



Reykjavík, 15 May 2018.

Notification of an unchanged capital buffer for systemic risk and an on-going capital buffer for other systemically important financial institutions

Unchanged capital buffer for systemic risk

On 1 March 2016, the Financial Supervisory Authority decided on the capital buffer for systemic risk in accordance with Article 86(d) of Act No 161/2002 on Financial Undertakings.¹ As of 1 April 2016, deposit-taking institutions have, therefore, maintained a systemic risk buffer. The capital buffer has been maintained on a consolidated basis, and it covers domestic exposures only.

Pursuant to Article 86(b)(1) of the Act on Financial Undertakings, the Financial Stability Council shall review its recommendation on the systemic risk buffer within two years of its implementation. On 13 April 2018, the Council recommended to the Authority that the systemic risk buffer be unchanged.

According to the Council's recommendation, non-cyclical systemic risk in Iceland has only changed minimally in the preceding two years, as this type of risk tends to be inelastic.

It is hereby announced, with reference to the Council's recommendation that the Authority's decision on the systemic risk buffer from 1 March 2016 continues to apply unchanged. The rate of the systemic risk buffer will therefore remain 3% of deposit-taking institutions' domestic exposures. However, the rate of the systemic risk buffer for non-systemically important financial institutions, currently 2%, shall rise to 3% as of 1 January 2020. In addition, the capital buffer requirements shall continue to be maintained on a consolidated basis.

Continuing capital buffers for systemically important financial institutions

On 1 March 2016, the Financial Supervisory Authority decided on the capital buffer for systemically important financial institutions in accordance with Article 86(c) of the Act on Financial Undertakings.² Systemically important financial institutions have therefore maintained a 2% capital buffer due to their systemic importance. The buffer has been maintained on a consolidated basis and it covers all exposures.

¹ See the recommendations of the Financial Stability Council from 22 January 2016.

² See the recommendations of the Financial Stability Council from 22 January 2016.



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THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

Article 86(c)(1) of the Act on Financial Undertakings provides for an annual review of both the decision to apply the capital buffer and its value. The Authority accordingly sought the input of the Financial Stability Council. On 13 April 2018, the Council recommended to the Authority that systemically important financial institutions should maintain their capital buffer due to their systemic importance.

According to the Council's recommendation, Arion Bank hf., Islandsbanki hf., and Landsbankinn hf. will continue to be considered systemically important financial institutions. As before, the Council's methodology is based on the Guidelines of the European Banking Authority (EBA) for identifying systemically important financial institutions.³

It is hereby announced, with reference to the Council's recommendations, that the Authority's Decision on the systemic risk buffer for systemically important financial institutions from 1 March 2016 continues to apply unchanged. The systemically important financial institutions shall, therefore, maintain a 2% capital buffer due to their systemic importance. The buffer shall also be maintained on a consolidated basis and it shall continue to cover all the undertakings' exposures.

³ 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).