FJÁRMÁLAEFTIRLITIÐ
THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

Reykjavik, 28. June 2019

Notification of an unchanged countercyclical capital buffer

On 15 May 2018 the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 1.75% pursuant to Article 86(d) of the Act on Financial Undertakings. [1] As of 15 May 2019 financial undertakings have thus maintained a 1.75% countercyclical capital buffer unless exempt pursuant to the Act on Financial Undertakings. Furthermore, on 1 February 2019 the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 2%, the increase coming into effect from 1 February 2020. [2]

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 1 April 2019 the Council recommended to the Authority that the countercyclical capital buffer should be held unchanged at 2%.

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 cycles 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 and advices that the level of the countercyclical capital buffer remain unchanged at this point in time. The Council states that although household and corporate debt growth has been positive for some time, current economic indicators indicate that the economy is now entering a recessionary period. According to the Council these developments will inexorably also affect the financial system, although there is currently uncertainty to what extent.

It is hereby announced, with reference to the Council's recommendations, that the Authority's Decision on 1 February 2019, on maintaining a 2% 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 the 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]

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[1] According to recommendations of the Financial Stability Board of 13 April 2018.
[2] According to recommendations of the Financial Stability Board of 19 December 2018.
[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.