



*The Financial Stability Committee of the Central Bank of Iceland*

## Minutes of the Financial Stability Committee meeting

5 November 2021 (10th meeting)

Published: 29 November 2021

The Act on the Central Bank of Iceland stipulates that decisions on the application of the Central Bank's financial stability policy instruments shall be taken by the Financial Stability Committee. "The Financial Stability Committee's decisions on the application of financial stability policy instruments shall be published and an account given of the rationale for the decisions, together with an assessment of the situation, and minutes on the topic shall be published unless such publication can be expected to have an adverse impact on financial stability." The Financial Stability Committee (FSN) has decided that, in general, it will publish the minutes of its meetings within four weeks.

At the 5 November 2021 meeting, the Committee discussed matters relating to the Resolution Authority. Members received an assessment of the systemically important commercial banks' resolvability and a draft policy on minimum own funds and eligible liabilities (MREL). The Committee also discussed rules capping the debt service-to-income ratio on consumer mortgages.

The FSN approved the Resolution Authority's assessment of the systemically important commercial banks' resolvability. It also approved rules on information disclosure in connection with the Act on Resolution of Credit Institutions and Investment Firms. Furthermore, the Committee decided to amend the Rules on Maximum Debt Service-to-Income Ratios on Consumer Mortgages so as to state explicitly that the annuity mortgage amortisation schedule may be used to calculate the ratio.

### **Resolvability of the systemically important banks**

At the FSN meeting of 28-29 September 2021, the Resolution Authority presented the Committee with a draft assessment of the systemically important commercial banks' resolvability. Thereafter, the FSN sought the Financial Supervision Committee's (FMEN) opinion of the assessment, in accordance with the FSN's Rules of Procedure. The FMEN did not make any comments on the Resolution Authority's assessment.

After a presentation and discussion, the FSN unanimously approved the Governor's proposal that the Resolution Authority's assessment of the systemically important banks' resolvability be confirmed.

## **Rules on information disclosure in connection with the Act on Resolution of Credit Institutions and Investment Firms**

The Rules incorporate into the Icelandic regulatory framework the provisions of Commission Implementing Regulation (EU) 2018/308, which lays down implementing technical standards for Directive 2014/59/EU on the provision of information to the EBA concerning MREL. The Rules are set based on the authority contained in Article 22, Paragraph 3 of the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020.

The FSN, on its own behalf, unanimously approved the adoption of the proposed Rules no. 1262/2021.

## **Draft policy on MREL**

The Resolution Authority presented a draft policy on MREL to the Committee. Under the MREL requirement, a financial institution's capital and specified liabilities – i.e., its minimum own funds and eligible liabilities – must suffice to ensure that if the institution is in financial distress, it can withstand losses and recapitalise its activities without government assistance.

The Committee reviewed the premises underlying the policy and discussed comparable requirements on foreign financial institutions. Following the discussion, the Committee agreed unanimously to refer the matter to the banks affected by the policy and then discuss it again at its next meeting.

## **Rules on Maximum Debt Service-to-Income Ratios on Consumer Mortgages**

The FSN discussed the proposed amendment to Article 4 of the Rules on Maximum Debt Service-to-Income Ratios on Consumer Mortgages. The Rules, which Committee had approved at its 28 September 2021 meeting, are set to take effect on 1 December 2021. The amendment removes all doubt about the permissibility of calculating debt service based on an annuity amortisation schedule, even if the mortgage in question is to be repaid according to a fixed principal payment schedule. Committee members agreed that the Rules should not impede more rapid asset formation.

The Governor proposed that Article 4 of the Rules be amended in this manner, and the proposal was approved unanimously. Then the Governor presented Rules no. 1268/2021 for approval, and this proposal was also approved unanimously.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Committee

Gunnar Jakobsson, Deputy Governor for Financial Stability

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Axel Hall, external Committee member

Bryndís Ásbjarnardóttir, external Committee member

Gudmundur Kr. Tómasson, external Committee member

Haukur C. Benediktsson, Director of the Bank's Financial Stability Department, and Tinna Finnbogadóttir, an employee in the Ministry of Finance and Economic Affairs, attended the entire meeting. In addition, several Bank staff members attended part of the meeting.

Eggert Th. Thórarinsson wrote the minutes.