FJÁRMÁLAEFTIRLITIÐ

THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

Reykjavík, 17 October 2017

Notification of an unchanged countercyclical capital buffer

On 1 March 2016, the Financial Supervisory Authority decided to impose a 1% countercyclical capital buffer in accordance with Article 86(d) of Act No 161/2002 on Financial Undertakings.[1] 1 The financial undertakings subject to the buffer have therefore maintained the 1% countercyclical capital buffer since 1 March 2017. The buffer has been maintained on a consolidated basis and covers domestic credit exposures. On 1 November 2016, the Financial Supervisory Authority decided to increase the countercyclical capital buffer to 1.25%, which will take effect on 1 November 2017.[2]

The Financial Stability Council is tasked with reviewing the countercyclical buffer rate every quarter in accordance with Article 86(d) of Act No 161/2002 on Financial Undertakings. On 9 October 2017, the Council recommended to the Authority that the countercyclical capital buffer should be held unchanged at 1.25%. The recommendation is attached to this correspondence.

The primary purpose of the countercyclical capital buffer is to strengthen the resilience of the financial system against potential credit losses following excessive credit growth and the resultant accumulation of cyclical systemic risk. In valuating the rate of the countercyclical capital buffer the Council considers four core indicators it has defined for intermediate objective 1 for financial stability, i.e. growth in the debt-to-GDP ratio, real growth in lending to households and businesses, real increases in residential and commercial real estate prices, and the deviation or the debt-to-GDP ratio from its long-term trend in accordance with Article 136(2) of Directive 2013/36/EU. In addition the Council considers other indicators to get a comprehensive evaluation of the state of the financial cycle. The Council concluded that the developments in cyclical systemic risk, since its last meeting on 20 June 2017, have been broadly in line with expectations.

It is hereby announced, with reference to the Council's recommendations, that the Authority's Decision on 1 November 2016, on maintaining a 1.25% countercyclical capital buffer, will remain unchanged. The buffer will continue to cover the domestic

[1] See the recommendations of the Financial Stability Council from 22 January 2016.
[2] See the recommendations of the Financial Stability Council from 30 September 2016.

credit exposure of all financial undertakings, both individually and on a consolidated basis, unless they are specifically excluded from the buffer according to Article 86(d)(4) of the Act on Financial Undertakings. The calculation of the own funds requirements shall reflect the weighted average of the countercyclical capital buffer rates that apply domestically and in other EEA-States, in accordance with the share of credit exposure in each relevant country, pursuant to Article 86(d)(3) of the same Act.[3]

[3] The Financial Supervisory Authority will introduce rules implementing the regulatory technical standards in Commission Delegated Regulation (EU) No 1152/2014 that further prescribes the calculations, cf. Consultation Paper No 4/2016 available on the Authority's website. In addition, the Financial Supervisory Authority has laid down Rules No 506/2017 implementing the regulatory technical standards in Commission Delegated Regulation (EU) 2015/1555.