

Reykjavík, 4 April 2019

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 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 Financial Supervisory Authority has requested recommendations from the Financial Stability Council. On 1 April 2019, the Financial Stability Council recommended to the Financial Supervisory Authority that other-systemically important institutions continue to maintain the 2% O-SII capital buffer.

The Financial Stability Council's recommendations confirmed the systemic importance of Arion banki hf., Íslandsbanki hf. and Landsbankinn hf. pursuant to paragraph 2(d) of Article 4 of Act no. 66/2014 on the Financial Stability Council. As before the Council bases its evaluation of systemic importance on EBA guidelines.²

In accordance with the recommendations of the Financial Stability Council the Financial Supervisory Authority notifies that the decision of the Financial Supervisory Authority 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.

Unchanged countercyclical capital buffer

On 1 November 2016 the Financial Supervisory Authority implemented the countercyclical capital buffer pursuant to Article 86(d) of the Act on Financial Undertakings.³ As of 1 November 2017 financial undertakings have thus maintained a 1.25% countercyclical capital buffer unless exempt pursuant to the Act on Financial Undertakings. The buffer applies to domestic risk-weighted exposures and is maintained on an individual and consolidated basis. On 15 May 2018

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 30 September 2016.

the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 1.75%, with the increase coming into effect from 15 May 2019.⁴ Furthermore, on 1 February 2019 the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 2%, the increase coming into effect from 1 February 2020.⁵

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 1 April 2019 the Council recommended to the Authority that the countercyclical capital buffer should be held unchanged at 2%.

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. The countercyclical capital buffer may be built-up while a comprehensive assessment indicates that systemic risk is increasing. Furthermore, the buffer can be lowered or removed during a simultaneous downturn in the business and financial cycles in order to ensure that financial institutions maintain a sustainable supply of credit. The level of the countercyclical buffer will therefore change in accordance with ongoing developments in the build-up of systemic risk. The Council's recommendations references the Systemic Risk Committee's assessment and advices that the level of the countercyclical capital buffer remain unchanged at this point in time. The recommendations also state that any future decisions regarding the countercyclical capital buffer will be based on the development of systemic risk.

It is hereby announced, with reference to the Council's recommendations, that the Authority's Decision on 1 February 2019, on maintaining a 2% countercyclical capital buffer, will remain unchanged. The buffer will continue to cover the domestic 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 the 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.⁶

⁴ According to recommendations of the Financial Stability Board of 13 April 2018.

⁵ According to recommendations of the Financial Stability Board of 19 December 2018.

⁶ 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.