

INFORMACJE DOTYCZĄCE EUROPEJSKIEGO OBSZARU GOSPODARCZEGO

URZĄD NADZORU EFTA

Zaproszenie do zgłaszania uwag zgodnie z częścią I art. 1 ust. 2 protokołu 3 do Porozumienia między państwami EFTA w sprawie ustanowienia Urzędu Nadzoru i Trybunału Sprawiedliwości dotyczących pomocy państwa przyznanej Arion Banki oraz Íslandsbanki poprzez zmianę terminów umów pożyczek

(2015/C 316/09)

Decyzją nr 208/15/COL z dnia 20 maja 2015 r., zamieszczoną w autentycznej wersji językowej na stronach następujących po niniejszym streszczeniu, Urząd Nadzoru EFTA wszczął postępowanie na mocy części I art. 1 ust. 2 protokołu 3 do Porozumienia między państwami EFTA w sprawie ustanowienia Urzędu Nadzoru i Trybunału Sprawiedliwości. Władze Islandii otrzymały stosowną informację wraz z kopią wyżej wymienionej decyzji.

Urząd Nadzoru EFTA wzywa niniejszym państwa EFTA, państwa członkowskie UE oraz inne zainteresowane strony do zgłaszania uwag w sprawie omawianego środka w terminie jednego miesiąca od daty publikacji niniejszego zaproszenia na poniższy adres Urzędu Nadzoru EFTA:

EFTA Surveillance Authority
Registry
Rue Belliard/Belliardstraat 35
1040 Bruxelles/Brussel
BELGIQUE/BELGIË

Uwagi zostaną przekazane władzom islandzkim. Zainteresowane strony zgłaszające uwagi mogą wystąpić z odpowiednio uzasadnionym pisemnym wnioskiem o nieujawnianie ich tożsamości.

STRESZCZENIE**Procedura**

We wrześniu 2013 r. Urząd otrzymał skargę, zgodnie z którą Íslandsbanki hf. („ISB”) oraz Arion banki hf. („Arion”) miały jakoby otrzymać niezgodną z prawem pomoc państwa w postaci finansowania długoterminowego przez Centralny Bank Islandii („CBI”) przy korzystnych stopach oprocentowania. Urząd wystąpił o informacje dotyczące tych środków i otrzymał je od władz islandzkich w pismach z dnia 17 stycznia 2014 r. i 1 kwietnia 2015 r.

Stan faktyczny

Jako bank centralny i pożyczkodawca ostatniej instancji CBI oferuje przedsiębiorstwom finansowym krótkoterminowe instrumenty kredytowe w formie pożyczek zabezpieczonych, co jest zgodne z polityką pieniężną innych banków centralnych.

W 2007 i 2008 r. – kiedy to coraz częściej udzielano pożyczek pod dodatkowe zabezpieczenie – bank Glitnir wyemitował w oparciu o swój portfel kredytów hipotecznych listy zastawne na rzecz CBI, które miały stanowić zabezpieczenie oferowanych mu przez CBI krótkoterminowych instrumentów kredytowych. Wraz z upadłością Glitnir kwoty należne CBI stały się wymagalne, w wyniku czego CBI stał się potencjalnym wierzycielem tego banku. Decyzją Urzędu Nadzoru Finansowego („UNF”) w październiku 2008 r. wszystkie aktywa i zobowiązania krajowe Glitnir zostały przeniesione do ISB, w tym niespłacony dług wobec CBI, wynoszący ok 55,6 mld ISK, oraz prawo własności portfela kredytów hipotecznych stanowiącego jego zabezpieczenie. Ponieważ dług wobec CBI dotyczył krótkoterminowych pożyczek zabezpieczonych, jego natychmiastowa spłata miałaby poważny wpływ na poziom płynności ISB. ISB podjął zatem negocjacje, aby przekształcić ten dług w zobowiązanie długoterminowe o rozsądnym okresie spłaty. Na podstawie porozumienia z dnia 11 września 2009 r. ISB wyemitował na rzecz CBI odrębny skrypt dłużny na kwotę 55,6 mld ISK. Skrypt ten był zabezpieczony aktywami z tego samego portfela kredytów hipotecznych, którym zabezpieczony był list zastawny wyemitowany wcześniej przez Glitnir. Jego termin zapadalności wynosi dziesięć lat, a stopa procentowa – 4,5 % i jest powiązana ze wskaźnikiem cen konsumpcyjnych.

Zanim w październiku 2008 r. rozpoczął się kryzys finansowy, CBI udzielił bankowi Kaupthing podobnych krótkoterminowych pożyczek zabezpieczonych, m.in. portfelem kredytów hipotecznych. Kiedy UNF podjął decyzję o podziale Kaupthing na stary i nowy bank, wszystkie aktywa i zobowiązania krajowe, w tym wszystkie roszczenia do portfela kredytów hipotecznych, zostały przeniesione do nowego banku, z którego powstał następnie Arion Banki.

W listopadzie 2009 r. CBI oraz komitet ds. restrukturyzacji i uporządkowanej likwidacji Kaupthing zawarły ugodę, zgodnie z którą Arion miał przejąć zobowiązania Kaupthing w stosunku do CBI i wyemitować skrypt dłużny, przy czym przydzielony by mu został portfel kredytów hipotecznych do wykorzystania jako zabezpieczenie spłaty pożyczki. Postanowienia ugody miały stać się wiążące po podjęciu przez Kaupthing decyzji o nabyciu udziału większościowego w Arion (87 %). Jednakże na podstawie porozumienia zawartego pomiędzy Arion i CBI w styczniu 2010 r. nie doszło do emisji skryptu dłużnego, lecz strony zawarły umowę pożyczki. Według banku Arion i władz islandzkich umowa pożyczki odzwierciedlała warunki skryptu dłużnego, z tą różnicą, że ze względu na brak równowagi walutowej w bilansie tego banku kwotę główną denominowano w EUR, USD i CHF (zamiast w ISK).

W umowie przewidziano pożyczkę na okres siedmiu lat, z możliwością przedłużenia o dwa lub maksymalnie trzy lata, na kwotę 237,5 mln EUR, 97 mln USD i 50 mln CHF. Arion został uprawniony do zmiany kombinacji walut, w których pożyczka miała zostać spłacona. Należne odsetki ustalono na poziomie EURIBOR/LIBOR+300 punktów bazowych. W ramach gwarancji CBI uzyskał zabezpieczenie w formie portfela kredytów hipotecznych.

Za pomocą opisanych środków państwo islandzkie próbowało zabezpieczyć swoje interesy oraz zapewnić maksymalne możliwości odzyskiwania należności od banków przy minimalnych zakłóceniach ich rentowności.

Ocena

Urząd wyraża wątpliwość co pełnej zgodności warunków umów pożyczek zwartych z bankami ISB i Arion z postępowaniem hipotetycznego prywatnego kredytodawcy, który chciałby odzyskać jak największą część swoich należności. Wydaje się też, że przedmiotowe środki mają selektywny charakter, mogą naruszać konkurencję i wpływać na wymianę handlową na terenie EOG. W związku z tym Urząd nie może wykluczyć możliwości, że badane środki stanowią pomoc państwa w rozumieniu art. 61 ust. 1 Porozumienia EOG. Ponadto Urząd ma wątpliwości co do tego, czy środki te są zgodne z art. 61 ust. 3 Porozumienia EOG.

Wniosek

W świetle powyższych zastrzeżeń Urząd podjął decyzję o wszczęciu formalnego postępowania wyjaśniającego zgodnie z częścią I art. 1 ust. 2 protokołu 3 do Porozumienia między państwami EFTA w sprawie ustanowienia Urzędu Nadzoru i Trybunału Sprawiedliwości. Zainteresowane strony wzywa się do nadsyłania uwag w terminie jednego miesiąca od publikacji niniejszego zawiadomienia w *Dzienniku Urzędowym Unii Europejskiej* oraz w Suplemencie EOG do *Dziennika Urzędowego Unii Europejskiej*.

EFTA SURVEILLANCE AUTHORITY DECISION

No 208/15/COL

of 20 May 2015

concerning alleged unlawful state aid granted to Íslandsbanki hf. and Arion banki hf. through loan conversion agreements on allegedly preferential terms

(Iceland)

[Non-confidential version]

[The information in square brackets is covered by the obligation of professional secrecy]

The EFTA Surveillance Authority ('Authority'),

HAVING REGARD to the Agreement on the European Economic Area ('EEA Agreement'), in particular to Article 61 and Protocol 26,

HAVING REGARD to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice ('Surveillance and Court Agreement'), in particular to Article 24,

HAVING REGARD to Protocol 3 to the Surveillance and Court Agreement ('Protocol 3'), in particular to Article 1(2) and (3) of Part I and Articles 4(2) and (4) and Article 6 of Part II,

Whereas:

I. FACTS

1. Procedure

- (1) On 23 September 2013, the Authority received a complaint alleging that Íslandsbanki hf. ('ISB') and Arion banki hf. ('Arion') had been granted unlawful state aid through long-term funding at favourable interest rates by the Central Bank of Iceland ('CBI')⁽¹⁾.
- (2) By letter dated 23 October 2013, the Authority sent a request for information to the Icelandic authorities⁽²⁾, to which the Icelandic authorities replied on 17 January 2014⁽³⁾.
- (3) The case was discussed at a meeting on state aid between representatives of the Authority and of the Icelandic authorities in Reykjavík in May 2014. The discussions were followed up with a letter, dated 5 June 2014⁽⁴⁾.
- (4) Finally, the case was again discussed at a meeting between representatives of the Authority and of the Icelandic authorities, including a representative from the Central Bank of Iceland Holding Company in Reykjavík in February 2015. These discussions were followed up with a letter dated 24 February 2015⁽⁵⁾, to which the Icelandic authorities replied on 1 April 2015⁽⁶⁾.

2. Description of the measures

2.1. Background

- (5) The measures complained of are linked to CBI's collateral and securities lending. As part of its role as a central bank and lender of last resort and in line with the monetary policy of other central banks, the CBI provides short-term credit facilities to financial undertakings in the form of collateral loans⁽⁷⁾, in accordance with the provisions of CBI rules pertaining thereto. Financial institutions have the option of requesting overnight loans or seven-day loans against collateral considered to be eligible by the CBI. Among the debt instruments meeting the requirements of the CBI rules are Treasury instruments and financial undertakings' debt instruments fulfilling minimum criteria, including credit rating criteria.
- (6) In 2007 and 2008 collateral lending increased steadily, and the CBI became a major source of liquidity for the financial undertakings. At year-end 2007, the balance of collateral loans stood at 302 billion ISK, its highest point until that time. Collateral loans peaked on 1 October 2008, just before the collapse of the banks, when the CBI loaned 520 billion ISK to financial institutions. Thus, at the time of the collapse of the three commercial banks in October 2008, the CBI had acquired considerable claims against domestic financial undertakings, which were backed by collateral of various types. At that time nearly 42 % of the collateral for CBI loan facilities took the form of Treasury guaranteed securities or asset-backed securities while some 58 % of the underlying collateral consisted of bonds issued by Glitnir, Kaupthing, and Landsbanki⁽⁸⁾.
- (7) As for securities lending, the Government Debt Management ('GDM'), which is administered by the CBI, offers lending facilities to primary dealers of government securities. The purpose is to improve market functionality and to maintain liquidity in the market for bond series that the GDM is building up. The securities accepted by the GDM as collateral for the Treasury Bonds and Bills are all government bonds and mortgage benchmark bonds traded electronically on the secondary market. Other electronically traded securities may also be accepted depending on criteria specified in the facility. The interest rate for these loans is based on the CBI repo rate. The maximum contract period is 28 days⁽⁹⁾.

2.2. Loan conversion agreement concluded with Íslandsbanki hf.

- (8) When the financial crisis in Iceland occurred, Glitnir had, in relation to the CBI short-term credit facilities in the form of collateral loans, pledged covered bonds to the CBI that were secured by Glitnir's mortgage loan portfolio.

⁽¹⁾ Document No 684053.

⁽²⁾ Document No 685741.

⁽³⁾ The reply from the Icelandic authorities contained letters from the CBI (Document No 696093), Íslandsbanki (Document No 696092) and Arion Banki (Document No 696089).

⁽⁴⁾ Document No 709261.

⁽⁵⁾ Document No 745267.

⁽⁶⁾ The reply from the Icelandic authorities contained letters from the CBI (Document No 753104) and Arion Banki (Document No 753101).

⁽⁷⁾ Collateral loans are also named repo loans, where repos or repurchase agreements are contracts in which the seller of securities, such as Treasury bills, agrees to buy them back at a specified time and price.

⁽⁸⁾ For an overview of developments in collateral loans, see the CBI's Annual Report 2008, p. 9-11, available at <http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=7076>

⁽⁹⁾ For further details see Rules on Central Bank of Iceland securities lending facilities on behalf of the Treasury for primary dealers dated 28 November 2008, available at <http://www.lanamal.is/assets/nyrlanasysla/regluren08.pdf>

- (9) With the collapse of Glitnir, the CBI's claims became due and payable, thus making the CBI a potential creditor of the failed bank. By decision of the Financial Supervisory Authority ('FME') in October 2008, in principle all domestic assets and liabilities of Glitnir were transferred to ISB, including the outstanding debt of Glitnir to the CBI which amounted to approximately ISK 55.6 billion as well as the ownership of the underlying collateral (the mortgage loan portfolio).
- (10) As the debt with the CBI consisted of short-term collateralised lending, instant repayment would have had a serious impact on ISB's liquidity position. According to the CBI, the alternative would have been for the CBI to collect the debt which would have left the CBI with the mortgage loan portfolio. This would have been difficult for a central bank to manage. Selling the mortgage loan portfolio at the time was also not considered an option taking into account the financial crisis and the very few potential purchasers on the market.
- (11) Therefore, ISB sought to renegotiate its debt with the CBI in order to convert it into a long-term debt with a reasonable amortization profile, to avoid a further negative impact on ISB's liquidity position. Following negotiations between ISB and the CBI, an agreement was reached on 11 September 2009 resulting in ISB issuing a stand-alone bond (the 'bond') to the CBI in the amount of ISK 55.6 billion. The bond was asset-backed with the same, or similar, mortgage loan portfolio as the covered bonds that were issued by Glitnir in the past. The bond is over collateralized with a loan-to-value ('LTV') ratio of 70 %⁽¹⁾. The bond's maturity date is 10 years, with an interest rate of 4,5 %, CPI linked (consumer price-indexed).

2.3. *Loan conversion agreement concluded with Arion banki hf.*

- (12) Before the onset of the financial crisis in October 2008, the CBI granted Kaupthing short-term collateral loans, secured against collateral securities, including the housing loan portfolio. When the FME decided to split Kaupthing into an old and a new bank, in principle all domestic assets and liabilities, including all claims to the housing loan portfolio, were transferred to the new bank, which later became Arion Banki.
- (13) On 30 November 2009, the Ministry of Finance, the CBI and the Kaupthing Resolution Committee entered into a settlement agreement.
- (14) According to Section I of the settlement agreement, the parties agreed to settle outstanding claims under other types of loans which had been granted by the CBI, as a lender of last resort, to Kaupthing before its collapse *i.e.* collateral loans which had become due on 22 October and 31 October 2008, and overnight loans, which also had become due on 22 October 2008. The agreement further stated that, in those instances where CBI's claims were higher than the value of the collateral which had been placed as security (as valued by an independent expert), the CBI would take over the collateral and file a claim for the remaining balance against the estate of Kaupthing.
- (15) With respect to the collateral loans and securities loans, which are covered by Articles 1 and 2 of the settlement agreement, the parties agreed that the CBI's claims amounted to approximately ISK 17.4 billion and ISK 138.3 billion respectively, taking into account the cash flow generated by the collateral and interests for the period from the loans' maturity date until 15 June 2009 (which the parties had agreed would be used as a reference date for the settlement of claims). Subtracting the value of the collateral in each case, the remaining balance amounted to ca. ISK 14 million and ISK 67.8 billion respectively, which were to be filed as claims against the estate of Kaupthing.
- (16) The settlement of overnight loans was the subject of Article 3 of the settlement agreement. The overnight loans had been granted against collateral in various securities specifically listed in the agreement, including the housing loan portfolio, the value of which the parties agreed was approximately ISK [...] billion. The parties also agreed that the outstanding amount of the CBI's claims, accounting for cash flow, interests and subtracting the value of other collateral than the value of the housing loan portfolio, amounted to a total of approximately ISK [...] billion. The parties further agreed that Arion Bank would assume Kaupthing's debt towards the CBI by issuing a bond in the amount of approximately ISK [...] billion, in a specific form attached to the agreement as Appendix II, with the CBI in turn assigning the housing loan portfolio to Arion Bank. The housing loan portfolio would again be used as collateral to secure repayment of the bond. The settlement agreement furthermore stated that it would become valid upon the approval of the FME and the Competition Authority, and upon Kaupthing deciding to acquire a majority stake in Arion Bank (in the amount of 87 %). It was further stated that once the agreement would become valid, the bond would be issued as a part of Kaupthing's contribution towards the acquisition of Kaupthing's majority stake in Arion. Thus, it was the parties' intention to use the difference between the value of the housing loan portfolio and the remaining debt, ca. ISK [...] billion (ISK [...] billion — ISK [...] billion) as part of Kaupthing's payment towards the acquisition of a majority shareholding in Arion Bank, should Kaupthing elect to use its option to acquire the shares.

⁽¹⁾ The loan-to-value ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased.

- (17) On 1 December 2009, an agreement was reached between the Government, Arion Bank, and Kaupthing on settlements concerning assets and liabilities which had been transferred from Kaupthing to Arion Bank with the FME's decision of 21 October 2008. Furthermore, Kaupthing's Resolution Committee decided on that same day to acquire an 87 % stake in Arion Bank, leaving the remaining 13 % in the hands of the Icelandic Government. Kaupthing paid for the acquisition by transferring assets from its estate valued at ISK [...] billion to Arion Bank, including with the ca. ISK [...] billion generated by the assignment of the housing loan portfolio to Arion Bank in accordance with the terms of the settlement agreement. It should be noted that this particular transaction has already been addressed and approved by the Authority in Decision No 291/12/COL on restructuring aid to Arion Bank ⁽¹⁾.
- (18) On 22 January 2010, Arion and the CBI concluded a loan agreement, which replaced the bond previously issued by Arion Bank upon Kaupthing's decision to acquire a majority stake in Arion Bank, as agreed by the parties. The loan agreement essentially reflected the terms of the bond, although the principal amount was denominated in EUR, USD and CHF instead of ISK because of currency imbalances within Arion's balance sheet.
- (19) The loan agreement provided for a seven year loan, extendable by two-three year terms, for an amount of EUR [...] million, USD [...] million and CHF [...] million. Arion was permitted to change the combination of the currencies in which the loan was to be repaid. The interests payable were EURIBOR/LIBOR + 300bps. The housing loan portfolio of Arion served as collateral to the CBI.

3. The complaint

- (20) According to the complainant, the loan agreements between ISB, Arion and the CBI were not assessed in the Authority's decisions approving restructuring aid to ISB and Arion ⁽²⁾. Since the measures were not addressed in these cases, the complainant considers it imperative to obtain the opinion of the Authority on (i) the compatibility of these additional aid measures with the EEA Agreement, and (ii) the consequences of the negligence by the Icelandic authorities to notify these measures.
- (21) The complainant alleges that, at the time the CBI entered into the loan agreements with Arion and ISB, other banks in Iceland were not given the opportunity to receive such financing from the CBI or other government agencies. The aid was therefore selective as it was granted exclusively to certain financial institutions competing on the Icelandic banking market. By granting a loan to ISB, the bank was allegedly granted aid to avoid enforcement by the CBI on the covered bond issue. In Arion's case, the loan was granted to secure an appropriate balance on the bank's currency risk. According to the complainant, other financial institutions which did not receive such aid were forced to sell off assets in markets that favoured buyers. Moreover, the complainant claims that the terms of the funding were very favourable to ISB and Arion and below market terms at the time as long-term funding with relatively low interest rates was not available to other market operators at the time.
- (22) The complainant refers to the Authority's previous decisions concerning the restructuring aid granted to ISB and Arion, where it found that significant entry barriers to the Icelandic banking market existed having detrimental effects on competition ⁽³⁾. The complainant reiterates the Authority's finding that the Icelandic financial market is oligopolistic and that there are impediments for consumers to switch banks, in addition to an exchange rate risk due to the weak national currency. The complainant claims that substantial aid has been given to the largest banks, which have made the smaller banks and saving banks participating in the Icelandic banking market more vulnerable.
- (23) According to the complainant, the agreements on the housing loan funding from the CBI to both ISB and Arion are sufficiently precise, firm, unconditional and legally binding to be considered state aid within the meaning of Article 61(1) of the EEA Agreement because these measures were granted to certain but not all competing financial institutions on the market and gave ISB and Arion a clear advantage in the form of long-term funding with favourable interest rates below market rates and which were not available to other market participants. According to the complainant, no private investor would have entered into such agreements at this turbulent time on the financial markets. In order to substantiate its claim that the long-term funding and the interest rates were below market rates at the time, the complainant submitted credit default swap ('CDS') spreads of the Icelandic government in 2009 and interest rates in 2009 on bond issues HFF150224 and HFF150434 by the Icelandic Housing Financing Fund ('HFF'). The complaint maintains that the measures strengthened ISB and Arion on the banking market and therefore affected the position of other market participants.

⁽¹⁾ EFTA Surveillance Authority Decision No 291/12/COL of 27.6.2013 on restructuring aid to Arion Bank (OJ L 144, 15.5.2014, p. 169 and EEA Supplement to the OJ 28, 15.5.2014, p. 89), paragraphs 86, 149, 168 and 238.

⁽²⁾ EFTA Surveillance Authority Decision No 244/12/COL of 27.6.2013 on restructuring aid granted to Íslandsbanki (OJ L 144, 15.5.2014, p. 70 and EEA Supplement to the OJ 28, 15.5.2014, p. 1) and EFTA Surveillance Authority Decision No 291/12/COL of 27.6.2013 on restructuring aid to Arion Bank (OJ L 144, 15.5.2014, p. 169 and EEA Supplement to the OJ 28, 15.5.2014, p. 89).

⁽³⁾ See Decision No 244/12/COL, paragraph 50, and Decision No 291/12/COL, paragraph 49.

- (24) Finally, the complainant argues that the restructuring plans of ISB and Arion, implemented by the Icelandic government and which the Authority found compatible with Article 61(3)(b) of the EEA Agreement, were sufficient to remedy the disturbance in the Icelandic economy. According to the complainant, the additional aid measures implemented by way of the abovementioned agreements were not necessary, appropriate or proportionate to restore the Icelandic banking system and therefore entail incompatible state aid.

4. Comments from the Central Bank of Iceland

- (25) According to the CBI, the purpose of converting the short-term debt to long-term loans was to strengthen the likelihood of recovery of the collateralised debt and thus to better secure its interests as a lender.
- (26) The CBI's role in providing liquidity facilities to financial institutions entails a given counterparty risk, which materialised in the autumn of 2008. In the beginning of October 2008, it became apparent that Glitnir and Kaupthing could not be saved. Thus the Icelandic Financial Supervisory Authority (FME) took over the operations of Glitnir on 7 October and Kaupthing on 9 October 2008, using the powers conferred upon it by the Act No 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. (the 'Emergency Act'), which was passed on 6 October 2008.
- (27) The CBI's claims were rendered due and payable by the collapse of Glitnir and Kaupthing, thus putting the CBI in the position of a creditor of the failed banks because of claims that were backed by various types of collateral.
- (28) Act No 36/2001 on the Central Bank (the 'Central Bank Act') contains no provisions on the CBI's position as a creditor, nor does it provide for processing or satisfaction of claims. The Act requires unequivocally that the CBI only grants loans against collateral that it deems adequate. With the collapse of the financial system, the CBI's position changed from that of a holder of collateral to that of a creditor and owner of assets appropriated from financial undertakings in winding-up proceedings.
- (29) According to the CBI, the Central Bank Act does not contain any provision regarding the legal effect of the CBI's appropriation of assets used as collateral for loans or guarantees granted on the basis of Article 7 of the Act. On the other hand, it does assume that the CBI grants liquidity facilities to financial institutions, and that, as a result, the Bank acquires claims. Therefore, in matters falling outside the scope of the Central Bank Act, the general principles of law of obligations should apply to the CBI.
- (30) In the wake of the banks' collapse in the autumn of 2008, the CBI was forced to appropriate collateral assets, convert them, and allocate them to its claims against financial institutions. The fundamental principles of administrative law have limited applicability to the processing and administration of the above-specified assets. The CBI's rights and responsibilities as owner and creditor are determined by the nature and substance of such assets and rely on the civil law rules of obligations and claims satisfaction procedures. The CBI's actions and decisions concerning the handling and allocation of claims and appropriated assets therefore fall under the realm of civil law.
- (31) According to the CBI, it was in the same position as other creditors with respect to recovery of claims and collateral from the estates of the failed banks. The CBI was independent in its decisions and therefore rejects the complainant's allegation that '*By implementing these measures the Icelandic government in fact replaced the role of private market participants*'.
- (32) On the other hand, the CBI realistically could not be expected to enforce collateral such as the ones in question in the case of Kaupthing (Arion) and Glitnir (ISB). In appropriating such collateral, the CBI would have been taking on the role of a commercial bank with one of the largest household loan portfolios in Iceland, which would have been inconsistent with its role as a central bank. There was also the risk of destabilising the operations of the respective banks, which would have jeopardised financial stability. According to the CBI, it should be borne in mind that the loan portfolios represented a large share of Arion and ISB's customer base.
- (33) The CBI therefore considered it preferable to aim for receipt of full payment of its claims, with interest and without having to incur administrative expenses, which was the maximum recovery possible at that time. The CBI's agreements with Arion and ISB also provided for minimal disturbance and were of benefit to the individual borrowers under the mortgage loans who continued to be the customers of operating financial institutions. If the loan portfolios had been offered for sale, there was the risk that the borrowers would have cut their business ties with their commercial banks. Furthermore, the CBI would have had no assurance of acceptable recovery, and it was highly unlikely that investors with sufficient capital strength would have been available to buy the portfolios.
- (34) According to the CBI, the measure entailed in the loan agreement with ISB was a logical continuation of the division of the banks into 'new' and 'old' pursuant to the Emergency Act and the FME decisions based on it. That measure obviated the need for the CBI to adopt measures *vis-à-vis* ISB that could have threatened its liquidity position.

- (35) Similarly, the measure entailed in the transfer of the loan portfolio from Kaupthing to Arion through the settlement and loan agreement was a logical continuation of the division of the banks into 'new' and 'old' pursuant to the Emergency Act and the FME decisions based on it. The loan agreement with Arion contained only one deviation from the terms of the settlement agreement, i.e. that the principal was denominated in EUR, USD and CHF instead of ISK because of currency imbalances within Arion's balance sheet. According to the CBI, this denomination change did not alter the nature of the CBI's claim and therefore cannot be considered to constitute state aid. The CBI emphasises that one of its objectives was to promote financial stability, and one of the components of financial stability was credit institutions' foreign exchange balance. As Arion's foreign exchange balance was in severe disequilibrium, the CBI felt that it was its role to address this and consequently to conclude the loan agreement in foreign currency. Moreover, the CBI mentioned that information on the measures taken by the CBI to correct currency imbalances was included in the Minister of Finance's report on the restructuring of the commercial banks (and presented in March 2011), which was also provided to the Authority as part of its assessment of the restructuring aid that was notified and approved by the Authority in its Decision No 291/12/COL.
- (36) In light of all the above, the CBI considers it clear that the measures complained of cannot be considered state aid within the meaning of Article 61(1) of the EEA Agreement.
- (37) Should the measures be found to constitute state aid, or should the measures in question be found to have conferred any advantages, the CBI believes that it is by no means evident that Arion or ISB would be the beneficiaries of such an advantage. The CBI rather advocates that such advantages accrued to Kaupthing and Glitnir as the measures complained of enabled Kaupthing to acquire shares in Arion and made it possible to dissolve the covered bonds that formed the guarantee for Glitnir's debt to the CBI and bring the underlying housing portfolio under the control of ISB.
- (38) In addition, in its letter of 31 March 2015 ⁽¹⁾, the CBI highlighted that, whereas its original lending to Kaupthing and Glitnir undoubtedly fell within the scope of the monetary policy of the CBI in its role as lender of last resort, its position upon the conclusion of the long-term funding measures was that of a creditor in a similar position to that of a private creditor upon appropriation of collateral assets and in a claim satisfaction process with the debtors. According to the CBI, the conversion of the short-term credit facilities of Kaupthing and Glitnir, including interests and costs associated with the claim, to a long-term loan on terms that any private creditor would have found to be acceptable in the same circumstances does not amount to relieving the debtors, Kaupthing and Glitnir, of any obligations or conferring any advantages on the assignees of these liabilities.

5. Comments by the alleged beneficiaries

5.1. *Comments from Arion Bank*

- (39) As a preliminary point, Arion submits that the measures in question formed an inseparable part of the final capitalization of Arion Bank with the participation of Kaupthing and the assets and liabilities (including the housing loan portfolio) that were assigned formed an integral part of the restructuring of Arion Bank that was submitted, investigated and decided upon by the Authority. Arion refers here to the Ministry of Finance's report on the restructuring of the commercial banks, that was allegedly source material for the Authority's decision No 291/12/COL, and to other communications between the Icelandic authorities and the Authority during which information on the measures complained above allegedly had been provided to the Authority. Arion therefore argues that the measures should not be taken out of context and separated from the overall assessment made by the Authority in Decision No 291/12/COL on restructuring aid to Arion Bank. In addition, the fact that the measures complained of were not specifically identified as state aid involved in the capitalisation of Arion Bank and notified as such in the final notification of the Icelandic Authorities on 20 September 2010 only suggests that it was the common understanding of the Icelandic authorities and the Authority that these particular measures did not constitute state aid.
- (40) Arion also argues that the funding provided through the loan agreement did not confer upon it any advantage which could be considered state aid, as it was provided on normal market terms at the time and fully in line with the market economy investor principle.
- (41) Arion notes that other funding provided on or around the same time was comparable to the funding provided under the loan agreement, indicating that the terms of the loan agreement were not unduly favourable. According to Arion, the Authority should mainly consider issued covered bond programs when establishing an appropriate benchmark for determining the market rates and borrowing terms for Arion Bank with reference to the loan agreement, since it is secured with a pledge in a number of Arion Bank's best quality assets, including municipality loans and mortgages. Arion provided information on all covered bond programs issued worldwide in the period from 1 January 2009 until 31 December 2010. According to Arion, this information clearly shows that the average interest rate, among a total of 357 issued covered bond programs in that period of time, is far below the interest rate of the aforementioned loan agreement.

⁽¹⁾ Document No 753104.

- (42) Arion also draws a comparison with a settlement that was negotiated in December 2009 between the 'new' Landsbanki (now Landsbankinn hf. ('Landsbankinn'), NBI hf. at that time) and 'old' Landsbanki (now LBI hf., Landsbanki Íslands hf.). This settlement entailed the issue of a senior secured bond, denominated in EUR, GBP and USD, in the amount of ISK 247 billion in foreign currency for a term of 10 years by Landsbankinn to LBI. In addition, a contingent bond of ISK 92 billion in foreign currency was issued early in 2013. These senior secured bonds were a consideration for the assets and liabilities transferred from LBI on 9 October 2008 with the decision of the FME on the disposal of assets and liabilities of the 'old' Landsbanki to the 'new'. These senior secured bonds mature in October 2018 and do not have instalment payments during the first 5 years. The interest rates are EURIBOR/LIBOR+175bps for the first 5 years and EURIBOR/LIBOR+290bps for the remaining 5 years. The bonds are secured by pools of loans to customers of Landsbankinn.
- (43) According to Arion, the terms of this settlement are directly comparable to the terms in the disputed loan agreement with the CBI and any differences that exist between the two are all favourable to the loan agreement, i.e. a higher interest rate, a lower principal amount and a stronger collateral pool, in spite of the fact that the lender in the Landsbanki case is a private party. According to Arion, this clearly indicates that the terms of the funding provided to Arion Bank under the loan agreement are in line with prevalent market terms at the time, and thus no advantage was conferred upon Arion Bank through the loan agreement which can be considered state aid.
- (44) Arion also argues that the comparison made in the complaint between the terms of the loan agreement and the CDS spreads and the terms of the HFF bonds should by no means be considered relevant in determining whether the funding was provided on terms below market rates. Whereas the loan agreement provides for senior secured funding, a CDS is a swap designed to transfer the credit exposure of a senior unsecured instrument between parties. Therefore, Arion submits that a direct comparison between the interest rates stated in the loan agreement and the CDS spreads submitted by the complainant is not relevant.
- (45) In line with the arguments put forward by the CBI, Arion also notes that, under the market conditions at the time when the settlement agreement and the loan agreement were entered into, the CBI was effectively left with no other option than to assign the housing loan portfolio to Arion Bank. The settlement agreement provided that Arion would assume the remaining balance of Kaupthing's debt, with the CBI in turn assigning it the housing loan portfolio. According to Arion, by adopting these measures, the CBI tried to secure full recovery of Kaupthing's debt.
- (46) Had the CBI not entered into the settlement agreement and subsequently the loan agreement, it would have had to enforce the collateral in the housing loan portfolio. According to Arion, the CBI was not in a position to enforce the collateral as, first, it did not have the resources or manpower to service the portfolio itself and, second, the chances of offloading the housing loan portfolio on the open market were very slim or non-existent as there were no market participants to which the portfolio could have been assigned. At that time, all of the three biggest commercial banks were being restructured and ownership of the 'new' banks was in the hands of the Icelandic Government. Further, the FME, by the powers conferred upon it under the Emergency Act, had already taken and subsequently took control of many other financial undertakings, such as Straumur-Burðarás hf., Reykjavík Savings Bank hf. (SPRON), Sparisjóðabanki Íslands hf. (Icebank), VBS Investment Bank hf., Keflavík Savings Bank, BYR Savings Bank etc. MP banki hf. was in severe financial difficulties at that time and underwent its own financial restructuring with new shareholders providing it new funding in 2011. Therefore, the assignment of the housing loan portfolio via the settlement agreement and the loan agreement was, under the market conditions prevailing at the time, the only viable option.
- (47) In addition, Arion notes that the FME had already assigned the housing loan portfolio to Arion Bank via its decision of 21 October 2008, and Arion Bank had subsequently continued to service the portfolio. The housing loan portfolio was also comprised of many of Kaupthing's core clientele with long lasting business relationships with Kaupthing, which had now been transferred to Arion Bank. Assigning the housing loan portfolio to another market participant, even if such a participant had existed (who in addition would not have been as familiar with the portfolio as Arion Bank), could only have taken place at a substantial discount, thus not securing full recovery of CBI's claim against Kaupthing. Therefore, at the time there was no other viable option than to assign the portfolio to Arion Bank.
- (48) In the event the Authority considers the measures complained of to constitute state aid, Arion further argues that they must be considered compatible with the functioning of the EEA Agreement on the basis of Article 61(3)(b) of the EEA Agreement.
- (49) According to Arion, the measures were a very necessary part of and directly linked to the restructuring of the bank. Without the settlement agreement, under which the CBI agreed not to enforce the collateral granted in the housing loan portfolio and instead assign it to Arion Bank, the reconstruction of Arion Bank would not have taken place in the manner that it did, i.e. by the creditors of Kaupthing acquiring a majority stake in the new Bank, as a very valuable pool of assets, essential for the continued banking operations of Arion Bank in Iceland, would then not have been transferred to the new Bank. Therefore, Arion argues that the measures complained of were an integral part of measures which were necessary, proportionate and appropriate to remedy a serious disturbance in the Icelandic economy within the meaning of Article 61(3)(b) of the EEA Agreement.

- (50) In light of the above, Arion concludes that the measures complained of clearly cannot be considered to constitute state aid within the meaning of Article 61(1) of the EEA Agreement, and in the event they are viewed as state aid, these measures should be considered to be compatible with the functioning of the EEA Agreement pursuant to Article 61(3)(b).

5.2. *Comments from Íslandsbanki hf.*

- (51) As a preliminary point, ISB points out that the question of whether comparable funding would have been available to other banks or financial institutions at the time is irrelevant, since this was not a question of new funding being sought from, or offered by, the CBI. Instead, the CBI held a claim on ISB as per the decision of the FME. Paying up the debt would have had a serious impact on the liquidity position of the bank and therefore ISB could have chosen not to pay the debt and leave the CBI with the mortgage loan pool. According to ISB, the CBI was thus left with the choice of renegotiating the claim with ISB or enforcing the security (acquiring the mortgage loan pool).
- (52) However and in line with the arguments put forward by Arion and the CBI described above, ISB also notes that the enforcement of the security and the acquisition of the mortgage loan pool would have forced the CBI to manage the loan pool and service the underlying loans. This task does not form a part of the CBI's official role and would have involved further costs and risks, especially in view of many of the underlying mortgages needing to be restructured in the near future. It should also be kept in mind that the borrowers under the mortgage loans were not aware of the situation and had always, to the best of their knowledge, been borrowers of Glitnir and later ISB. Chances of the CBI selling off the mortgage loan pool at that point in time were slim and would have entailed a serious risk, as there were few, if any, market participants that were in a position to buy the mortgage loan pool, and if so, then hardly on better terms than the ISB bond offered. Renegotiating with ISB was therefore the financially viable option that best served the interests of the CBI itself.
- (53) According to ISB, the terms of the long-term funding provided by the CBI to ISB were not favourable. ISB notes that the interest rate is at about 50bp on top of the state guaranteed HFF bonds on the date of issue whereas common rates in Europe at the time for similar asset-backed securities were at 40 to 80bp above state-guaranteed papers. ISB also points out that it paid down 10 billion ISK of its debt on 10 April 2014 because it was able to obtain more favourable funding on the market. Therefore, ISB's outstanding debt with the CBI in May 2014 was reduced to 27 billion ISK.
- (54) In view of the above, ISB is of the opinion that the bank did not receive any funding which may be considered as state aid in the meaning of Article 61(1) of the EEA Agreement. The funding was granted at market compatible rates and was equal to the benefit of the CBI, ISB and the borrowers under the mortgage loans in the mortgage loan pool.
- (55) However, should the Authority nevertheless consider the measures complained of to constitute state aid, ISB argues that they must be considered compatible with the functioning of the EEA Agreement on the basis of Article 61(3)(b) of the EEA Agreement.
- (56) According to ISB, the background of the measures must be taken into consideration. ISB was allocated Glitnir's debt to the CBI and the ownership of the underlying collateral. Paying up a debt of roughly 55 billion ISK would have had a serious impact on the liquidity position of ISB and therefore making the restructuring of the bank all the more difficult to accomplish. According to ISB, it must also be kept in mind that at the time the government sought to have Glitnir take over a majority stake in the bank and provide the majority of the bank's initial capital. By collecting on the CBI claim, ISB's liquidity would have been made too weak to operate a healthy bank that the creditors of Glitnir might see as a viable increase in value and thus increase the creditors return on their claims.
- (57) According to ISB, the measures were therefore a necessary part in the restructuring of the bank and in line with the measures already approved in the Authority's decision on restructuring aid granted to Íslandsbanki ⁽¹⁾. The measures were proportionate and appropriate in view of the economic and financial conditions in Iceland at the time, where restructuring of the banking system in Iceland was crucial.
- (58) In light of the above, ISB maintains that it is clear that the measures complained of cannot be considered state aid within the meaning of Article 61(1) of the EEA Agreement. However, in the event they would be regarded as state aid, ISB argues that they should be declared compatible pursuant to Art 61(3)(b) of the EEA Agreement because the measures aimed to remedy a serious disturbance in the economy of an EFTA State and were necessary, proportionate and appropriate for the restructuring of the bank.

⁽¹⁾ EFTA Surveillance Authority Decision No 244/12/COL of 27.6.2013 on restructuring aid granted to Íslandsbanki (OJ L 144, 15.5.2014, p. 70 and EEA Supplement to the OJ 28, 15.5.2014, p. 1).

II. ASSESSMENT

1. The presence of state aid

(59) Article 61(1) of the EEA Agreement reads as follows:

'Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.'

(60) For a measure to qualify as state aid, all conditions set out in Article 61(1) must be fulfilled. First, there must be an intervention by the State or through State resources; second, the intervention must be liable to affect trade between the Contracting Parties; third it must confer a selective advantage upon the recipient and fourth it must distort or threaten to distort competition.

(61) In the following, the Authority will assess whether the measures to convert short-term claims to long-term loans constitute state aid, and if so whether they are compatible with the state aid provisions of the EEA Agreement. However, it is clear that the State's involvement, as a major creditor to the undertakings concerned, derives from earlier measures, namely the CBI's short-term collateral loans to financial undertakings and its securities lending, on behalf of the Treasury, to prime traders of government securities. The background of the conversion loans is obviously the breakdown of the CBI's transactions with financial undertakings which in turn is related to the collapse of the financial system. It is therefore appropriate to consider whether the initial granting by the CBI of short-term credit facilities involved elements of state aid. The Authority will therefore, firstly, consider whether those measures possibly constitute state aid, and, secondly, examine in detail the loan conversion agreements in light of Article 61 of the EEA Agreement.

1.1. *The Central Bank of Iceland's short-term credit facilities*

(62) Paragraph 51 of the Authority's Guidelines on the application of state aid rules to measures taken in relation to financial institutions ('Banking Guidelines') contains provisions on other forms of liquidity assistance and central bank facilities in particular⁽¹⁾. On the latter the Guidelines state that '[t]he Authority considers that activities of central banks related to monetary policy, such as open market operations and standing facilities, are not caught by the state aid rules. Dedicated support to a specific financial institution may also be found not to constitute aid in specific circumstances. Following the Commission's decision-making practice, the Authority considers that the provision of central banks' funds to the financial institution in such a case may be found not to constitute aid when a number of conditions are met, such as:

- the financial institution is solvent at the moment of the liquidity provision and the latter is not part of a larger aid package,
- the facility is fully secured by collateral to which haircuts are applied, in function of its quality and market value,
- the central bank charges a penal interest rate to the beneficiary,
- the measure is taken at the central bank's own initiative, and in particular is not backed by any counter-guarantee of the state.'⁽²⁾

(63) The Banking Guidelines were adopted on 29 January 2009 and published in the *Official Journal of the European Union* and in the EEA Supplement thereto on 20 January 2011. The Banking Guidelines were therefore not in effect at the time when the CBI provided the short-term credit facilities to Glitnir and Kaupthing. However, the Banking Guidelines were based on the existing decision-making practice of the European Commission⁽³⁾. The Authority will therefore assess the measures in light of the fundamental principles which are outlined in the Banking Guidelines, and in light of the decisional practice that existed at the time the credit facilities were granted and that has been continued in more recent cases.

⁽¹⁾ The Authority's Guidelines on the application of state aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (OJ L 17, 20.1.2011, p. 1 and EEA Supplement No 3, 20.1.2011, p. 1), available online at: <http://www.eftasurv.int/?1=1&showLinkID=16604&1=1>

⁽²⁾ The European Commission has rarely deemed central bank operations to constitute aid. However, in particular where the State provided counter-guarantees (such as in Dexia – cf. http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_C9_2009) the presence of aid was established.

⁽³⁾ See for instance Commission Decision Case No NN 70/2007 of 5.12.2007 *Northern Rock* (OJ C 43, 16.2.2008, p. 1).

- (64) The CBI has underlined that the short-term credit facilities concerned are part of its regular monetary policy and financial market measures. Looking closer at the measures taken in the run-up to the financial crisis in 2008, it is clear from publicly available information that due to the liquidity squeeze in the markets, the CBI took steps to increase access to liquidity ⁽¹⁾. In that respect, the CBI pointed out that the European Central Bank, the US Federal Reserve Bank and many other central banks had taken significant steps to respond to deteriorating conditions in the global financial markets by enhancing access to liquidity and relaxing the rules on securities eligible as collateral for financial undertakings' transactions with them. The CBI was simply adapting to more flexible rules already introduced by European and other central banks. This argument finds support in independent sources ⁽²⁾.
- (65) The Authority concurs that the CBI measures at issue fall within the scope of monetary policy. The financial institutions were solvent at the time of the liquidity provisions. The collateral lending backed by securities of the failed commercial banks halted automatically once the banks were submitted to public administration. The CBI liquidity facilities were not part of a larger aid package. The transactions were based on the Rules on Central Bank of Iceland Facilities for Financial Undertakings, No 808 of 22 August 2008 ⁽³⁾. These rules meet the conditions set out above, including the condition that the financial institutions should be solvent at the moment of the liquidity provision, that the facility should be fully secured by collateral to which haircuts are applied and that the financial institutions are required to pay penal interest rates in cases of default. The measures were taken at the initiative of the financial institutions concerned and the CBI and were not, at the time, backed by any counter-guarantee of the state.
- (66) In view of the above considerations, the Authority concludes that the conditions set out in the Banking Guidelines concerning central bank facilities are fulfilled with regard to the CBI's short-term collateral lending to banks and other financial institutions. Accordingly, the short-term credit facilities provided by the CBI to Glitnir and Kaupthing did not involve state aid ⁽⁴⁾.

1.2. *The loan conversion agreements*

1.2.1. *Presence of state resources*

- (67) In order to qualify as aid under Article 61(1) EEA, the measure must be granted by the State or through state resources.
- (68) The measures under examination take the form of agreements between the CBI and Arion and ISB regarding the conversion of short-term claims which were due into long-term loans on allegedly favourable terms.
- (69) As a preliminary point, it should be reminded that there is no blanket exemption of monetary policy from the application of State aid law ⁽⁵⁾. Indeed, the above-mentioned exclusion of liquidity assistance from the application of state aid law is only limited to measures fulfilling the conditions enumerated in the relevant paragraph of the Authority's Banking Guidelines and does not imply that all actions by central banks are excluded from the application of state aid law.
- (70) It seems questionable that the provision of long-term loans by the CBI complies with the conditions enumerated in paragraph 51 of the Banking Guidelines as the measures seem to have been part of the larger aid package provided to these banks. In addition, it is questionable whether the interest rates on these loans could be regarded as market-based or of a penal nature. Therefore, in order to determine whether the provision of long-term loans by the CBI involves state aid, it first needs to be determined whether central banks are able to grant state aid and in order to assess this, it needs to be determined whether measures taken by a central bank can be regarded as imputable to the State. Central banks are in general independent from the central government. However, it is generally accepted that they do perform a public task and, in line with well-established case law that financial support granted by an institution serving a public purpose is regarded as a form of state aid ⁽⁶⁾, the public support granted by a central bank could thus also be regarded as being imputable to the State and thus qualify as state aid ⁽⁷⁾.

⁽¹⁾ See the article on Financial Markets and Central Bank measures in the CBI's Monetary Bulletin 2008-1 (April 2008), available at <http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=5883>

⁽²⁾ See for instance Bank State Aid in the Financial Crisis. Fragmentation or level playing field? A CEPS Task force report. October 2010. Centre for European Policy Studies, Brussels. See in particular chapter I, 'An Overview of State Aid Provided during the Crisis'.

⁽³⁾ These rules were replaced on 26 June 2009 by Rules No 553 on the same subject (currently applicable rules).

⁽⁴⁾ See EFTA Surveillance Authority Decision No 363/11/COL of 23.11.2011 to initiate the formal investigation procedure provided for in Article 1(2) in Part I of Protocol 3 to the Surveillance and Court Agreement with regard to state aid granted to three Icelandic investment banks through rescheduled loans on preferential terms (OJ C 21, 26.1.2012, p. 2 and EEA Supplement No 4, 26.1.2012, p. 10), paragraphs 53-55.

⁽⁵⁾ See judgment in *Hellenic Republic v Commission*, C-57/86, EU:C:1988:284, paragraph 9.

⁽⁶⁾ Judgment in *Italy v Commission*, C-173/73, EU:C:1974:71, paragraph 16; judgment in *Steinicke and Weinling v Germany*, C-78/76, EU:C:1977:52.

⁽⁷⁾ See Commission Decision 2000/600/EC of 10.11.1999 *Banco di Sicilia and Sicilcassa* [2000] OJ L 256/21, at paragraph 48 and 49, where it is accepted with no further discussion that advances granted by the Banca d'Italia to distressed banks constitute financial assistance provided by the State.

1.2.2. Favouring certain undertakings or the production of certain goods

- (71) This condition is twofold. Firstly, the measures must confer advantages that relieve the banks, as aid beneficiaries, of charges or mitigate charges that are normally borne by their budgets. Secondly, the measures must be selective in that they favour 'certain undertakings or the production of certain goods'.

Advantage

- (72) Repayment of outstanding credit, including interests, and other costs associated with the banks' short-term credit facilities with the CBI are costs normally borne by the banks' budgets. The question of whether the conversion of these credit facilities to long-term loans could be regarded as relieving the debtor of such costs and thus as an advantage will ultimately depend on whether a private investor of a comparable size to that of the public body operating in normal market conditions would have granted a similar loan on similar conditions.
- (73) The reason for converting the short-term claims to long-term loans was the banks' inability to honour these claims. The question thus arises whether a private investor holding similar short-term claims on the banks would have agreed (1) to a conversion of these short-term claims to long-term loans; and (2) according to the same conditions. In addition, the question also arises whether the initial delay in settling payments of the CBI short term credit facilities, which is understood to have lasted from around October 2008 until late 2009/beginning of 2010, may involve state aid. In general, decisions by public bodies to tolerate late payments on a loan may entail an advantage to the debtor and involve state aid. While a temporary deferral of payment would probably correspond to the conduct of a private creditor and thus not involve state aid, such conduct, initially consistent with market conditions, could turn into state aid in cases of protracted delays in payment⁽¹⁾.
- (74) The private creditor test, developed and refined by the courts of the European Union⁽²⁾, serves to establish whether the conditions under which a public creditor's claim is to be repaid, possibly by rescheduling payments, constitutes state aid. When the state is in the position, not as an investor or a promoter of a project, but as a creditor trying to maximise the recovery of an outstanding debt, lenient treatment alone, in the form of deferral of payment or favourable interest rates, may not be sufficient to presume favourable treatment in the sense of state aid. In such circumstances the conduct of the public creditor is to be compared with that of a hypothetical private creditor in a comparable factual and legal situation⁽³⁾. As concerns interest rates, the correct term of reference is not the market interest rate but the rate deemed acceptable by a private creditor in similar circumstances. The crucial question is whether a private creditor would have granted similar treatment to a debtor in similar circumstances. Commercial advantage in the sense of Article 61(1) of the EEA Agreement can be presumed if the amount owed can be paid back to the public creditor on more favourable terms than would be accepted by a private creditor.
- (75) From the point of view of a private creditor, enforcement of a claim that has become due is the self-evident norm. This also applies if the debtor undertaking is in financial difficulties as well as in the case of insolvency. Private creditors will not normally be willing in such circumstances to accept further deferral of payment if this does not bring them any clear advantage. On the contrary, once a debtor runs into financial difficulty, further loans would only be granted to the debtor under stricter terms, e.g. at a higher interest rate or with more comprehensive securities, as repayment is endangered.
- (76) Exceptions may be justifiable in individual cases where non-enforcement seems to be the economically more sensible alternative. This would be the case when non-enforcement offers clearly improved prospects of collecting a substantially higher proportion of the claims in comparison with other possible alternatives or if even greater consequential losses can be averted in this way. It can be in the interest of a private creditor to keep the business of the debtor company running instead of liquidating its assets and thus, under certain circumstances, only collecting a part of the debt. When a private creditor accepts to refrain from enforcing his claim in full, he will normally require the debtor to provide additional securities and when this is not available, in cases of debtors in financial difficulty, he will seek assurances of maximum compensation should the financial condition of the debtor later improve. If insufficient securities or commitments are made by the debtor, a private creditor would generally not accept to conclude debt rescheduling agreements or provide the debtor with additional loans.

⁽¹⁾ See Opinion of Advocate General Jacobs in judgment in *DM Transport*, Case C-256/97, EU:C:1998:436, paragraph 38.

⁽²⁾ See judgment in *Spain v Commission*, C-342/96, EU:C:1999:210, paragraphs 46 *et seq.*; judgment in *SIC v Commission*, T-46/97, EU:T:2000:123, paragraph 98 *et seq.*; judgment in *DM Transport*, C-256/97, EU:C:1999:332, paragraphs 19 *et seq.*; judgment in *Spain v Commission*, C-480/98, EU:C:2000:559, paragraphs 19 *et seq.*; judgment in *HAMSA v Commission*, T-152/99, EU:T:2002:188, paragraph 167; judgment in *Spain v Commission*, C-276/02, EU:C:2004:521, paragraphs 31 *et seq.*; judgment in *Lenzig v Commission*, T-36/99, EU:T:2004:312, paragraphs 134 *et seq.*; judgment in *Technische Glaswerke Ilmenau v Commission*, T-198/01, EU:T:2004:222, paragraphs 97 *et seq.*; judgment in *Spain v Commission*, C-525/04 P, EU:C:2007:698, paragraphs 43 *et seq.*; judgment in *Olympiaki Aeroporia Ypiresies v Commission*, T-68/03, EU:T:2007:253; and judgment in *Buzek Automotive v Commission*, T-1/08, EU:T:2011:216, paragraphs 65 *et seq.*

⁽³⁾ For a helpful exposition of the application of the private creditor test, see also *The EC State Aid Regime: Distortive Effects of State Aid on Competition and Trade*, Michael Sanchez Rydelski (Ed.), Ch. 7.

- (77) In the wake of Glitnir's and Kaupthing's collapse in the autumn of 2008, the CBI found itself in a position where it was unrealistic to expect to enforce collateral like the ones in question in the case of Arion and ISB. In appropriating such collateral, the CBI would have taken on the role of a commercial bank with one of the largest household loan portfolios in Iceland, which would have been inconsistent with its role as a central bank. Taking into account that the loan portfolios constitute a large share of Arion's and ISB's customer base, appropriating such collateral could also have jeopardised the financial stability of Arion and ISB and would have driven these financial undertakings into bankruptcy.
- (78) According to the CBI, it therefore chose to enter into the loan conversion agreements because these agreements eventually would ensure the CBI full payment of its claims, with interest and without having to incur administrative expenses, and thus constituted the maximum possible recovery at that time. In addition, the conclusion of these agreements would also lead to minimal disturbance and were of benefit to the borrowers who continued to be the customers of operating financial institutions.
- (79) The Authority considers that the available evidence so far suggests that the CBI and thus the Icelandic State has in many respects endeavoured to best secure the interests of the State and tried to maximise the Treasury's recovery of the claims. In return for agreeing to a conversion of the short-term credits to long-term loans, the State received consideration in the form of the conditions attached to the loan. The question thus remains whether these conditions, and in particular the applicable interest rates, also would have been sufficiently valuable to a private creditor to meet the requirement of the private creditor test.
- (80) ISB claims that the interest loans are in line with the interest rates of similar asset-backed bonds at the time. The ISB bond's maturity date is 10 years, with an interest rate of 4,5 %, CPI linked (consumer price-indexed), and appears to be over collateralized with a loan-to-value ('LTV') ratio of 70 %⁽¹⁾. The interest rate was thus set at about 50bp on top of the state guaranteed HFF bonds on the date of issue whereas common rates in Europe at the time for similar asset-backed securities were at 40 to 80bp above state-guaranteed papers. ISB also pointed out that it paid down 10 billion ISK of its debt on 10 April 2014 because it was able to obtain more favourable funding in the market.
- (81) Similarly, as mentioned in paragraphs (40) to (42) above, Arion Bank claims that the terms of its loan agreement with the CBI were on market terms and compares it, inter alia, to a similar agreement concluded between the old and new Landsbanki, whereby it appears that the terms of Arion's loan agreement were more stringent than those in the Landbanki agreement, involving a private lender. Indeed, it appears that the Landsbanki agreement required lower interest rates, involved a higher principal amount and had weaker and less diversified collateral than the Arion loan agreement.
- (82) Although ISB and Arion have put forward evidence demonstrating that the interest rates applied to the loan conversion agreements did not differ substantially from interest rates applied to other similar loan agreements or bonds concluded or issued around the same time as the loan agreements, it is difficult to determine what the appropriate benchmarks for interest rates were during the financial crisis as credit markets were more or less frozen and no credit rating was available yet for the newly founded banks. In the Authority's preliminary view, additional evidence should therefore be collected in order to ascertain whether the lending terms in general, and the interest rates in particular, of the loan agreements would have been equally acceptable by a private creditor. As will be seen in section 3 below, the Authority also has doubts as to whether such terms meet principal requirements of compatibility for remuneration of state aid according to the Authority's temporary rules on aid to financial undertakings in the current financial crisis.
- (83) In light of the above, the Authority concludes that doubts exist as to whether the measures under assessment are consistent with the conduct of a private creditor finding himself in a comparable legal and factual situation. Therefore, the Authority cannot exclude that the conversion of the short-term credits into long-term loans conferred an advantage upon ISB and Arion.

Selectivity

- (84) According to established case law, a measure is normally considered to be selective if it favours a particular economic sector or certain undertakings, as opposed to other sectors or other undertakings which do not derive any benefit from it⁽²⁾.
- (85) The Icelandic authorities have so far not presented clear evidence that the allegedly favourable loan conversion agreements were effectively made available to all undertakings in a comparable legal and factual situation as ISB and Arion, i.e. to undertakings that were indebted to the CBI due to short-term collateral and securities lending. On the contrary, it appears that MP Banki was not offered the possibility of a favourable loan agreement and that Straumur apparently was also not offered to conclude a loan conversion agreement for payment of its short-term debt to the CBI, since it announced in August 2011 that it had paid in full all loans granted to it by the CBI without the CBI or the Treasury incurring any losses or write-offs.

⁽¹⁾ The loan-to-value ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased.

⁽²⁾ See for instance judgment in *Belgium v Commission (Maribel bis/ter)*, C-75/97, EU:C:1999:311 as well as the judgment in *Commission v Government of Gibraltar*, C-106/09 P and C-107/09 P, EU:C:2011:732, paragraph 75.

- (86) In view of the above the Authority concludes that the loan conversion agreements cannot be considered to represent general measures but must be considered to be selective in nature.

1.2.3. Distortion of competition and effect on trade

- (87) The contested aid measures must be liable to affect trade and distort competition between the Contracting Parties to the EEA Agreement ⁽¹⁾.
- (88) Government measures favouring particular banks are liable to distort competition because these measures strengthen the position of the beneficiary banks compared to other financial institutions competing in the EEA. While ISB and Arion today operate mostly on the Icelandic market, they are nevertheless engaged in the provision of financial services which are fully open to competition and trade within the EEA. This condition can therefore be presumed to be fulfilled.

1.2.4. Conclusion regarding presence of state aid

- (89) In light of the above, the Authority cannot exclude that the conversion of the short-term credit facilities into long-term loans and the terms applied to these loan conversion agreements could constitute state aid within the meaning of Article 61(1) of the EEA Agreement. First, since the contested measures can be qualified as public support granted by a central bank, they could be regarded as being imputable to the State and thus qualify as state aid. Secondly, doubts exist as to whether these measures are consistent with the conduct of a private creditor finding himself in a comparable legal and factual situation. It thus cannot be excluded that these loan conversion agreements conferred an advantage upon ISB and Arion. Third, as these agreements were only available to ISB and Arion, they cannot be qualified as general measures, but must be regarded as selective in nature. Finally, the measures under assessment also seem liable to affect trade and distort competition because they strengthen the banks' position compared to other financial institutions competing with them in the EEA.

2. Procedural requirements

- (90) Pursuant to Article 1(3) of Part I of Protocol 3, *'the EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid [...]. The State concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision'*.
- (91) The Icelandic authorities did not notify the loan conversion agreements to the Authority before implementing them. Moreover, these loan conversion agreements were neither covered as aid measures nor as potential aid measures in the restructuring plans for the two banks that were notified to the Authority. Moreover, the Icelandic authorities have put these agreements into effect before the Authority has adopted a final decision. The Authority therefore concludes that the Icelandic authorities have not respected their obligations pursuant to Article 1(3) of Part I of Protocol 3. The granting of any aid involved might therefore be considered to be unlawful.

3. Compatibility of the aid

- (92) Aid measures that are *prima facie* incompatible with Article 61(1) of the EEA Agreement may qualify for exemption if they fulfil the conditions set out in Article 61(2) or (3) of the EEA Agreement
- (93) While it is the principal view of the CBI as well as of the beneficiaries ISB and Arion that the loan conversion agreements on potentially preferential terms did not involve any state aid, they also argue that should the Authority consider otherwise, such aid can nevertheless be found compatible. In this context reference is made to Article 61(3)(b) of the EEA Agreement, exceptionally allowing aid to remedy a serious disturbance in the economy of an EFTA State.
- (94) In the Authority's letters requesting information on the measures, the Icelandic authorities have been invited to submit any information and observations which the Icelandic authorities consider relevant for the Authority to assess the compatibility of the measures with the state aid provisions of the EEA Agreement.
- (95) The CBI, ISB and Arion have provided information to demonstrate that, in case the Authority were to consider the measures to involve state aid, the measures undertaken by the CBI should be considered to fall under Article 61(3)(b) of the EEA Agreement. Indeed, the CBI mentioned in paragraph (77) and (78) above that it had virtually no other option than to enter into the loan conversion agreements with both banks, if it wished to maximise the possibility of recovering its claims against the banks and cause a minimal disturbance to their viability.

⁽¹⁾ See Joined Cases E-5/04, E-6/04 and E-7/04, *Fesil and Finnfjord and others v EFTA Surveillance Authority* [2005] EFTA Court Report 117, paragraph 93; judgment in *Eventech Ltd v Parking Adjudicator*, C-518/13, EU:C:2015:9, paragraphs 64-70 and the case law cited therein.

- (96) Similarly, ISB notes that the measures undertaken were necessary, proportionate and appropriate for the restructuring of the bank because if ISB, who was allocated Glitnir's debt to the CBI and, indirectly, the ownership of the underlying collateral, would have been forced to pay up this debt to the CBI (in the amount of 55 billion ISK), ISB's liquidity position would have suffered tremendously and could have jeopardized the government's efforts to have Glitnir's creditors take over a majority stake in the bank.
- (97) Arion Bank also puts forward arguments to demonstrate that the conclusion of the loan conversion agreement was a necessary part of the restructuring of the bank. Indeed, Arion states that it could not have been established as a viable bank if the CBI had decided to enforce the collateral, i.e. the housing loan portfolio, and not assign it back to Arion and enter into the long-term loan agreement. Indeed, without the transfer of the Housing Loan portfolio, which constituted a very valuable pool of assets, the creditors of Kaupthing would never have agreed to acquire a majority stake in Arion and the bank's chances of survival would have been slim. Moreover, Arion refers to the Authority's Decision 291/12/COL of 11 July 2012 which Arion claims to have found that the subordinated loan granted to Arion on the terms EURIBOR/LIBOR + 300 to 500 bps did not constitute unlawful aid. Arion therefore suggests that the loan granted to Arion in the current case does not include terms that are unduly favourable to Arion as the terms are set at EURIBOR/LIBOR + 300 bps, whereas it concerns a senior secured loan and thus ranks higher in terms of security than the subordinated loan approved by the Authority. Therefore, a lower interest rate seemed justifiable.
- (98) While the Icelandic authorities have not submitted any evidence in favour of assessing the compatibility of the measure in line with the Authority's temporary state aid guidelines regarding the financial crisis, it is nevertheless appropriate to briefly consider the loan conversion agreements under those rules.
- (99) The temporary rules on aid to financial undertakings foresee limitation of aid to the minimum necessary and safeguards against undue distortion of competition. In particular, the guidelines set out rules to secure appropriate and adequate remuneration for state recapitalisation⁽¹⁾. Without going into the details of those rules, they underline the importance of the closeness of pricing to market prices. Under certain circumstances, the Authority may be prepared to accept the price for recapitalisations at rates below current market rates, if this is likely to favour the restoration of financial stability, but the total expected return to the state should not be too distant from market prices. The entry level price may thus be fairly low, but the price should normally be adjusted upwards to account for the need to encourage the redemption of state capital and prevent undue distortion of competition.
- (100) Although it is still to be determined to what extent the interest rates applied to the loan agreement with ISB and with Arion could be regarded as close enough to market rates, if these can be determined at the time of the financial crisis, it is notable that no step-up of interest rates was foreseen to encourage redemption of state capital. Any possible upside in the operation of the debtors, which is partly the aim of the measures, would thus not be redeemed by the state to limit state aid, but would accrue to the debtors. Additional evidence should thus be provided to the Authority in order to allow it to determine whether these lending terms could be regarded as compatible with the Authority's state aid guidelines and the functioning of the EEA Agreement.
- (101) Under those circumstances, the Authority has doubts as to the compatibility of the aid measures.

4. Opening of the formal investigation procedure

- (102) Based on the information submitted by the Icelandic authorities, the Authority cannot exclude the possibility that the loan conversion agreements on potentially preferential terms constitute state aid within the meaning of Article 61(1) of the EEA Agreement. The Authority also has doubts as to whether these agreements comply with Article 61(3) of the EEA Agreement and thus whether they can be found to be compatible with the functioning of the EEA Agreement.
- (103) Consequently, and in accordance with Article 4(4) of Part II of Protocol 3, the Authority is obliged to open the formal investigation procedure provided for in Article 1(2) of Part I of Protocol 3. The decision to open a formal investigation procedure is without prejudice to the final decision of the Authority, which may conclude that the measures in question are compatible with the functioning of the EEA Agreement.
- (104) In light of the foregoing considerations, the Authority, acting under the procedure laid down in Article 1(2) of Part I of Protocol 3, invites the Icelandic authorities to submit their comments within one month of the date of receipt of this Decision.

⁽¹⁾ See for instance the Authority's Guidelines on the recapitalisation of financial institutions in the current financial crisis (OJ L 17, 20.1.2011, p. 1 and EEA Supplement No 3, 20.1.2011, p. 1), available online at: <http://www.eftasurv.int/?1=1&showLinkID=16015&1=1>

- (105) In light of the foregoing considerations, the Authority requests the Icelandic authorities to provide, within one month of receipt of this decision, all documents, information and data needed for the assessment of the compatibility of the loan conversion agreements examined above.
- (106) The Authority requests the Icelandic authorities to forward a copy of this decision to the potential recipients of the aid immediately.
- (107) The Authority must remind the Icelandic authorities that, according to Article 14 of Part II of Protocol 3, any incompatible aid unlawfully granted to the beneficiaries will have to be recovered, unless, exceptionally, such recovery would be contrary to a general principle of EEA law.

HAS ADOPTED THIS DECISION:

Article 1

The short-term credit facilities provided by the Central Bank of Iceland to Glitnir and Kaupthing do not involve state aid within the meaning of Article 61(1) of the EEA Agreement.

Article 2

The formal investigation procedure provided for in Article 1(2) of Part I of Protocol 3 is opened regarding the possible state aid granted to Íslandsbanki hf. and Arion banki hf. through loan conversion agreements on potentially preferential terms.

Article 3

The Icelandic authorities are invited, pursuant to Article 6(1) of Part II of Protocol 3, to submit their comments on the opening of the formal investigation procedure within one month from the notification of this Decision.

Article 4

The Icelandic authorities are requested to provide, within one month from notification of this Decision, all documents, information and data needed for assessment of the measures under the state aid rules of the EEA Agreement.

Article 5

This Decision is addressed to Iceland.

Article 6

Only the English language version of this Decision is authentic.

Decision made in Brussels, on 20 May 2015.

For the EFTA Surveillance Authority

Oda Helen SLETNES
President

Frank BÜCHEL
College Member