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State aid: Investigations opened into restructuring the Icelandic banking system.

The Authority today decided to open formal investigations into the state aid granted in October 2008 and September 2009 to rescue domestic operations of the three main Icelandic banks; **Glitnir**, **Kaupthing** and **Landsbanki**; and to establish and capitalise new successor banks, now called **Islandsbanki**, **Arion** and **NBI (Landsbankinn)** respectively.

The measures to restore certain operations of the old Icelandic banks and to establish and capitalise new banks should have been notified prior to their implementation. The Icelandic authorities should also have submitted detailed restructuring plans outlining viable futures for the banks without a need for state support. Such plans are normally required to be submitted within six months of state intervention. As plans have not yet been finalised, the Authority considers that opening a formal investigation is a necessary step to provide an opportunity for third parties to submit comments.

The Authority's President Per Sanderud said: *"The Authority appreciates that the circumstances faced by Iceland in 2008 and 2009 were unprecedented and severe, and that the state's intervention was necessary. However, the Authority has to assess whether the state aid granted to the banks adequately addresses each bank's situation without unduly distorting competition. In order to do so it is imperative that detailed restructuring plans are submitted as soon as possible"*.

As part of the investigation the Authority will also assess (among other measures) potential aid to the new banks in the form of a special liquidity facility available to Arion Bank and Islandsbanki, and the transfer of certain assets and liabilities for deposits from Reykjavík Savings Bank (SPRON) to Arion Bank and from Straumur-Burdaras Investment Bank to Islandsbanki.

The decision to open formal investigations does not prejudge whether the measures concerned are in line with the EEA state aid rules, but are necessary to ensure that the Authority's procedures are robust and provide legal certainty.

Background

In October 2008, the Icelandic Financial Supervisory Authority took control of Glitnir, Kaupthing and Landsbanki through the appointment of a Resolution Committee for each of the failed banks (which assumed the authority of its board of directors, including the oversight of its assets and operational business). In order to ensure the continuation of domestic banking operations the Icelandic Government subsequently formed three new banks (later named Islandsbanki, Arion Bank and NBI) wholly owned by the state, to which domestic assets and liabilities for deposits were transferred.

The new banks were provided with a small amount of initial capital and, following negotiations with the creditors of the old banks on the value of assets transferred, were later capitalised fully in the summer of 2009. In two of the cases (Íslandsbanki and Arion Bank) majority ownership of the banks now rests with the creditors of the corresponding old banks, reducing substantially the amount of state aid granted.

Uncertainty concerning the Icelandic economy and specific legal issues relating to the value of assets held by the banks has led to delays in submitting restructuring plans. While the Authority understands the reasons for the delays, it must now open formal investigations given the length of time that has elapsed since the aid was first granted.

The decisions to open the investigation procedure will be made available on the Authority's website and in the Official Journal once any confidentiality issues have been resolved.

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