FJÁRMÁLAEFTIRLITIÐ
THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

Reykjavík, 9 October 2018

Notification of an unchanged countercyclical capital buffer

On 1 November 2016, the Financial Supervisory Authority decided to impose a 1.25% countercyclical capital buffer in accordance with Article 86(d) of Act No 161/2002 on Financial Undertakings.[1] The financial undertakings subject to the buffer have therefore maintained the 1.25% countercyclical capital buffer since 1 Novermber 2017. The buffer has been maintained on a consolidated basis and covers domestic credit exposures. On 15 May 2018 the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 1.75%.[2] The increased buffer rate will apply as of 15 May 2019.

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 5 October 2018, the Council recommended to the Authority that the countercyclical capital buffer should be held unchanged at 1.75%. The recommendation is attached to this correspondence.

The Council‘s recommendations states that 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 cycle 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, as well as other indicators of systemic risk as per Article 136(2) of Directive 2013/36/EU, and advices that the level of the countercyclical capital buffer remain unchanged at this point in time. The Council points out that even though the financial cycle is in an expansionary phase, real estate prices have continued to increase and credit growth has been increasing, there is currently considerable uncertainty in regards to future developments within the tourism sector. The Council's recommendation also notes that

[1] See the recommendations of the Financial Stability Council from 30 September 2016.
[2] See the recommendations of the Financial Stability Council from 13 April 2018.

the level of the countercyclical capital buffer may be expected to increase in the coming months as the financial cycle continues its ongoing expansionary phase.

It is hereby announced, with reference to the Council's recommendations, that the Authority's Decision on 15 May 2018, on maintaining a 1.75% 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 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.[3]

[3] 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.