Journal of Financial Crises

Volume 1 | Issue 3

2019

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Recommended Citation

Zeissler, Arwin G.; Piontek, Thomas; and Metrick, Andrew (2019) "Ireland and Iceland in Crisis C: Iceland’s Landsbanki Icesave," *Journal of Financial Crises*: Vol. 1 : Iss. 3, 27-43.
Available at: https://elischolar.library.yale.edu/journal-of-financial-crises/vol1/iss3/3

Ireland and Iceland in Crisis C: Iceland's Landsbanki Icesave[1]

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Yale Program on Financial Stability Case Study 2014-5A-V1
December 1, 2014, Revised: March 16, 2015, October 30, 2019

Abstract

At year-end 2005, almost all of the total assets of Iceland's banking system were concentrated in just three banks (Glitnir, Kaupthing, and Landsbanki). These banks were criticized by certain financial analysts in early 2006 for being overly dependent on wholesale funding, much of it short-term, that could easily disappear if creditors' confidence in these banks faltered for any reason. Landsbanki, followed later by Kaupthing and then Glitnir, responded to this criticism and replaced part of their wholesale funding by using online accounts to gather deposits from individuals across Europe. In Landsbanki's case, these new deposits were marketed under the name "Icesave" and legally held in branch offices in the United Kingdom and the Netherlands. When Landsbanki failed in October 2008, the obligation to repay depositors fell upon Iceland's deposit insurance fund, not upon the British and Dutch deposit insurance funds. However, the Icelandic fund did not have nearly enough money to repay all eligible depositors in the three major Icelandic banks, all of which had failed, so the Icelandic government made the controversial decision to repay only domestic depositors.

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[1] This module is one of four produced by the Yale Program on Financial Stability (YPFS) examining issues impacting Ireland and Iceland in the years surrounding the global financial crisis. The following are the other modules in this case series.

- *Ireland and Iceland in Crisis A: Increasing Risk in Ireland*
- *Ireland and Iceland in Crisis B: Decreasing Loan Loss Provisions in Ireland*
- *Ireland and Iceland in Crisis D: Similarities and Differences*

Cases are available from the Journal of Financial Crises.

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1. Introduction

At 11:18 on the night of Monday, October 6, 2008, the Icelandic Parliament passed an Emergency Act that gave the financial regulator of the small island nation the power to take over the operations of a failing bank. The situation facing Iceland's banks was indeed an emergency, and the regulator used its new powers to take control of two of the country's major banks (Glitnir and Landsbanki) the very next day and the third major bank (Kaupthing) later that same week. These banks collectively held 90% of the assets of Iceland's banking system, a sum equal to 10 times the nation's gross domestic product, making Iceland's banking collapse the largest relative to its size experienced by any country during the global financial crisis of 2007-09.

Glitnir, Kaupthing, and Landsbanki received a warning shot across the bow in February 2006, when the Fitch credit rating agency downgraded Iceland's outlook to negative. In addition, several investment firms issued cautionary reports about the banking system the following month. One of the criticisms levied by these analyses was the fact that Iceland's banks were overly reliant on wholesale funding, much of it short-term, that could easily disappear if creditors' confidence in the banks ebbed for any reason. (Wholesale deposits and loans are made by financial institutions, municipalities, and large corporations.) Soon thereafter, United States money market funds refused to extend the maturity of certain loans to the Icelandic banks, which also saw the cost of insuring their debt against default double in short order.

Landsbanki, followed later by Kaupthing and then Glitnir, reacted to this criticism and the partial withdrawal of funding by aggressively gathering retail deposits from individuals across Europe to replace part of their wholesale deposits. In Landsbanki's case, these new deposits were marketed under the name "Icesave" and legally held in branch offices in the United Kingdom (UK) and the Netherlands.

Since Icesave deposits were liabilities of Landsbanki branches, not of separately-capitalized subsidiaries, the obligation to make restitution to depositors when Landsbanki failed in October 2008 fell upon Iceland's own Depositors' and Investors' Guarantee Fund, not upon the British and Dutch deposit insurance funds. However, the Depositors' and Investors' Guarantee Fund did not have enough money to repay all eligible depositors in the failed Icelandic banks, so the Icelandic government made the controversial decision to repay only domestic depositors.

The British and Dutch governments were naturally displeased by this action, and the UK went so far as to freeze all Landsbanki assets and to add the bank to a list of regimes facing financial sanctions that included Al-Qaeda, the Taliban, North Korea, and Syria. Icesave depositors were largely made whole, since the British government paid its depositors in full, and the Dutch government paid its depositors up to €100,000 (i.e., more than the €20,000 required under European Union rules). The British and Dutch governments filed priority claims on the Landsbanki bankruptcy estate to recoup these monies, and they have received payments to date amounting to about 50% of their claims. The Icelandic government expects all priority claims to eventually be paid in full.

The remainder of the case is organized as follows. Section 2 provides an overview of the Icelandic banking system since 2000. Sections 3 and 4 discuss the funding crisis faced by Iceland's banks in early 2006 and the establishment of Landsbanki Icesave in response to one of the causes of that crisis, respectively. Section 5 describes the efforts to convert Icesave from a branch to a subsidiary in 2008 and the complete collapse of the Icelandic banking system in October of that year. Section 6 concludes with the actions taken by the British government, the Dutch government, and the European Free Trade Association Surveillance Authority after Icesave depositors did not receive compensation from the Icelandic deposit insurance fund in the wake of the Landsbanki collapse.

Questions

1. What motivated Landsbanki and the other Icelandic banks to gather deposits from overseas retail customers?

2. Why was Icesave structured as a branch instead of a subsidiary, and what were the implications of that decision?

3. Are the incentives between a bank and a deposit insurance fund properly aligned?

4. What role can currency exposure play in a systemic financial crisis?

2. Iceland's Banking System

In the decade preceding the 2007-09 financial crisis, Iceland's banking system was dominated by three banks: Glitnir, Kaupthing, and Landsbanki (collectively, "GKL"). Though banks in many countries greatly expanded their lending and investing activities in the run-up to the crisis, the asset growth of Iceland's GKL banks was astronomical.

Due to Iceland's small population (about 300,000 people) and economy (about US$14 billion gross domestic product), Iceland's banks achieved their phenomenal growth via access to international financial markets. Though not a member of the European Union (EU), Iceland belongs to the European Economic Area, which allows Iceland, Liechtenstein, and Norway to access the EU single market in essentially the same way as the 28 EU member states. However, Iceland uses the krona (ISK) as its currency, not the euro (EUR).

As can be seen in Figure 1, GKL's assets grew almost ten-fold from ISK 1.451 trillion at year-end 2003 to ISK 14.437 trillion by June 2008. Of the almost ISK 13 trillion increase in total assets over the period, ISK 1.6 trillion resulted from large acquisitions in 2004 and 2005, and ISK 3.9 trillion resulted from depreciation of the krona in 2006 and 2008. Nevertheless, the primary reason for the increase in GKL total assets was organic growth (i.e., ISK-denominated growth at existing units) of ISK 7.5 trillion.

The Icelandic central bank maintained relatively tight monetary policy during this time period in an effort to fight inflation and boost the Icelandic krona. As a result, interest rates in Iceland were higher than in many other countries. Much of the organic growth in Iceland's banks resulted from what is known as the "carry trade," in which investors borrowed money in countries with lower interest rates (often Japan or Switzerland) and lent that money at a higher interest rate to entities in Iceland.

Approximately half of GKL assets were situated outside Iceland by 2007 and denominated in other currencies, generally the euro, introducing a significant element of currency risk to the banks' activities (SIC 2010 Appendix 3, 93). That is, assets denominated in foreign currencies would translate into fewer (or more) Icelandic krona if the krona were to strengthen (or weaken).

Figure 1: GKL Total Assets (amounts in trillion ISK, except for overall and organic growth rates)

Date	Total Assets	Change in Total Assets	Overall Growth Rate	Due to Mergers and Acquisitions	Due to Exchange Rates*	Due to "Organic Growth"**	Organic Growth Rate
Dec. 2003	1.451						
Dec. 2004	2.946	1.495	103%	0.798	–0.051	0.748	52%
Dec. 2005	5.419	2.473	84%	0.726	–0.203	1.950	66%
Dec. 2006	8.475	3.056	56%	0	1.068	1.988	37%
Dec. 2007	11.354	2.879	34%	0.058	–0.231	3.052	36%
June 2008	14.437	3.083	27%	0	3.302	–0.219	–2%
Totals		12.986		1.582	3.885	7.519	

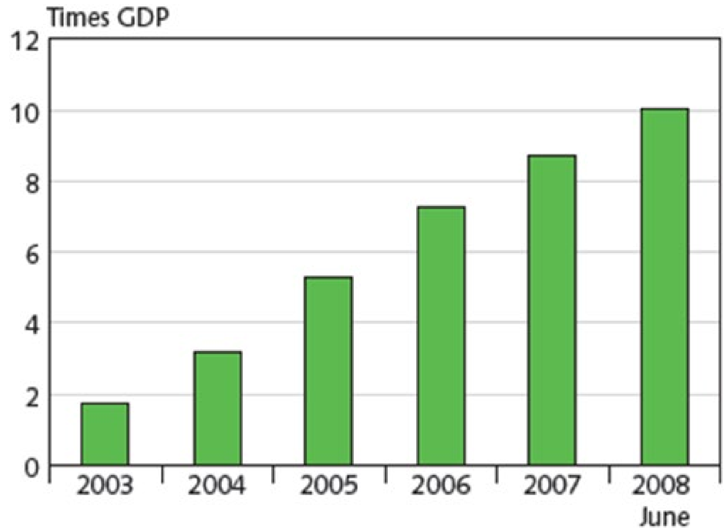
* The number of Icelandic krona (ISK) needed to buy 1 euro at December 2003-07 and June 2008 month-ends was 90, 84, 75, 95, 91, and 125, respectively.
**Organic growth" is the ISK-denominated growth in assets at the banks and their subsidiaries, not related to acquisitions.
Source: SIC 2010 Appendix 3, 93.

The growth in GKL assets far exceeded the growth in Iceland's gross domestic product (GDP) over the same time period. As shown in Figure 2, GKL total assets grew from two times GDP at year-end 2003 to 10 times GDP by June 2008 (SIC 2010 Appendix 3, 103). Including assets held by small banks, pension funds, and other financial intermediaries, the total assets of the Icelandic financial system amounted to over 12 times GDP by December 2007 (IMF 2008, 34). By comparison, total assets in the Irish banking system were about 4.5 times GDP, and total assets of all commercial banks in the United States at year-end 2007 were approximately equal to its GDP.

As can be seen in Figures 3, 4, and 5, Iceland's banks were widely considered to be healthy and profitable, with average Tier 1 capital ratio, return on assets, and return on equity greater than the average of six large banks from other Nordic nations in every period from 2003 through mid-year 2008 (SIC 2010 Appendix 3, 93-94). Note, however, that the performance of the Icelandic banks peaked in 2006 and started to decline by 2007, though still remaining above the Nordic mean.

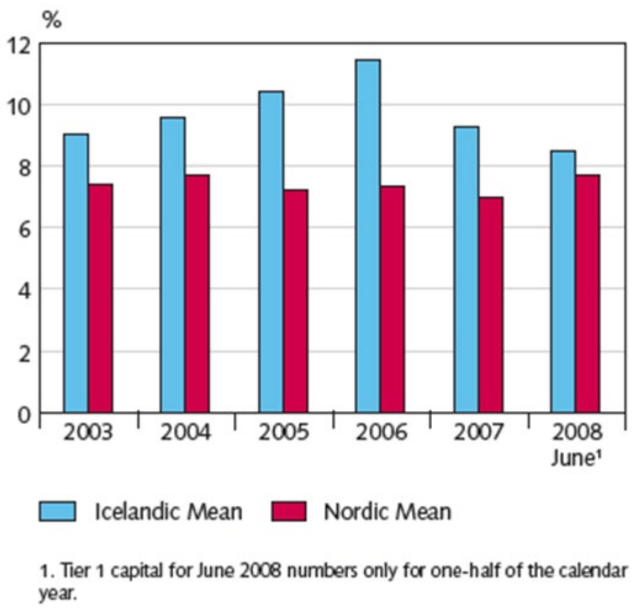
Banking regulation and supervision in Iceland is shared between the Central Bank of Iceland (CBI) and the Financial Supervisory Authority (FME). The CBI implements monetary policy and acts as the lender of last resort. CBI issues annual Financial Stability Reports in its capacity as macro-prudential regulator. The FME monitors the credit market, the insurance market, the pension market, and the securities market. FME conducts stress tests of the capital adequacy of Iceland's banks in its role as micro-prudential regulator (Baldursson & Portes 2013, 32-33).

Figure 2: GKL Total Assets Relative to Iceland's Gross Domestic Product



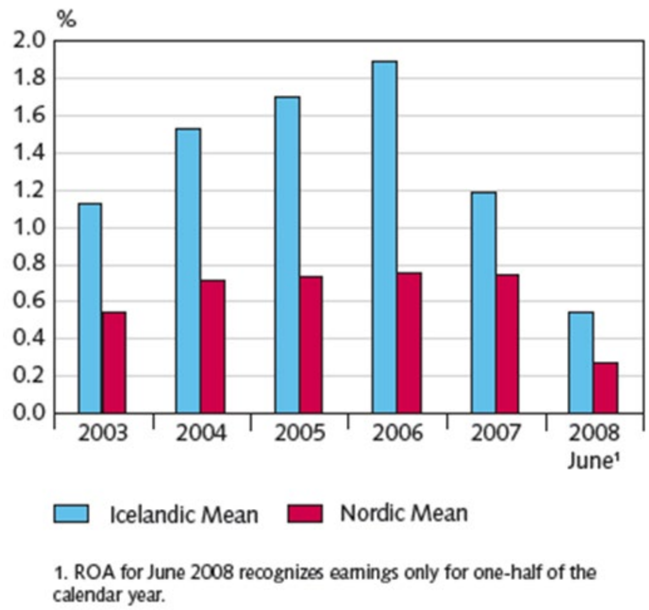
Source: SIC 2010 Appendix 3, 103.

Figure 3: Mean Tier I Capital Ratios



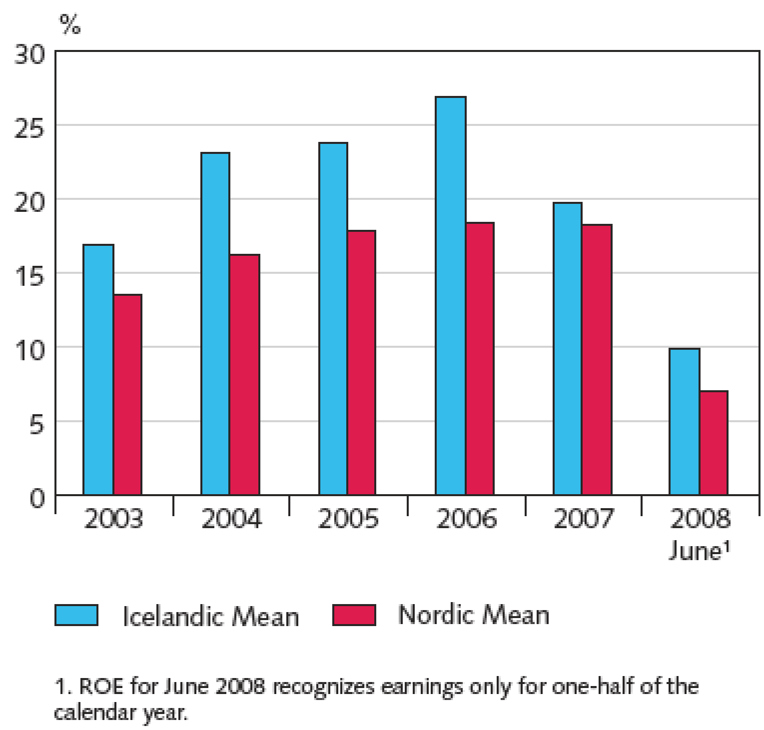
Source: SIC 2010 Appendix 3, 93.

Figure 4: Mean Return on Assets



Source: SIC 2010 Appendix 3, 94.

Figure 5: Mean Return on Book Equity



Source: SIC 2010 Appendix 3, 93.

3. Iceland's 2006 Funding Crisis

The Fitch credit rating agency issued a periodic "Bank Systemic Risk Report" on February 6, 2006. In the report, Fitch mentioned several countries with weak or weakening macro-prudential economic and financial indicators. With respect to Iceland, Fitch stated "the credit boom in Iceland gives most cause for concern" and that "banks will suffer a deterioration in loan quality with an adverse impact on financial performance" if Iceland's equity and property prices were to fall sharply (SIC 2010 Appendix 3, 97).

Fitch followed its February 6 report by lowering its sovereign outlook for Iceland from stable to negative on February 21. This negative outlook was based on a "material deterioration in Iceland's macro-prudential risk indicators, accompanied by an unsustainable current account deficit and soaring net external indebtedness" (Fitch 2006, 1).

The Fitch reports in February were followed in March by analyses from the JPMorgan and Merrill Lynch investment firms that were also critical of the Icelandic banking system, with the criticisms focused on four major topics (SIC 2010 Appendix 3, 97-98).

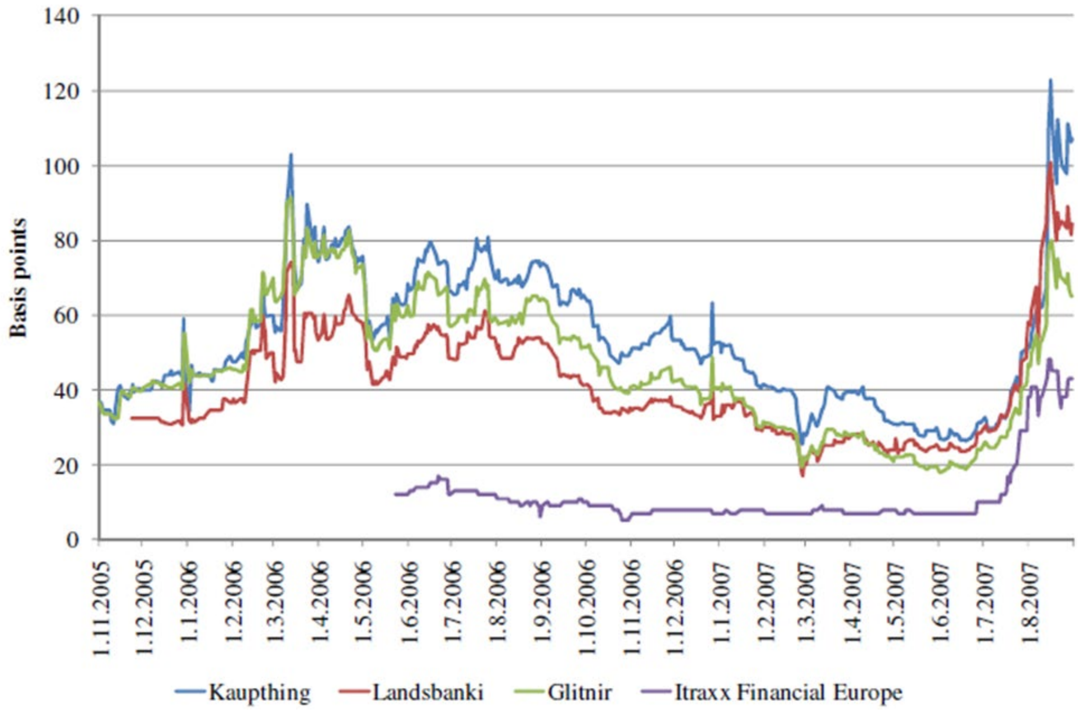
First, the loan books of the GKL banks were very concentrated, with loans to a single borrower sometimes equaling more than half of a bank's equity base. Second, compounding the above problem was the fact that the largest shareholders of each of the GKL banks were also among the banks' biggest borrowers. Third, total GKL assets amounted to roughly five times Iceland's GDP by year-end 2005, and analysts questioned whether Iceland's government and central bank would be able to provide support to the banks in the event of a liquidity or solvency crisis (As noted in Section 2, GKL assets reached 10 times GDP by June 2008). Fourth, the GKL banks relied on short-term wholesale markets for up to 75% of their funding, much of it to be repaid in foreign currencies. Excessive reliance on short-term wholesale markets to fund long-term assets was also a key feature of the collapse of Ireland's banking system (as discussed in Zeissler, et al. 2014A).

As the analyses by Fitch, JPMorgan, and Merrill Lynch caused investors to reassess the safety of Iceland's banks, the cost to insure the debt of the GKL banks against default, as reflected in the cost of credit default swaps, doubled between late 2005 and April 2006, as can be seen in Figure 6.

Of more immediate concern, certain United States money market funds refused in March 2006 to extend the maturity of the 13-month extendible notes payable that the GKL banks had issued in 2005 to partially fund themselves (SIC 2010 Appendix 3, 98). Other Icelandic financial markets also suffered, with the krona and the stock market both losing a quarter of their value from February to June 2006 (Baldursson & Portes 2013, 35).

The funding crisis dissipated in the second half of 2006, as investors' attention turned elsewhere and the GKL banks made changes to their operations and funding, discussed in greater detail in Section 4. The CBI responded by significantly expanding collateralized loans to the banks (from ISK 30 billion in fall 2005 to ISK 500 billion by fall 2008) and further raising the policy interest rate in an effort to slow the domestic economy, and the FME focused on having banks provide better disclosures of loans to related parties.

Figure 6: Banks' CDS (Credit Default Swap) Spreads - 5 Year Senior Bonds



Source: (Baldursson & Portes 2013, 36).

4. Icesave Flourishes (2006-07)

In reaction to the funding crisis and the criticisms levied by outside analysts in early 2006, the GKL banks sought to diversify their loan portfolios to reduce exposure to large borrowers, and to cut back on loans to related parties. In addition, the GKL banks sought to decrease their dependence on volatile wholesale funding from financial institutions, municipalities, and large corporations by replacing part with retail deposits made by individuals. Many banking analysts consider retail deposits to be a more stable (referred to as "sticky") and less expensive source of funding, partially due to deposit guarantee programs.

Given the need to fund rapid asset growth but constrained by the small size of Iceland's population, the GKL banks targeted retail deposit growth overseas. Landsbanki took advantage of Iceland's membership in the European Economic Area and retail customers' increasing comfort with online banking to set up an internet-only account called "Icesave" to gather retail deposits in the UK beginning in October 2006.

Icesave deposits were liabilities of Landsbanki's London online *branch,* not of Landsbanki's UK *subsidiary* Heritable Bank. This distinction is important, because deposits in bank *branches* are covered by deposit insurance of the country in which the parent bank is located, whereas deposits in bank *subsidiaries* are covered by deposit insurance of the country in which the subsidiary is located. As a result, the Icesave deposits were insured by Iceland's own Depositors' and Investors' Guarantee Fund (DIGF) and thus would increase the obligations of the DIGF if Landsbanki were to fail (SIC 2010 Chapter 18, 3-4).

Landsbanki management decided to maintain these deposits in a branch to make it easier to transfer monies upstream from Icesave accounts to fund other units within the bank. Conversely, UK banking rules limit such intra-bank fund transfers in the case of subsidiaries (SIC 2010 Chapter 18, 3-4).

Deposits to and withdrawals from Icesave accounts were made in British pound sterling (GBP), and balances went from zero to more than GBP 4.4 billion in the first year and funded fully 20% of Landsbanki's total assets by year-end 2007. Icesave was able to gather deposits quickly because, for its first nine months in operation, Icesave paid the highest interest rate among all available accounts in the UK, according to a daily report in the *London Times* (SIC 2010 Appendix 3, 100).

Landsbanki began offering the Icesave product in the Netherlands in May 2008. Unlike UK law, Dutch law did not meaningfully restrict the ability of a subsidiary to transfer funds to other parts of the banking group. However, obtaining the necessary Dutch banking license for a subsidiary would have taken a long period of time, so Landsbanki collected Icesave deposits through its existing branch in Amsterdam. Dutch deposits were made in euro (SIC 2010 Chapter 18, 53-54).

Seeing Landsbanki's success with the Icesave accounts, Kaupthing also sought to reduce its reliance on wholesale funds by gathering retail deposits across Europe with its "Edge" accounts. In contrast with Icesave accounts, Edge accounts were offered through branches in some countries and subsidiaries in other nations, as can be seen in Figure 7. As with Landsbanki Icesave deposits, Kaupthing Edge deposits in a branch were insured by Iceland's DIGF, whereas deposits in a subsidiary were covered by the host country's deposit insurance (SIC 2010 Chapter 18, 2-3).

Glitnir began offering its own online deposit vehicle, called "Save & Save", in June 2008, but this remained an inconsequential part of the bank's operations by the time of its collapse in October (SIC 2010 Chapter 18, 2-3).

Figure 7: Kaupthing Edge, by Legal Structure and Month Commenced

Country	Branch	Subsidiary
Finland	November 2007	
Sweden	December 2007	
Norway	February 2008	
United Kingdom		February 2008
Germany	April 2008	
Denmark		May 2008
Luxembourg		May 2008
Isle of Man		June 2008
Switzerland		July 2008
Austria	September 2008	

Source: SIC 2010 Chapter 18, 3.

5. Icesave Fails (2008)

Icesave balances peaked in January 2008 at approximately GBP 4.9 billion (SIC 2010 Chapter 18, 40). If viewed as a contingent obligation of Iceland itself, this sum was equal to approximately GBP 16,000 per Icelandic resident (equivalent to €22,000, or US$32,000).

Though Landsbanki had succeeded in replacing some wholesale funding with retail deposits, the Moody’s credit rating agency placed Landsbanki on review on January 30 for possible downgrade in part because of “the bank’s growing reliance on short-term Internet-based deposits (Icesave) from overseas sources for funding the bank’s loan book” (SIC 2010 Appendix 3, 100).

As noted in Section 4, retail deposits are generally considered a more stable source of funding than wholesale deposits. In addition to the protection afforded by deposit insurance, the “stickiness” attributed to retail deposits is also a function of inertia, that is, the inconvenience of switching one’s deposit and payment activity to another bank. However, Icesave customers were mainly attracted by its market-leading interest rates, and, as these were online accounts, depositors could move their balances any time of any day to whatever bank offered the best terms. Additionally, Icesave customers in the United Kingdom and in the Netherlands may not have felt special loyalty to an Icelandic bank, since this was not their “local” bank.

The British bank Northern Rock encountered liquidity difficulties in the fall of 2007 and was nationalized by the UK government in February 2008, after which the British media began questioning whether other banks might pose a risk to the banking system. Attention quickly focused on Iceland’s banks because the cost to insure their debt against default was widening once again. JPMorgan, Merrill Lynch, and Moody’s published further negative analyses of the Icelandic banking system (SIC 2010 Chapter 18, 6-7).

Figure 8: Representative Analysts and Press Comments

"Time to bale out of Iceland?"
The Sunday Times, February 10, 2008

"Some say Iceland is a giant hedge fund."
The Financial Times, March 15, 2009

"When clients ask us why the Icelandic banks are considered to have a higher risk profile than their European peers, one does not have to search hard for answers: rapid expansion, inexperienced yet aggressive management, high dependence on external funding, high gearing to equity markets, connected party opacity. In other words: too fast, too young, too much, too short, too connected, too volatile."
Merrill Lynch, March 31, 2008

Source: Project Editor Notes. SIC 2010 Chapter 18, 6-7.

This attention and the increasing realization that the size of the Icelandic banking system dwarfed the ability of the country's government, the central bank, and the deposit insurance fund to help in a crisis (see again Figure 1) led to a run on the Icesave accounts. UK customers withdrew almost GBP 1 billion (about 20% of total deposits) from the London branch of Landsbanki between February 10 and April 22 (SIC 2010 Chapter 18, 7).

With the start of the run in February, Landsbanki officers began a series of discussions with the CBI, the FME, and the UK Financial Services Authority (UK FSA) about transferring the deposit-taking activities of Icesave from Landsbanki's London branch to its Heritable Bank subsidiary or to another UK-based subsidiary, thus transferring the deposit guarantees from the DIGF to its UK counterpart, the Financial Services Compensation Scheme.

Landsbanki obtained a legal opinion in late February that it had three possible options for effecting the change from branch to subsidiary: [1] transfer the accounts with depositors' consent, [2] forcibly transfer the accounts by court order pursuant to the Financial Services and Markets Act of 2000, or [3] obtain special legislation to forcibly transfer the accounts. The law firm providing the opinion recommended the second option but also cautioned that it would likely take six months to complete the transfer (SIC 2010 Chapter 18, 8).

Discussions between regulators and Landsbanki officers continued into the summer months, with the UK FSA pushing for the Icesave transfer to be completed by October 31, and no later than by December 31. Adding urgency to the matter, the UK paper *The Times* published an article on July 5 about the status of Iceland's DIGF. The fund had a reserve balance of GBP 88 million to insure deposits of GBP 13.6 billion, equal to only 0.65% of the balances covered (SIC 2010 Chapter 18, 15). However, no action was initiated by Landsbanki to transfer the Icesave deposits from a branch to a subsidiary for fear of violating loan covenants. The Icelandic banking system collapsed before the transfer could be made.

Financial and interbank lending markets seized up in the days following the bankruptcy of Lehman Brothers on September 15, 2008. Glitnir had large debts due in October, but the bank was not able to raise cash by selling some of its Norwegian assets, and a German bank refused to extend Glitnir's loans. Two weeks after the fall of Lehman, the Icelandic government announced on September 29 that it would contribute €600 million to Glitnir in exchange for 75% of the bank's capital.

After this government action, both Kaupthing and Landsbanki faced accelerated deposit outflows. On Friday, October 3, the UK FSA demanded that Landsbanki send GBP 200 million to the Bank of England by Monday and transfer GBP 53 million to Landsbanki's UK subsidiary because of the run on the Icesave accounts. The European Central Bank initially demanded that Landsbanki post €400 million additional margin on Monday, though it subsequently canceled this margin call. Landsbanki attempted to borrow the needed funds from the CBI, but its request was rejected because the CBI had loaned much of its remaining foreign currency reserves to Kaupthing, which was also facing a liquidity shortfall (SIC 2010 Chapter 2, 14-16) (See Figure 9 for Iceland's net currency reserves in 2008.).

On Monday, October 6, Iceland's parliament passed Act 125/2008, known as the Emergency Act, which gave the FME the power to seize insolvent banks and to use government money to support them. The UK government shut down Icesave on the evening of October 6, and the FME used the newly enacted Emergency Act to assume control of Landsbanki on Tuesday, October 7. FME also took control of Glitnir on October 7, followed by Kaupthing on Thursday, October 9. Thus, the GKL banks, which held some 90% of all banking assets in Iceland, collapsed and were nationalized in a single week (SIC 2010 Chapter 2, 14-16).

Figure 9: Iceland's Net Currency Reserves and Exchange Rate

Source: Baldursson & Portes 2013, 89.

6. Aftermath

Each GKL bank was split into a "new" bank and an "old" bank. All domestic assets and domestic deposits were placed into the new banks. This transfer was immediate, and domestic banking operations were not disturbed. Foreign assets, foreign deposits (including Icesave deposits), and domestic non-deposit liabilities remained in the old banks, which were placed into bankruptcy. Though Icesave depositors had a claim on the DIGF for €20,000 per account, the DIGF did not have enough money to pay out the insured amounts (Baldursson & Portes 2013, 19, 23).

Reaction of the UK and Dutch Governments

On October 8, the United Kingdom Treasury issued an order freezing all Landsbanki assets in the UK on the basis of the Anti-Terrorism Crime and Security Act of 2001. As can be seen in Appendix 1, the UK Treasury added Landsbanki to an official list of regimes facing financial sanctions that included Al-Qaeda, the Taliban, North Korea, and Syria. The UK Treasury later relented and transferred Landsbanki to a list of non-terrorist organizations subject to freezing orders. However, the freezing order remained in effect until June 6, 2009 (Baldursson & Portes 2013, 19-20).

Icesave depositors lost very little in fact, since the UK government paid its depositors in full, and the Dutch government paid its depositors up to €100,000 (i.e., more than the required €20,000). The UK and Dutch governments have priority claims on the Landsbanki estate (the old bank), as a result of the October 6 Emergency Act, which gave both domestic and foreign depositors priority status over other claimants in the resolution of a financial institution. The priority also applies to the Icesave deposits and covers all deposits in full, even those in excess of €20,000 (MFA Q&A).

European Free Trade Association (EFTA) Court

The EFTA Surveillance Authority (EFTA-SA) brought suit against Iceland before the EFTA Court. (The EFTA-SA monitors and enforces compliance with European Economic Area (EEA) rules by Iceland, Liechtenstein, and Norway, in much the same way that the European Commission does for EU member states.) The EFTA-SA charged that Iceland failed to meet its obligation under the EU Deposit Guarantee Schemes Directive, which also applied to EEA members, to make restitution to the Icesave depositors in a timely fashion. The EFTA-SA also argued that Iceland violated EEA non-discrimination rules by favoring domestic depositors over foreign depositors. Note that the UK and the Netherlands were not a party to the suit (MFA Q&A).

In response to these charges, Iceland contended that its only obligation under EEA rules was to properly establish and operate a deposit insurance fund, but that the rules do not require the Icelandic government to contribute additional money if the fund itself runs out of money. Iceland also disputed that it discriminated against Icesave depositors in violation of EEA rules (MFA Q&A).

The EFTA Court ruled in favor of Iceland on January 28, 2013, rejecting all claims by the EFTA-SA that Iceland had violated EEA Rules. The EFTA Court ruling is final and cannot be appealed (MFA Press Release 2013).

Update

In November 2013, the British and Dutch authorities filed suit against Iceland's deposit insurance fund, the DIGF, seeking €20,000 per covered depositor, plus interest and legal costs. The total amount in question is equivalent to nearly 2/3 of Iceland's GDP, and the DIGF has indicated that its fund balance is less than 2% of what the United Kingdom and the Netherlands are demanding (Milne 2014).

As of December 2014, each of the "Old" GKL banks continues with its winding-up proceedings. See Figure 10 for the name and summary of the ownership status of the "new" GKL banks. Each of the new banks has a credit rating of BB+ (one notch below investment grade) with positive outlook from the Standard & Poor's rating agency (S&P 2014).

The UK and Dutch governments have received payments to date amounting to about 50% of their claims, with the expectation on the part of the government of Iceland that all priority claims will eventually be paid in full (MFA Q&A).

Figure 10: GKL Status, December 2014

	Glitnir	Kaupthing	Landsbanki
New Bank Name	Islandsbanki	Arion Banki	Landsbankinn
New Ownership			
Old Bank Creditors	95%	87%	1.3%
Old Bank Employees			0.8%
Iceland Government	5%	13%	97.9%

Source: Project Editor Notes.

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Development of this case has been supported by a generous grant from the Alfred P. Sloan Foundation to the Yale Program on Financial Stability.

Appendix 1: Her Majesty's Treasury List of Regimes under Financial Sanctions at October 10, 2008

Source: (Baldursson & Portes 2013, 20).