

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

Please send this template to

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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 (FME).
2. Description of the measure	
2.1 Concerned institution or group of institutions	Arion banki hf. (LEI: RIL4VBPDB0M7Z3KXSF19) Íslandsbanki hf. (LEI: 549300PZMFIQR79Q0T97) Landsbankinn hf. (LEI: 549300TLZPT6JELDWM92) The measure is applied at the highest level of consolidation
2.2 Level of the buffer applied	Arion banki hf.: 2% Íslandsbanki hf.: 2% Landsbankinn hf.: 2%
2.3 Name of the EU ultimate parent institution	The institutions are in all cases the ultimate parent institutions
2.4 Names of subsidiaries	Not applicable
3. Timing of the measure	
3.1 Timing of the Decision	15 May 2018
3.2 Timing of the Publication	15 May 2018
3.3 Disclosure	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	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	The measure has already been activated and no phase in is foreseen																														
3.6 Review of the measure	The measure will be reviewed during Q2 of 2019																														
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>2689</td> </tr> <tr> <td>b. Importance</td> <td>2878</td> </tr> <tr> <td>c. Complexity</td> <td>4243</td> </tr> <tr> <td>d. Interconnectedness</td> <td>2601</td> </tr> <tr> <td>Overall score</td> <td>3103</td> </tr> </table> <p>Íslandsbanki hf.:</p> <table border="1"> <tr> <td>a. Size</td> <td>2427</td> </tr> <tr> <td>b. Importance</td> <td>3081</td> </tr> <tr> <td>c. Complexity</td> <td>2724</td> </tr> <tr> <td>d. Interconnectedness</td> <td>1595</td> </tr> <tr> <td>Overall score</td> <td>2457</td> </tr> </table> <p>Landsbankinn hf.:</p> <table border="1"> <tr> <td>a. Size</td> <td>2794</td> </tr> <tr> <td>b. Importance</td> <td>3161</td> </tr> <tr> <td>c. Complexity</td> <td>2878</td> </tr> <tr> <td>d. Interconnectedness</td> <td>4120</td> </tr> <tr> <td>Overall score</td> <td>3238</td> </tr> </table>	a. Size	2689	b. Importance	2878	c. Complexity	4243	d. Interconnectedness	2601	Overall score	3103	a. Size	2427	b. Importance	3081	c. Complexity	2724	d. Interconnectedness	1595	Overall score	2457	a. Size	2794	b. Importance	3161	c. Complexity	2878	d. Interconnectedness	4120	Overall score	3238
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4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>a. Mandatory indicators in the EBA guidelines are used with the addition of one optional indicator under the Importance category.</p> <p>b. The default threshold is used, 350 points.</p> <p>c. See 4.1.</p> <p>d. Optional indicator, FX market turnover, is used and explained in 4.1.</p> <p>e. See 4.1.</p> <p>f. 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.</p> <p>g. No institutions are excluded from the identification process.</p> <p>h. Scores of relevant institutions not identified as O-SII are not published.</p> <p>i. The Housing Financing Fund is included in the calculations, but not identified as O-SII as the institution falls out of scope of the buffer.</p>																														

4.3 Supervisory judgement	No institutions have been identified as O-SII through supervisory judgement.
4.4 Calibrating the O-SII buffer	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.
4.5 Effectiveness and proportionality of measure	<p>The combined size of the three institutions identified as O-SII represents about 79% of the assets of the domestic financial sector. The banks provide important services to the real economy, both to companies and households.</p> <p>The O-SII buffer applicable to Icelandic banks was calibrated accounting for the banks' systemic importance. The structure of the Icelandic financial sector is such that there are three 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 on 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-SIIs.</p>
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	Since Icelandic banks have very limited operations in member states of the EU, this measure is very unlikely to have any cross border effects or impact on the internal market.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	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 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)	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)	<p>The systemic risk buffer (SRB) has been implemented in Iceland.</p> <p>a. All three banks identified as O-SII also hold a 3% systemic risk buffer.</p> <p>b. The SRB applies to domestic exposures only.</p> <p>c. Both the O-SII buffer and SRB are applied at the highest consolidation level.</p>
6.3 O-SII requirement for a subsidiary (Article 131.8)	<p>Not applicable</p>
6.4 Interaction with other measures	<p>No other measures are used to address the same risk. The O-SII buffer is cumulative with the SRB as the SRB applies to domestic exposures only.</p>

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	<p>Einar Jón Erlingsson</p> <p>ainarjon@fme.is</p> <p>Tel: +354 520 3700</p>
7.2 Any other relevant information	