obligation or not.
- 11:00. VS carries out a provisional settlement in order to ascertain whether sufficient securities are in place for completion of settlement.
- 11:00. Should the provisional settlement reveal that account operators (vendors) do not have sufficient securities for settlement, VS cancels transactions which are in a negative position. Such transactions must be resubmitted to the netting box, with a new settlement date. VS sends both parties to the transaction information on the transaction which has had to be cancelled, and sends the relevant settlement banks information on payment obligations. VS shall notify the Central Bank of cancelled transactions.
- 11:15. VS sends its final transfer list to the Banks Data Centre (RB) for netting. At this point all parties have the necessary securities in their accounts at VS to complete the securities settlement, and funds in their securities settlement accounts to meet their payment obligations. RB calculates net transfer orders for the settlement agents, and sends the transfer orders to the Central Bank.
- 11:15. Should a change in the final transfer list entail that settlement agents no longer have sufficient funds in their securities settlement accounts in the Central Bank, they have until 11:45 to deposit the shortfall in their securities accounts, so that settlement can be completed on the basis of the transfer list sent by VS to RB at 11:15.

- **11:46.** The Central Bank sends VS confirmation of whether the relevant settlement agents have funds in their securities settlement accounts to meet their payment obligations under the transfer list sent at 11:15.
- **11:46.** If it transpires that a settlement agent lacks sufficient funds to meet its payment obligation, VS unilaterally cancels a sufficient amount of its securities purchases to enable settlement to take place. After this VS sends a new transfer list to RB, which recalculates the settlement. The transactions will be cancelled in accord with the VS rules, which authorise the selection of transactions for cancellation so that the progress of settlement can be ensured within the required time limit.
- **11:55.** If cancellations are so extensive that it is foreseeable that the time limits for the settlement process cannot be met, VS has authority to keep the system closed beyond the normal settlement time until the settlement has been guaranteed, i.e. until complete reconciliation has been achieved between securities and funds in the settlement.
- **12:00.** VS closes its system and prepares for securities settlement on the basis of the funds deposited by settlement agents in their securities settlement accounts as reported by the Central Bank.
- **12:05.** VS settles the securities, and sends the Central Bank confirmation that settlement has been completed.
- **12:05.** The Central Bank transfers/enters net settlement transactions between the purchasers' and vendors' securities settlement account, and sends VS confirmation that the settlement has been completed.
- **12:05.** The Central Bank transfers funds from securities settlement accounts into RTGS accounts.
- **12:15.** The VS system reopens for business and sends confirmation of this to the Central Bank.

5.2 Deviations from the normal settlement process

Should a situation arise where account operators or settlement agents lack the necessary securities or funds for settlement at 11:55, the completion of settlement, i.e. transfer of securities and funds between purchasers and vendors, and the reopening of the system, is postponed. VS maintains a detailed record of all such deviations, and sends the Central Bank information on them.

Account holders and/or settlement agents which do not comply with the provisions on delivery of securities or funds for settlement at the correct time shall pay a fine to VS, in accord with its tariff.

Should an account operator or settlement agent be found to have been negligent, VS must reprimand the relevant party in writing, and in cases of repeated negligence the Central Bank and VS can cancel the relevant party's membership of securities settlement.

5.3 Entry into force

This agreement takes effect on 21 September 2009. From that same time, the prior settlement arrangement between the parties, under an agreement of 25 May 2000, no longer applies. Both parties may request revision or cancellation of the agreement, at six months' notice.

5.4 Disputes.

Should any dispute arise from this agreement, the case shall be submitted to the Reykjavík District Court, under Act no. 91/1991.

The agreement is signed in two identical copies, one for each of the parties.

Reykjavík, 25 August 2009.

CENTRAL BANK OF ICELAND

ICELAND SECURITIES
DEPOSITORY plc (VS)

Már Guðmundsson
Governor

Einar Sigurjónsson
CEO

Tryggvi Pálsson
Director

Agreement
to amend agreement on procedure
for settlement of securities transactions
dated 25 August 2009.

The Central Bank of Iceland, ID no. 560269-4129, Kalkofnsvegi 1, Reykjavík, (hereinafter termed the Central Bank), and the Icelandic Securities Depository plc, ID no. 500797-3209, Laugavegi 182 (hereinafter termed VS), make the following agreement to amend the agreement on procedure with respect to settlement of securities transactions which was signed 25 August 2009 and takes effect 21 September 2009.

1. Monetary settlement of securities transactions at the Central Bank.

Section 4 of the Agreement of 25 August deals with monetary settlement of securities transactions at the Central Bank; section 4.1. on the system of monetary settlement states the following in para. 1 and 2:

Monetary settlement of securities transactions is carried out during the business hours of the RTGS system. (The Central Bank does not close the system for securities settlement, and this arrangement is intended to minimise disruption of the payment flow of the RTGS system). The Central Bank establishes special interest-free securities settlement accounts in the name of each settlement agent, which are used to put aside liquid funds for securities settlement. Securities settlement accounts are sub-accounts of the RTGS accounts of the same bodies, whose purpose is to handle the monetary side of securities settlement. *The Central Bank alone has access to the securities settlement accounts. Settlement agents can themselves make deposits in their securities settlement accounts, but the Central Bank alone has authority to issue payment instructions entailing payment from these accounts in accord with requests from VS for settlement of securities transactions.*

Settlement agents can assign the Central Bank to make deposits which exceed the limits of the RTGS system on their securities settlement systems in accord with the net payment instructions received from VS. Responsibility for completion is not, however, transferred to the Central Bank in the case of conditions not being met.

Monetary settlement is carried out by the Central Bank transferring/entering net payments between the securities settlement accounts of the participants, in accord with confirmed underlying securities transactions based on netting amounts handled by RB on behalf of VS in accord with transfer orders sent in

from the VS system, and sent on VS's responsibility, in accord with existing authority from settlement agents. After this, the Central Bank notifies VS that the monetary settlement of the underlying securities is guaranteed.

However, section 4.1.5 of the VS rules of 16 September 2009 states:

At 11:15 VS again sends transfer orders, to confirm or amend transfer orders for settlement. An amendment occurs only if a transaction has had to be cancelled due to lack of securities. Should an amendment have been made due to cancellation, the Banks Data Centre (RB) transfers the difference, cp. 4.1.4. The Banks Data Centre will attempt a transfer between the participant's RTGS account and its securities settlement account. Should funds or credit be insufficient at 11:15, the transfer is retried every three minutes until 11:45.

The parties to the Agreement agree to alter the procedure stated in section 4.1 of the Agreement on procedure for settlement of securities transactions dated 25 August 2009, so that it will be consistent with the procedure described in the above-mentioned section 4.1.5. in the VS Rules of 16 September 2009. Otherwise there is no change to the Agreement in question, dated 25 August 2009.

2. Entry into force

This Agreement takes effect on 21 September 2009. Both parties may request revision or cancellation of the agreement, at six months' notice.

3. Disputes.

Should any dispute arise from this agreement, the case shall be submitted to the Reykjavík District Court, under Act no. 91/1991.

The agreement is signed in two identical copies, one for each of the parties.

Reykjavík, 16 September 2009.

CENTRAL BANK OF ICELAND

ICELAND SECURITY
DEPOSITORY plc (VS)

Már Guðmundsson
Governor

Einar Sigurjónsson
CEO

Tryggvi Pálsson
Director