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Dear Ms Árnadóttir,

ICELANDIC DEPOSITOR AND INVESTOR GUARANTEE FUND

Thank you very much for providing further information about the Icelandic Depositor and Investor Guarantee Fund in your e-mail of 3 August, following our conversation of 31 July. I welcome the close discussions that you and your colleagues have been holding on these and associated issues with the UK's Financial Services Authority and Financial Services Compensation Scheme and we look forward to continuing to develop the working relationship between our respective authorities.

We have read the materials that you kindly sent and we have a few questions on which it would be very helpful to get your views so that we can better understand how your scheme's guarantee and levy system operates in line with the relevant EU directives. I hope that you do not mind if some of these questions appear elementary; it may simply be a question of our legal systems using different terms.

We read your legislation as meaning that the guarantee is for 100 per cent of all relevant deposits in participating banks but, in the event that the total assets of the Deposit Department of the Fund are insufficient to pay out to this level, the first 1.7m krona per deposit is to be paid out and the remaining assets divided pro rata amongst the claimants. If there is not enough to pay out the 1.7m krona per deposit there is then a discretion (but not a duty) for the directors to seek a loan. The liability in law under the scheme to make a payout in respect of deposits is limited to the resources available to the scheme (i.e. the assets held in respect of the 1 per cent funding level, declarations of liability to the extent that they are permitted to be called in the year in question and any loans the directors of the scheme may have sought).

If our reading is correct, we have the following questions:

- (1) The provision in paragraph 2 of Article 10 of Act 98/1999 that if the total funds of the Guarantee Fund prove insufficient, the Board of



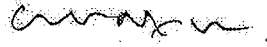
INVESTOR IN PEOPLE

Directors can, at their discretion, take out a loan to meet claims up to the minimum coverage. Would there be any circumstances in which the directors would not seek a loan to ensure the scheme pays out to the minimum 1.7m krona / 20,887 euro level?

- (2) Linked to question (1), what steps would be taken in the event that the Board of Directors was unable to take out a loan from the commercial markets to raise the necessary funding? In particular, I would be grateful if you could confirm that the Icelandic authorities would provide the necessary loan in such circumstances to ensure all claimants received their full entitlement up to the compensation limit of 20,887 euro.
- (3) In the light of this, we would be interested to learn more about how the levy system works. In Article 10 of the Act, it appears that once there has been a payout in one year, levies in future years to bring the scheme back to its minimum level cannot be applied to top up the payout, even if the payout was insufficient to meet the guaranteed amount. However, it appears that such levies can be used to repay the principal and interest on borrowings the scheme has undertaken to enhance the payout. Is our reading correct? If so, given the limits on levy contributions that can be requested from participating institutions, would it be difficult for the scheme to repay or service any loan that is taken out for very large sums?
- (4) We would be grateful for a definition of guarantee pledges (referred to in the Annual Report) and more information on who makes these guarantees. Are these the same as the declarations of liability in Articles 6 and 7 of the Act that the participating institutions make to ensure the minimum funding of the scheme, which are also, we understand, subject to limits on the amount that can be called down under them?
- (5) If we are right in our readings of the legislation would the Icelandic authorities ensure that the scheme is topped up so as to be able to make payouts of up to the minimum compensation limit of 20,887 euro per depositor?
- (6) Your email notes that total assets of the Deposit Department of the Fund must amount to a minimum of 1 per cent of the average amount of guaranteed deposits in commercial banks and savings banks during the preceding year. The Scheme's Annual Report states that at year-end 2007, the level of guaranteed deposits stood at 1,692 billion krona. Do you have an updated figure that reflects the recent deposit expansion of a number of the participating institutions in the scheme?
- (7) The information about the scheme variously refers to 20,887 euro and 1.7m krona. Please could you confirm that, irrespective of the krona: euro exchange rate, the minimum compensation limit remains 20,887 euro per depositor?

I look forward to receiving your reply at your earliest convenience. I would be happy to arrange a working level conference call in order to go through these issues if that would be helpful, perhaps early next week.

Yours sincerely,



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