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Government Declaration

Iceland: Ministry of Finance and Economic Affairs

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Government declaration

The Government of Iceland issued the following statement on 6 October 2008: **"The Government of Iceland reiterates that deposits in domestic banks and savings banks and their branches in this country will be guaranteed in full. The term *deposits* refers to all balances held in bank accounts owned by individuals and companies covered by the Depositors' and Investors' Guarantee Fund."** This declaration was reiterated at least four times in 2008 and 2009.

The original statement was made nearly 8 years ago because of the extraordinary circumstances that had developed. At that time, the Icelandic authorities were faced with unprecedented circumstances, where the entire banking system was on the brink of collapse and it was clear that, without radical action, confidence in the banks would evaporate and the risk of a run on them could materialise. Now, however, domestic deposit institutions stand on solid ground in terms of capital, funding, liquidity, and operational balance.

The above-specified declaration and subsequent reiterations were never incorporated into the law and never published in the *Law and Ministerial Gazette [Stjórnartíðindi]*. They did not represent a formal administrative order but rather a declaration of understanding by the Government. As a result, no guarantee fees have been paid according to the Act on State Guarantees, no. 121/1997, as no formal Government guarantee was in place. The current Government has seen no reason to reiterate previous Governments' statements on this topic. On the other hand, reference has been made to the previous declaration in the national accounts. It has been considered necessary, in the interest of transparency and precautionary principles, to draw attention to this and to emphasise that this Government guarantee has never been enshrined in law.

At the time in question, the Government took steps to guarantee deposits in accordance with its statement. Since then, major changes have been made to the legal environment governing the financial markets: first, with the so-called Emergency Act, and then with amendments to the Act on Financial Undertakings in 2010, followed by a large number of other amendments to financial market legislation, including the establishment of the Financial Stability Council and the Systemic Risk Committee. Furthermore, new rules have come into effect that entail substantially tighter requirements concerning the banks' capital and the quality of such capital. In addition to these are amendments made to the Act on Deposit Guarantees and an Investor Compensation Scheme so as to better define which deposits fall under the deposit guarantee scheme. A large number of depositors that were protected by the deposit guarantee scheme at the time of the declaration are not protected by law today. These include public entities, State-owned companies and pension funds. This is in line with the main objective of deposit guarantee schemes which is to protect the deposits of individuals and not those of large firms or public entities.



Although substantial reforms have been made to the financial market legal environment since the 2008 crash and the financial institutions' position is sound at present, work is still underway to strengthen the necessary safety net for their operations and to increase the number of measures that official supervisors and the authorities can take in order to intervene in a timely manner in case of events that could have a detrimental effect on the financial market and on economic stability. The Ministry of Finance and Economic Affairs is currently working on the implementation of new European regulatory instruments on the resolution of financial institutions, which enable the authorities to intervene in the operations of such institutions and make it easier to protect individuals' deposits if circumstances so require. Work is also being done to implement new European rules on deposit guarantees, which will support the regulatory framework on resolution procedures.

The EFTA Surveillance Authority (ESA) has taken the view that the Government declaration represented State aid to Icelandic financial institutions in the meaning of Article 61 of the EEA Agreement, as is stated in ESA's decisions of June and July 2012 on the resurrection of the commercial banks. The Icelandic authorities have informed ESA of further developments and in addition, ESA keeps abreast of changes to financial market legislation.

With reference to the above, the Government considers it appropriate, upon consultation with the Financial Supervisory Authority and the Central Bank of Iceland, to state unequivocally that it sees no reason to keep the declaration guaranteeing deposits in effect and to state that previous statements on this topic no longer apply.