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Recommendations on the Interest Rate Convention for Bills

OMX Nordic Exchange in Iceland (the Exchange) has recently endeavoured to standardise practices on the Icelandic fixed-income market to reflect general practices on other leading markets. The main purpose of this standardisation is to co-ordinate business practices by market participants while at the same time facilitating access by foreign investors. With this objective in mind, the Exchange has issued several recommendations for the market.¹

To co-ordinate Icelandic practices with those of the international money-market, the Exchange has recommended that all bills be priced in accordance with the actual/360 day count convention. Since the recommendation was issued, all newly listed issues with bill characteristics² have followed this practice.

OMX Nordic Exchange in Iceland believes that full harmonization with international money-market practices is important and has decided, following a review process, to recommend to market participants that their price calculations for bills follow the recommendations below. For more information, please contact Brynjar Orn Olafsson (brynjar.olafsson@omxgroup.com, tel. +354 525-2856).

Recommendation: Bill pricing based on simple interest

The Exchange now wishes to complete the harmonisation of Icelandic money-market practices with international practice. Icelandic market players have long used compound interest in pricing bills. OMX Nordic Exchange in Iceland recommends that bills be priced using simple interest rates in accordance with international practice. This harmonisation will also facilitate comparison with interbank rates calculated in a linear manner (i.e. simple interest). As shown in Table 1, all leading markets calculate the time value of short-term cash flow with only a single payment at maturity using linear or simple interest.

Table 1. Interest rate convention for bills in various countries

Country	Interest rate convention
Australia	Simple
Austria	Simple
Belgium	Simple
Denmark	Simple
Finland	Simple
France	Simple
Germany	Simple
Greece	Simple
Ireland	Simple
Italy	Simple
Netherlands	Simple
Poland	Simple
Portugal	Simple
Spain	Simple
Sweden	Simple
United Kingdom	Simple
United States	Simple

Source: Applicable debt management offices, Central Bank of Iceland, Le Grandville, Oliver de.: *Bond Pricing and Portfolio Analysis: Protecting Investors in the Long Run*, and Moorad Coudhry, *The Bond & Money Markets: Strategy, Trading, Analysis*.

¹ Cf. "Recommendations on the Number of Decimal Places in the Daily CPI and CTI values, and Derived Dirty Price" dated 9 January 2007, "ICEX Recommendations on the Principal Characteristics and Calculations of Listed Bonds and Bills" issued 23 August 2006, and "ICEX recommendation regarding the calculation of daily CPI and CTI values" issued 30 November 2005.

² With a duration of less than or equal to 1 year, a single payment upon maturity, and priced at a discount.