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# Summary of Government Interventions in Financial Markets
# *Iceland*

## Overview

The Icelandic economy collapsed in the wake of the global financial meltdown. All four of its largest banks have now been nationalised and a USD 10bn relief package has been put together by the International Monetary Fund (**"IMF"**) in conjunction with several European countries in an effort to rescue the State's economy.

In March 2009, there have been a number of reports indicating that Iceland may be put on a fast track to join the European Union in order to rescue the State from its financial collapse. This comes amid rising expectations that Iceland, which is already a member of the European Free Trade Association, will apply for full EU membership within months. EU membership, among other things, could allow Iceland to swap its hard-hit currency for the Euro.

## State guarantees

On 7 October 2008, Iceland's three main commercial banks, Kaupthing, Glitnir and Landsbanki, were nationalised. This was followed by the nationalisation of the investment bank Straumur-Burdaras on 9 March 2009. The Icelandic Financial Supervisory Authority (FME) took control of all four banks, guaranteeing all domestic deposits, pursuant to the Act on Depositors' and Investors' Guarantee Fund. Since then, a receivership committee has been appointed by the FME to all four banks, which has assumed the role of the board of directors to ensure continued operations.

On 21 October 2008, the Central Bank of Iceland, Sedlabanki, announced that it would guarantee all payments which were routed through the Central Bank of Iceland would reach the account of the ultimate beneficiary.

On 16 November 2008, Iceland reached an accord with the UK and the Netherlands on repaying Icesave retail depositors, which were Landsbanki online savings accounts under its “Icesave” brand available only to personal savers from the UK and the Netherlands. The Icelandic Prime Minister undertook to guarantee the deposits in accordance with the EU directive. However, the period over which the payments will be made and the annual payment obligation are yet to be negotiated.

## Government loans

On 20 November 2008, the Executive Board of the IMF approved a 2-year SDR 1.4bn (about USD 2.1bn) loan (**“Stand-By Arrangement”**) for Iceland to support the country’s programme to restore confidence and stabilise the economy.

The approval makes SDR 560m immediately available and the remainder available in eight equal instalments of SDR 105m, subject to quarterly reviews. The Stand-By Arrangement entails exceptional access to IMF resources, amounting to 1,190 per cent. of Iceland’s quota, and was approved under the IMF’s fast-track Emergency Financing Mechanism procedures. An interim review of this arrangement was published on 12 February 2009. Following discussions about their review of the USD 2.1bn Stand-By Arrangement, the IMF published a further statement at the end of its mission to Iceland on 13 March 2009.

On 7 November 2008, the USD 2.1bn IMF deal was complemented by the more than USD 3bn in loans from Nordic countries, Russia and Poland as well as close to USD 5bn or more by Britain, the Netherlands and Germany, making the whole package worth about USD 10bn.

## Swap facilities

On 20 November 2008, the central banks of Sweden, Norway and Denmark announced an extension of their swap agreements until year-end 2009. Each agreement provides the Central Bank of Iceland with access to a maximum of EUR 500m, or a combined total of EUR 1500m in exchange for Icelandic krónur.

## Notable developments with commercial banks (and other key financial players)

After Iceland passed its Emergency Act 125/2008 on 6 October 2008, resolution committees (**"Resolution Committees"**), Icelandic forms of receivership, were appointed over Glitnir, Landsbanki and Kaupthing banks on 7 October 2008 and over Straumur-Burdaras on 9 March 2009.

*Landsbanki*

On 7 October 2008, following continued deterioration in the financial markets, Iceland's Financial Services Authority (**"FME"**) took control over Landsbanki Íslands hf. under Article 100 of Act No. 161/2002, as amended, to ensure continued commercial bank operations in Iceland. Domestic deposits were fully guaranteed by the Government of Iceland.

The FME announced on 9 October 2008 that assets of Landsbanki were being moved to new Landsbanki, subsequently named Landsbankinn (**"NBI hf."**), and all liabilities together with rights and obligations under derivative contracts were to remain with Landsbanki Íslands hf. (**"Old Landsbanki"**). Old Landsbanki's domestic deposits, as well as a significant part of the old bank's assets from its Icelandic operations, were transferred to NBI hf. New Landsbanki is now fully owned by the FME.

On 4 November 2008, it was reported that investors who sold credit default swaps on bonds issued by Old Landsbanki may lose as much as USD 1.8bn as the credit derivatives settlement auction set the price for contracts written on the senior bonds at 1.25 per cent. and for contracts written on the subordinated bonds at 0.125 per cent. The auctions were conducted in accordance with the International Swaps and Derivatives Association (**"ISDA"**) 2008 Landsbanki CDS Protocol. Markit and Creditex are the official administrators of the Credit Event Auctions.

The first informal creditors' committee meeting was held on Friday 14th November, in Reykjavík, Iceland. The committee was made up of creditors and representatives of creditors of Old Landsbanki.

To help distinguish the bank's equity holdings from its main commercial banking operations in Iceland, NBI hf. established on 13 February 2009 an investment company to manage its equity holdings, Horn Fjárfestingarfélag ehf. Horn Fjárfestingarfélag ehf. will thereby take over the listed and unlisted equity holdings of NBI hf. which it acquired from Old Landsbanki.

*Glitnir*

On 29 September 2008, the Icelandic government announced that it intended to nationalise and to take a 75 per cent. share in Glitnir bank hf. However, the FME used powers granted to it by the Icelandic Parliament (with reference to Article 100 of Act. No. 161/2002, as amended) to take control of Glitnir banki hf (**"Old Glitnir"**) instead on 7 October 2008.

On 15 October 2008, New Glitnir Bank hf (**"New Glitnir"**) was created and Old Glitnir's deposits in Iceland, as well as the assets relating to Old Glitnir's Icelandic operations, were transferred to it. New Glitnir is now wholly-owned by the Icelandic government.

Deloitte & Touche LLP was hired on the 24 October 2009 to assist with the communication and consultation with all remaining creditors of Old Glitnir including its international branches.

The Resolution Committee of Old Glitnir announced the appointment of UBS Securities LLC on 30 January 2009 to act as financial and capital markets advisor to the Resolution Committee in connection with the restructuring of Old Glitnir.

The Resolution Committee of Old Glitnir held its first informal creditors' meeting on 13 November 2009 with the Informal Creditors' Committee (the **"ICC"**), made up of representatives of key creditors of Old Glitnir.

On 6 January 2009, Glitnir Bank hf. won US Chapter 15 bankruptcy protection, shielding it from lawsuits during its reorganisation. While, on 19 February 2009, the District Court of Reykjavik ruled in favour of Old Glitnir's request for an extension to the moratorium order originally granted on 24 November 2008. The extension period is to end on 13 November 2009. New Glitnir is unaffected by this moratorium.

On 20 February 2009, New Glitnir was renamed to Íslandsbanki.

Glitnir's Resolution Committee and the Central Bank of Luxembourg signed an agreement on 6 March 2009 providing for settlement of debts for Glitnir's subsidiary, Glitnir Bank Luxembourg S.A. This agreement should facilitate Glitnir's Luxembourg subsidiary to be placed into voluntary and solvent liquidation.

*Kaupthing*

New Kaupthing Bank (**"New Kaupthing Bank"**) took over domestic operations of Kaupthing banki hf. (**"Old Kaupthing"**) on 22 October 2008. Old Kaupthing's operations were transferred to 'New Kaupthing' and is now fully owned by the FME. The FME appointed a Resolution Committee of Old Kaupthing on 9 October 2008. This was then followed by a moratorium on the bank's payments to creditors on 24 November 2008.

Following a creditors' meeting on 5 February 2009, the District Court of Reykjavik agreed to extend the moratorium until 13 November 2009.

In terms of asset valuations, the FME which is currently seeking the net asset valuations by Deloitte & Touche LLP of NBI hf., New Glitnir Bank and New Kaupthing Bank has extended its original February deadline to the end of March 2009.

*Straumur-Burdaras Investment Bank hf*

On 9 March 2009, Straumur - Burdarás Investment Bank hf was taken over by the FME after it had less than half the funds required to meet a EUR 33m (USD 42m) obligation that fell due.

On 17 March 2009, the FME decided to dispose of nationalised Straumur's deposits to Íslandsbanki hf., which will be allocated according to the balance and interest earned at the date of nationalisation (with some exceptions). All the terms for these deposits, such as duration, interest terms and currency, are the same as for Íslandsbanki hf. Furthermore, Straumur - Burdarás Investment Bank hf. will be made to issue a bond as repayment for the deposit obligations that are taken over and all assets of Straumur will be put up as collateral for this bond. The Resolution Committee of Straumur has been authorised to execute these FME decisions.

*Baugur*

On 11 March 2009, Baugur Group, the retail company which owns many famous UK high-street chains, including House of Fraser, and a number of its wholly-owned subsidiaries filed for bankruptcy after a judge denied the company more time in the moratorium process in Iceland. The moratorium petition was filed on 4 February 2009 following Landsbanki's decision to discontinue discussions regarding a potential restructuring of the company.

## Other developments

*Interest rates*

Due to the financial instability, interest rates jumped from 12 per cent. in early October 2008 to a high of 22 per cent. in December 2008 before dropping slightly to 18 per cent. in January 2009.

However, on 19 March 2009, the Monetary Policy Committee of the Central Bank of Iceland voted to lower its policy repo rate by one percentage point to 17 per cent. It was also announced that economic indicators suggest conditions for easing are now in place. Inflationary pressures have subsided as demand and employment contract and the króna has stabilised. A large trade deficit has turned into a significant surplus.

*Foreign exchange*

On 16 December 2008, the Central Bank of Iceland issued new rules on foreign exchange. The new rules provide certain exemptions to specified groups who have been deemed to have "critical interests at stake". In its statement, the Central Bank of Iceland said that it considers it unlikely that these groups' transactions will cause serious and significant volatility in exchange rate and monetary affairs. Exemptions are granted to the State and municipalities; certain companies affiliated with the State; companies with over 80 per cent. of their revenues and expenses abroad; and commercial banks, savings banks and credit institutions.

The government have imposed restrictions on foreign exchange transactions for movement of capital and foreign currency to financial institutions. The legislation on which these rules are based is temporary and will expire at the end of November 2010. The rules were reviewed by 1 March 2009 and the Central Bank decided the preconditions for lifting the restrictions had not been met. The rules are to be reviewed again no later than 1 September 2009.

*Short selling*

On 7 October 2008, the FME banned short selling of shares of certain banks (Glitnir banki hf., Kaupþing banki hf., Landsbanki Íslands hf., Straumur-Burðarás fjárfestingarbanki hf., Spron hf. and Exista hf., which have been admitted to trading on a regulated market in Iceland), and reclassified the action as market abuse in accordance with Article 117 of the Act on Securities Transactions No. 108/2007, unless the seller already holds the shares in custody and has notified the FSA. This prohibition also includes any instrument with the same purpose and the same economic exposure as the short selling of these bank shares. The ban was extended for a further period of time in January 2009.

*Ratings*

On 24 November 2008, Standard & Poors Ratings Services (**"S&P"**) lowered its long term foreign currency rating on the Republic of Iceland to BBB- from BBB due to the sovereign's mounting public sector debt. S&P's Transfer & Convertibility assessment was also lowered to BBB- from A- in response to controls on the capital account and some current account transactions.

On 4 December 2008, Moody's Investors Service downgraded the foreign and local currency ratings of the Republic of Iceland to Baa1 with a negative outlook, from A1. The short term rating of the government was changed to P-2 from P-1. It also lowered the issuer rating and local currency bond ratings of Iceland's Housing Financing Fund (**"HFF"**) to Baa1 from A1.

On 23 January 2009, Moody's maintained that Iceland remained an investment-grade country, despite maintaining its negative outlook on its earlier Baa1 rating. This negative outlook is due to the continued economic uncertainty Iceland still faces.

*Bad debt bank*

On 10 February 2009, new Prime Minister Johanna Sigurdardottir, who won power in January after public protests of the last regime, announced government plans to create a separate company to take over debts owed by 15-20 of the biggest companies which have run into financial difficulties due to the crisis and announced plans for a parliamentary bill to allow Icelanders access to funds in private pension plans which they normally would not be able to use until retirement.

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March 2009