

Statement of the Financial Stability Committee

8 April 2020

The Financial Stability Committee of the Central Bank of Iceland has concluded its reassessment of capital buffers for systemic risk and systemic importance. The Committee has decided that both buffers should be held unchanged. The systemic risk buffer (SRB) for deposit-taking institutions will remain 3% of domestic exposures and will be applied both individually and on a consolidated basis, as applicable. The capital buffer due to systemic importance (O-SII buffer) will remain 2% of all exposures at both the parent company level and the group level. The review of systemically important financial institutions, carried out in accordance with European Banking Authority methodology, confirmed the systemic importance of Arion Bank, Íslandsbanki, and Landsbankinn.

Capital buffers are capital requirements imposed on financial institutions in addition to minimum capital adequacy requirements. The buffers are intended to ensure operational viability under stressed conditions. It is important to bear in mind that financial institutions may tap their capital conservation buffers and O-SII buffers if they need to. This only affects financial institutions' authorisations to make payments such as dividends and bonuses.

Rules on capital buffers for systemic risk and systemic importance have been approved and will take effect upon publication in the *Law and Ministerial Gazette (Stjórnartíðindi)*.

Furthermore, the Financial Stability Committee considers it appropriate to establish special temporary credit facilities in the form of collateralised loans. The financial institutions' liquidity is sound, but due to the current uncertainty, the Committee considers it important that the Central Bank have at its disposal a measure that would permit a temporary expansion of eligible collateral. This is done with reference to Article 13 of the Act on the Central Bank of Iceland, no. 92/2019, and the Bank will implement the measure within the framework approved by the Committee.

The Financial Stability Committee re-emphasises its previous statement urging financial institutions to take into consideration the substantial uncertainty currently prevailing in the economy when they take decisions on dividend payments and stock buybacks in the coming term. As before, the Committee is prepared to use the tools at its disposal to safeguard financial stability in Iceland.

The Icelandic financial system is on a sound footing, and the banks' capital position is strong. Recent measures taken by the Central Bank – i.e., lifting the countercyclical capital buffer and changing minimum reserve requirements – have given the banks increased scope to support households and businesses during the shock brought on by the COVID-19 pandemic. The flexibility of the capital buffers currently in effect

also provides scope for response to the conditions now prevailing in the economy.