

Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB;
- notifications@eba.europa.eu when notifying the EBA.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority	
1.1 Name of the notifying authority	Financial Supervisory Authority of Iceland
2. Description of the measure	
2.1 Concerned institution or group of institutions	On which institution(s) is the measure applied (name and LEI code)? Arion banki hf. (LEI: RIL4VBPDB0M7Z3KXSF19) Íslandsbanki hf. (LEI: 549300PZMF1QR79Q0T97) Landsbankinn hf. (LEI: 549300TLZPT6JELDWM92) The measure is applied on the highest level of consolidation
2.2 Level of the buffer applied	What is the level of the buffer (in %) applied to the institution(s)? Arion banki hf.: 2% Íslandsbanki hf.: 2% Landsbankinn hf.: 2%
2.3 Name of the EU ultimate parent institution	Please provide the name and the LEI code of the EU ultimate parent institution of the group of each of the concerned institutions, in case the EU ultimate parent institution is not the concerned institution itself. The institutions are in all cases the ultimate parent institutions
2.4 Names of subsidiaries	If any of the concerned institutions is a parent institution and the buffer is applied on a (sub)consolidated level, please name the subsidiaries of the institution that are notified as O-SIIs (please give name and LEI code). Not applicable
3. Timing of the measure	
3.1 Timing of the Decision	What is the date of the official decision? <u>For SSM countries when notifying the ECB:</u> provide the date when the decision referred to in Article 5 of the SSMR shall be taken. 26 April 2017

3.2 Timing of the Publication	What is the date of publication of the notified measure? 26 April 2017																														
3.3 Disclosure	Information about the communication strategy of the notified measure to the market. Information will be in the form of direct communication with the concerned institutions and published on the website of the Financial Supervisory Authority of Iceland in Icelandic (fme.is) and English (en.fme.is)																														
3.4 Timing of Application	What is the intended date of activation (i.e. as of which date shall the measure be applicable)? The measure was introduced on 1 April 2016. The measure has now been reviewed and will continue to apply until next years' annual review of the measure.																														
3.5 Phasing in	What is the intended timeline for the phase-in of the measure? The measure has already been activated and no phase in is foreseen																														
3.6 Review of the measure	When will the measure be reviewed (Article 131(6) and 131(12) specify that the buffer, the identification of O-SIIs and the allocation into subcategories must be reviewed at least annually)? The measure will be reviewed during Q2 of 2018.																														
4. Reason for O-SII identification and activation of the O-SII buffer																															
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	<p>The methodology of identifying systemic importance of institutions in Iceland is based on the EBA guidelines on the assessment of O-SIIs. One additional indicator is used to highlight the importance of the FX market for the Icelandic economy. The additional indicator, FX market turnover, is measured as the share of FX market transactions of the institution to total transactions from 1. January to 31 December of the preceding year. The indicator is placed under the Importance category.</p> <p>Arion banki hf.:</p> <table border="1"> <tr><td>a. Size</td><td>2535</td></tr> <tr><td>b. Importance</td><td>2691</td></tr> <tr><td>c. Complexity</td><td>3752</td></tr> <tr><td>d. Interconnectedness</td><td>3308</td></tr> <tr><td>Overall score</td><td>3071</td></tr> </table> <p>Íslandsbanki hf.:</p> <table border="1"> <tr><td>a. Size</td><td>2563</td></tr> <tr><td>b. Importance</td><td>3487</td></tr> <tr><td>c. Complexity</td><td>3327</td></tr> <tr><td>d. Interconnectedness</td><td>2268</td></tr> <tr><td>Overall score</td><td>2911</td></tr> </table> <p>Landsbankinn hf.:</p> <table border="1"> <tr><td>a. Size</td><td>2718</td></tr> <tr><td>b. Importance</td><td>2865</td></tr> <tr><td>c. Complexity</td><td>2790</td></tr> <tr><td>d. Interconnectedness</td><td>2395</td></tr> <tr><td>Overall score</td><td>2692</td></tr> </table>	a. Size	2535	b. Importance	2691	c. Complexity	3752	d. Interconnectedness	3308	Overall score	3071	a. Size	2563	b. Importance	3487	c. Complexity	3327	d. Interconnectedness	2268	Overall score	2911	a. Size	2718	b. Importance	2865	c. Complexity	2790	d. Interconnectedness	2395	Overall score	2692
a. Size	2535																														
b. Importance	2691																														
c. Complexity	3752																														
d. Interconnectedness	3308																														
Overall score	3071																														
a. Size	2563																														
b. Importance	3487																														
c. Complexity	3327																														
d. Interconnectedness	2268																														
Overall score	2911																														
a. Size	2718																														
b. Importance	2865																														
c. Complexity	2790																														
d. Interconnectedness	2395																														
Overall score	2692																														

<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p>	<p>Please provide information on:</p> <ol style="list-style-type: none"> whether you followed the EBA guidelines on the assessment of O-SIIs which threshold score has been set to identify O-SIIs which overall score is attributed to the O-SIIs which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores why these optional indicators are relevant for the Member State why the bank is systemically important in terms of those particular optional indicators whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1) whether non-bank institutions have been included in the calculations <ol style="list-style-type: none"> EBA guidelines are used with the addition of one indicator under the Importance category. The default threshold is used, 350 points. See 4.1. Optional indicator, FX market turnover, is used and explained in 4.1. See 4.1. Optional indicator is not used to identify additional O-SII's but is rather used to measure the overall importance of all institutions which in turn is used to evaluate their overall score. No institutions are excluded from the identification process. Scores of relevant institutions not identified as O-SII are not published. One non-bank institution is included in the assessment, the Housing Financing Fund, HFF. The HFF is considered O-SII but the buffer does not apply as it does not fall under the Act on Financial Undertakings, no. 161/2002. <p>Scores of the Housing Financing Fund:</p> <table border="1"> <tr> <td>a. Size</td> <td>1925</td> </tr> <tr> <td>b. Importance</td> <td>580</td> </tr> <tr> <td>c. Complexity</td> <td>0</td> </tr> <tr> <td>d. Interconnectedness</td> <td>1829</td> </tr> <tr> <td>Overall score</td> <td>1084</td> </tr> </table>	a. Size	1925	b. Importance	580	c. Complexity	0	d. Interconnectedness	1829	Overall score	1084
a. Size	1925										
b. Importance	580										
c. Complexity	0										
d. Interconnectedness	1829										
Overall score	1084										
<p>4.3 Supervisory judgement</p>	<p>Has any of the institutions listed in 2.1 been identified through supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions.</p> <p>No.</p>										
<p>4.4 Calibrating the O-SII buffer</p>	<p>Please provide information on the criteria and indicators used to calibrate the level of the O-SII buffer requirement and the mapping to institution-specific buffer requirements.</p> <p>As all institutions identified as O-SII are well above the 350 points threshold, recommended by EBA guidelines, the maximum 2% buffer has been applied to O-SII banks. A more granular approach with 2 or more buckets has been considered and will likely be implemented if the need arises.</p>										

<p>4.5 Effectiveness and proportionality of measure</p>	<p>Please provide a justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk.</p> <p>The combined size of the four institutions identified as O-SII represents about 97% of the assets of the domestic financial sector. The three banks hold about 78% of the total assets of the financial sector. The banks provide important services to the real economy, both companies and households.</p> <p>The O-SII buffers applicable to Icelandic banks were calibrated accounting for the banks' systemic importance. The structure of the Icelandic financial sector is such that there are four very large and systemically important institutions that dominate the market with four very small savings and loans banks, mostly operating in rural areas, one small commercial bank and a few small financing companies. The failure of one of the O-SII could have widespread negative effects and result in contagion between banks, due to deteriorating credit ratings, and access to foreign financial markets might be affected.</p> <p>Capital buffers reduce the risk of failure of systemically important institutions and thus the probability of negative effects to the real economy.</p> <p>Given the above considerations and the assessment of systemic importance according to the EBA guidelines, a 2% CET1 level of the O-SII buffer is considered effective and proportionate for all three banks identified as O-SII.</p>
<p>5. Cross-border and cross-sector impact of the measure</p>	
<p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</p>	<p>Assessment of the cross-border effects of the implementation of the draft measure.</p> <p>a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector¹ can be used.</p> <p>b. Assessment of:</p> <ul style="list-style-type: none"> o cross-border effects (leakages and regulatory arbitrage) of the implementation of the measure in your own jurisdiction (inward spillovers); and o cross-border effects on other Member States and on the Single Market of the measure (outward spillovers). <p>Since Icelandic banks have very limited operations in member states of the EU and EU banks have almost no footprint in Iceland, this measure is very unlikely to have any cross border effects or impact on the internal market.</p>
<p>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p>	<p>Referring to your country's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e., circumvention of the measure/leakages to other parts of the financial sector)?</p> <p>Possible leakages are very unlikely. Since the O-SII buffer is applied at the highest consolidation level there are no risks of shifts in activity w.r.t. geographical location within groups. Also, the risk of reduced operations in order to be not classified as O-SII does not apply in Iceland since the reduction in operations would need to be extremely large. The banks affected by the measure</p>

¹ Available on the ESRB's website at www.esrb.europa.eu.

	already maintain the 2% CET1 capital to meet the O-SII buffer as it was introduced in full on 1 April 2016. The impact of the application of the O-SII buffer, at this time, is therefore thought to be neutral w.r.t. lending growth and own funds requirements.
6. Combinations and interactions with other measures	
6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	In case both G-SII and O-SII criteria applied to the same institution at the consolidated level, which of the two buffers is the highest? No G-SII institutions operate in Iceland and therefore no combinations of G-SII and O-SII buffers need to be considered.
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	Are any of the institutions subject to a systemic risk buffer? If yes, please provide the following information: <ul style="list-style-type: none"> a. What is the level of the systemic risk buffer (in %) applied to the concerned institution b. Is the systemic risk buffer applied to all exposures located in your Member State only? c. Is the systemic risk buffer applied at the same consolidation level as the O-SII buffer? <p>Yes, the Systemic Risk Buffer has been implemented in Iceland.</p> <ul style="list-style-type: none"> a. All three banks identified as O-SII also hold a 3% Systemic Risk Buffer. b. Yes, the SRB applies to domestic exposures only. c. Yes, it is applied at the highest consolidation level.
6.3 O-SII requirement for a subsidiary (Article 131.8)	In case the O-SII is a subsidiary of an EU parent institution which is subject to a G-SII or O-SII buffer on a consolidated basis, what is the G-SII or O-SII buffer rate on a consolidated basis of the parent institution? Not applicable
6.4 Interaction with other measures	How does the buffer requirement interact with other measures addressing the same risk (e.g. with other supervisory measures)? No other measures are used to address the same risk.

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Contact person(s) for further inquiries (name, phone number and e-mail address) Einar Jón Erlingsson ainarjon@fme.is Tel: +354 520 3700
7.2 Any other relevant information	

