



Reykjavík, 26 April 2017

Notification of an on-going capital buffer for other systemically important institutions and an unchanged countercyclical capital buffer

Capital buffer for other-systemically important institutions

On 1 March 2016 the Financial Supervisory Authority of Iceland (FME) decided on a capital buffer for other-systemically important institutions (O-SII), pursuant to Article 86(c) of Act no. 161/2002 on Financial Undertakings.¹ Since 1 April 2016, other systemically important institutions in Iceland have maintained a 2% additional capital buffer for systemic importance. The buffer has been maintained on an individual and consolidated basis and has taken into account all risk-weighted exposures.

Pursuant to Article 86(d) of the Act on Financial Undertakings the decision shall be reviewed annually, accordingly the FME has requested recommendations from the Financial Stability Council (FSC). On 10 April 2017, the FSC recommended to the FME that other-systemically important institutions continue to maintain the 2% O-SII capital buffer.

At its meeting on 6 April 2017 the FSC confirmed the systemic importance of Arion banki hf., Íslandsbanki hf., Landsbankinn hf. and the Housing Financing Fund (HFF), pursuant to paragraph 2(d) of Article 4 of Act no. 66/2014 on the Financial Stability Council. As before the Council basis its evaluation of systemic importance on EBA guidelines.²

In accordance with the recommendations of the FSC the FME notifies that the decision of the FME from 1 March 2016 on the capital buffer for other systemically important institutions continues to apply. Other-systemically important institutions shall continue to maintain a 2% O-SII capital buffer. The buffer shall be maintained on an individual and consolidated basis for all risk-weighted exposures.

Countercyclical Capital Buffer

On 1 March 2016 the FME implemented the countercyclical capital buffer (CCyB) pursuant to Article 86(d) of the Act on Financial Undertakings.³ As of 1 March 2017 financial undertakings have thus maintained a 1% CCyB unless exempt pursuant to the Act on Financial Undertaking. The buffer applies to domestic risk-weighted

¹ According to recommendations of the Financial Stability Board of 22 January 2016.

² Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) (EBA/GL/2014/10).

³ According to recommendations of the Financial Stability Board of 22 January 2016.



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exposures and has been maintained on an individual and consolidated basis. On 1 November 2016 the FME decided to raise the countercyclical capital buffer to 1.25%. The increase will apply from 1 November 2017.⁴

Pursuant to Paragraph 1 of Article 86(d) of the Act on Financial Undertakings the FSC shall set the value of the CCyB quarterly. On 10 April 2017 the FSC recommended an unchanged CCyB.

Pursuant to Paragraph 2 of Article 136 of Directive 2013/36/EU the FSC evaluates the deviation of Credit-to-GDP from trend and the buffer guide when setting the value of the CCyB. The FSC also takes into account other indicators of cyclical systemic risk, such as credit growth of households and corporates, the financial cycle and housing prices, as well as qualitative information.

Pursuant to the FSC's recommendations, the FME hereby notifies that its decision dated 1 November 2016 of a 1.25% CCyB continues to apply unchanged. The buffer shall continue to apply to domestic risk-weighted exposures of all financial undertakings on an individual and consolidated basis unless exempt pursuant to Paragraph 4 of Article 86(d) of the Act on Financial Undertakings. The institution specific CCyB shall take into account the weighted average of CCyB rates in countries of the European Economic Area (EEA) according to relative exposure amounts in relevant countries, pursuant to Paragraph 3 of Article 86(d) of said Act.

⁴ According to recommendations of the Financial Stability Board of 30 September 2016.