

Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed

May 17, 2022

LONDON (S&P Global Ratings) May 17, 2022--S&P Global Ratings said today that it has completed its jurisdiction assessment of Iceland for resolution counterparty ratings (RCRs). As a result, we have identified the categories of bank liabilities that, in our view, are protected from default risk under Iceland's bank resolution framework.

RCR JURISDICTION ASSESSMENT SUMMARY--Iceland

Standard RCR alignment for Iceland: RCR may be above the issuer credit rating

Legislation: The relevant legislation is the Act on the Resolution of Credit Institutions and Securities Undertakings number 70/2020, implementing the EU's Bank Recovery and Resolution Directive I (BRRD1) in Iceland. Iceland is set to enact BRRD2 in late 2022 or early 2023.

RCR liabilities: Liabilities that are excluded from bail-in, under the relevant legislation, are:

- Guaranteed deposits;
- Collateralized liabilities, including covered bonds or equivalent;
- Liabilities arising from assets that the institution or unit administers on behalf of its customers, including the assets of investment funds and alternative investment funds;
- Liabilities arising from a custodial relationship between the institution or unit and a rights holder;
- Liabilities falling due within seven days and owed to companies other than those in the same group, and to payment and settlement systems or to participants;
- Liabilities owed to employees;
- Accounts payable due to the purchase of goods and services;
- Liabilities owed to the tax authorities and the social security scheme if they enjoy priority in the insolvency hierarchy; and
- Unpaid contributions to the Depositors' and Investors' Guarantee Fund (TIF).

RCRs evaluate the creditworthiness of certain financial institutions' liabilities explicitly excluded from bail-in, for which we expect the likely response to bank non-viability will be a bail-in resolution. RCRs indicate whether we expect the default risk of such liabilities to be either equal to or lower than the default risk of the institution's senior unsecured debt. In determining an RCR, we do not include liabilities such as uninsured deposits from retail customers or small and midsize enterprises. In our view, such liabilities are unlikely to be bailed in except in an extreme scenario

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where losses are exceptionally high. Indeed, their bail-in other than in an extreme scenario may be inconsistent with a successful effective resolution, because of financial stability concerns.

Similarly, the bail-in of other liabilities that are not specifically excluded from bail-in, such as corporate deposits and uncollateralized derivatives, may also give rise to financial stability concerns. All deposits rank above senior preferred debt. Nevertheless, for these types of instruments there is no legal exclusion from bail-in. In addition there are currently no explicit regulatory statements to indicate their systematic exclusion from bail-in, or a track record of being excluded from bail-in in the past indicating they likely will be in the future.

We also note that excluding some, but not all, of these liabilities from a bail-in may pose legal challenges under the "no creditor worse off" principle in the BRRD. For these reasons, we classify as RCR liabilities only obligations that are explicitly identified by legislation or by regulators as being excluded from bail-in. Our RCR jurisdiction assessments are subject to ongoing surveillance as part of our Banking Industry Country Risk Assessment process.

We will update our RCR jurisdiction assessments whenever warranted due to changing circumstances or changes in our evaluation of relevant factors. Generally, we do not expect the RCR jurisdiction assessments to change frequently.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 3, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Iceland Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Still Stable, May 17, 2022
- Banking Industry Country Risk Assessment: Iceland, Feb. 21, 2022
- Ratings On Icelandic D-SIBs Affirmed As Pandemic Recovery Risk Lingers; Outlooks Remain Stable, Jan. 25, 2022

This report does not constitute a rating action.

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