

## ISSUER COMMENT

# Iceland's Creditworthiness Is Not Affected by British and Dutch Effort to Increase Icesave Recoveries

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On 10 February, the Icelandic Deposit Insurance Fund (TIF) revealed that the British and Dutch governments via their deposit insurance funds had filed a claim against it for payment of at least ISK556 billion (approximately 30% of estimated 2013 GDP). The two funds -- the British Financial Services Compensation Scheme (FSCS) and the Dutch central bank (DNB) -- demand full payment by the TIF in relation to their citizens' deposits with Icesave, a subsidiary of the failed Icelandic bank Landsbanki, or a court decision that TIF was under the obligation to pay the minimum insured deposit of €20,887 per depositor.

Although the current dispute has no effect on the creditworthiness of the [government of Iceland](#) (Baa3 stable), media reports and investor concern about a potential sovereign liability prompted Iceland's Prime Minister Sigmundur Gunnlaugsson to reiterate this point. The European Free Trade Association (EFTA) Court, the highest legal authority involving European Economic Area member states such as Iceland, ruled in early 2013 that the Icelandic government was not liable for any Icesave obligations.

The FSCS and DNB in 2008 compensated Icesave deposit holders in their countries. The TIF estimates that including unpaid interest and cost, the renewed claim could amount to around ISK1 trillion.

The lawsuit resurrects the Icesave dispute in which British and Dutch authorities had originally demanded payment from the government of Iceland, claiming that maintaining an adequately funded deposit insurance fund was a sovereign obligation and therefore the government was liable for TIF's payment obligations. However, TIF is a private company responsible for collecting fees from financial institutions in Iceland so as to provide protection for deposit holders in Iceland. The TIF has ISK18 billion at its disposal, a fraction of the claims. The UK and the Netherlands have already received around 60% of their claims via recoveries from the Landsbanki estate.

Whatever the outcome of this latest dispute may be, there is no direct effect on the Icelandic government because the EFTA Court ruling unequivocally established that there is no payment obligation for the sovereign. At the same time, it is clear that the TIF would be unable to fulfil its purpose if it was ordered to pay the full amount claimed by the FSCS and the DNB. The claim was filed in November 2013; however, it is unclear when the court will rule in the case.

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