

Iceland's MREL Requirements Result In Ratings Uplift For Icelandic Covered Bonds

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FRANKFURT (S&P Global Ratings) May 27, 2022--S&P Global Ratings said today that it will apply a higher ratings uplift for Icelandic covered bonds, following recent publication of the minimum requirement for own funds and eligible liabilities (MREL) and institution-specific MREL requirements by the Icelandic resolution authority.

The implementation will affect all existing Icelandic covered bond ratings, given the current 'A-' ratings on the Icelandic covered bond programs that we rate (Landsbankinn hf and Arion Bank hf) do not include resolution based uplift in the rating reference level (RRL).

Our covered bonds criteria recognize that effective resolution regimes allow issuers to service covered bonds following a bail-in of senior unsecured obligations. This means that a bank facing failure may continue to make payments on its covered bonds once resolved, without accessing the cover pool. In jurisdictions where covered bonds are more systemically important to the financial markets, we expect that financial authorities will have a stronger incentive to restore a failing bank as a going concern rather than liquidate it. Therefore, we add two notches above the issuer credit rating (ICR) where we assess systemic importance as strong or very strong (see "Covered Bonds Criteria," published on Dec. 9, 2014).

Our view of the regime's effectiveness is supported by:

- Iceland's Act on the Resolution of Credit Institutions and Securities Undertakings number 70/2020, which implements the EU's Bank Recovery and Resolution Directive I (BRRD1) in Iceland;
- Recent institution specific MREL requirements, on three systemically important domestic banks (D-SIBs); and
- The financial stability committee of the Central Bank of Iceland announcing that it considers the three D-SIBs to be resolvable (see "Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stable," published on May 17, 2022).

Given our strong jurisdictional assessment of mortgage covered bonds in Iceland, we can assign two notches of uplift above the ICR when assessing the RRL, reflecting the increased probability that the issuer can service its covered bonds (see "Sector And Industry Variables | Criteria | Structured Finance | Covered Bonds," published on Dec. 17, 2021).

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Related Criteria

- Sector And Industry Variables | Criteria | Structured Finance | Covered Bonds, Dec. 17, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2009

Related Research

- Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed, May 17, 2022
- Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stable, May 17, 2022
- Iceland 'A/A-1' Ratings Affirmed; Outlook Stable, May 13, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- Banking Industry Country Risk Assessment: Iceland, Feb. 21, 2022
- Ratings On Icelandic D-SIBs Affirmed As Pandemic Recovery Risk Lingers; Outlooks Remain Stable, Jan. 25, 2022
- New Issue: Arion Bank hf. Mortgage Covered Bond Program, Oct. 5, 2021
- New Issue: Landsbankinn hf. Covered Bond Programme, Jan. 21, 2021
- Icelandic Bank Resolution Act Completes The European Map, But Implementation And Effectiveness Remain Unclear, Sept. 1, 2020
- Glossary of Covered Bond Terms, April 27, 2018

This report does not constitute a rating action.

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