

Háskólinn á Bifröst

Narratives of Negligence:

**On the accusations of negligence in relation to Iceland's 2008
banking collapse.**

BA Thesis for Philosophy, Political Science and Economics

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Abstract

This assignment will collect statements from multiple sources which have either been accused of or have accused others of negligence in relation to the 2008 banking collapse in Iceland. These statements will be analyzed and recorded in the format of a third person objective narrative.

Althingi's Special Investigation Commission delivered a report on the 2008 collapse of the Icelandic banking sector on April 12, 2010. In this report the Special Investigation Commission accuses leading figures of Iceland's former government of being guilty of negligence. These accusations have been disputed by the accused and were considered by the current Icelandic parliament which voted 33-30 in favor of bringing charges against ex- Prime Minister Geir Haarde in the Landsdomur court for negligence in relation to his role in Iceland's 2008 financial crash. With their protests over accusations of negligence, leading figures of Iceland's former government have also accused a variety of influential people for being negligent, including former employees of the central bank and Iceland's commercial banks. From this discourse it has also been suggested that Iceland's 2008 financial crash is related to a negligent culture driven by greed. According to some this negative culture has existed in Iceland since the 1990's. This assignment aims to organize these competing accusations of negligence into one coherent narrative.

Foreword

This thesis is presented as a final dissertation for a BA degree in Philosophy, Political Science and Economics from the University of Bifröst. It has the value of 18 ECTS credits and my instructor was Njörður Sigurjónsson.

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1.0 Introduction

In 2008 Althingi commissioned the Special Investigation Commission to examine the processes leading to the collapse of Iceland's three largest banks Landsbanki, Kaupthing and Glitnir. In its report the Special Investigation Commission accuses many prominent members of Iceland's government and financial sector of negligence including former Prime Minister Geir H. Haarde, former Minister of Finance Árni M. Mathiesen, former Minister of Business Affairs Björgvin G. Sigurðsson, former Director General of Fjármálaeftirlitið Jónas Fr. Jónsson, former Governors of the Central Bank of Iceland Davíð Oddsson, Eiríkur Guðnason and Ingimundur Friðriksson.

The Special Investigation Commission report explains how Iceland's government policy was partially responsible for Iceland's 2008 financial crash. According to the report, the Icelandic government failed to properly respond to the large size of the Icelandic banks and was focused on maintaining a large financial system which was not sustainable in the long term. The report explains that the Icelandic government was negligent in regards to the 2008 financial crises because insufficient consultation made the government unprepared and unconcerned with Iceland's developing banking problems. The report states that there was no government contingency plan and there was a clear lack of understanding regarding the responsibilities of individual government officials.

The Special Investigation Commission report concludes that former Director General of Fjármálaeftirlitið Jónas Fr. Jónsson was negligent in his duties because Fjármálaeftirlitið was responsible for regulating and overseeing the activities of Iceland's banks and it failed to properly respond to the banks rapid growth. The report explains how the Fjármálaeftirlit's operations were conducted with insufficient intensity which led to a disregard for compliance with existing law.

The former Chairman of the Board of Governors of the Central Bank of Iceland was also negligent according to the Special Investigation Commission report because he failed to distribute documents which summarized his concerns over Iceland's banking sector and propose actions to counter these concerns. The Special Investigation Commission also criticizes the Board of Governors of the Icelandic Central Bank's response to Glitnir's request for collateralized loans. The Special Investigation Commission states that the previous

political career and personal relationships of Davíð Oddsson negatively affected his duties as the Chairman of the Board of Governors of the Central Bank of Iceland.

The Special Investigation Commission report also states that Iceland's three largest banks did not act in the long term interest of the banks because they developed their policies with a primary focus on the short term profit of its principle owners who had abnormal access to credit. Through this system an unstable banking sector developed based on high risk growth and borrowing from itself.

A parliamentary committee was created by Althingi to review Althingi's Special Investigation Commission report on Iceland's 2008 financial collapse. In response to the Parliamentary Committee's review of Althingi's Special Investigation Commission report, Althingi voted to have former Prime Minister Geir H. Haarde prosecuted for gross negligence during his term as Prime Minister.

In response to the Special Investigation Commission report, individuals accused of negligence have refuted these accusations. Their impressions of the role they played leading to the financial collapse are different from that of the report and there are also conflicting perspectives of what would qualify them as having been negligent. This debate has created confusion over who was responsible for the events that led to the financial collapse in Iceland and what the criteria should be for accusations of negligence. Some experts have assessed the situation by explaining that the whole of Icelandic society was negligent because its greed demanded a financial system based on rapid high risk growth.

Two main stories are revealed by analyzing Althingi's Special Investigation Commission report, the parliamentary committee review of Althingi's Special Investigation Commission report and various information released by individuals accused of negligence by Althingi's Special Investigation Commission. Althingi's Special Investigation Commission report and the parliamentary committee review of Althingi's Special Investigation Commission conclusion tell a story of a banking crisis caused by the negligence of a few important individuals responsible for Iceland's financial well being. However, explanations released by the individuals accused of negligence tell a very different story. This narrative will compose these two stories by using the specific accusations and statements of selected individuals. This format will provide objectivity and contrast by placing multiple perspectives of this crisis into one narrative.

2.0 Althingi's Special Investigation Commission's use of the Term Negligence

In Althingi's Special Investigation Commission's report on Iceland's 2008 financial crises the term negligence is the Commission's translation for the Icelandic term "vanræksla". The Commission uses this term to express how certain members of Iceland's former government and banking sector did not fulfill their duties while in public office. The report explains that the term negligence is used to describe individuals that did not react to Iceland's financial situation in a competent manner (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission's report's definition of the term negligence was used by parliament as grounds for considering prosecution of accused individuals (Þórhallur Jónsson, Árni M. Mathiesen, 2010). According to article 14 in Iceland's constitution, government ministers are legally liable for the actions of their government and the Icelandic parliament which is called Althingi can prosecute them in Landsdómur which is the Icelandic equivalent of an impeachment court (Stjórnaskrá lýðveldisins Íslands). Parliament considered that the reports accusations of negligence were, according to article 14 in the Icelandic constitution, reason for further legal actions.

The legal understanding of the term negligence refers to someone not fulfilling a duty or responsibility by not acting in a prudent and reasonable manner. Negligence can cause damages and those who are deemed to be negligent can be held accountable for these damages (The Columbia Encyclopedia, 2009). Investigating claims of negligence can incorporate inquiries into the understanding of what classifies behavior that is negligent in the form of carelessness, incompetence or reckless actions. Defining what actions fulfill the criteria of being negligent can be difficult because it involves analyzing subjective perspectives. Althingi's Special Investigation Commission report uses the term negligence to describe the actions of many influential figures in Iceland's political and financial sectors and supports its claims. However, most of the accused individuals have protested the reports accusations of negligence which has created a debate over the usage of the term negligence and what actions can be considered to be negligent.

3.0 Althingi's Special Investigation Commission Report

In accordance with Act No.142/2008, December 2008, Althingi commissioned the Special Investigation Commission to examine the processes leading to the collapse of Iceland's three largest banks. The commission's members were Parliamentary Ombudsman Tryggvi Gunnarsson, Supreme Court Judge Páll Hreinsson and lecturer Sigríður Benediktstóttir Ph.D. The Special Investigation Commission was originally meant to submit its report on the 1st of November 2009 but this date was moved to the 1st of February 2010. The release date for the Special Investigation Commission report was then further delayed to March 2010 and then finally the roughly two thousand page report was released on the 12th of April 2010.

The Special Investigation Commission report was significant because it blamed the Icelandic banking crisis on the negligent actions of Iceland's former ministers, regulators and bankers. The report blames the negligent actions of a few individuals for the financial collapse of Iceland. The report also explains that the Icelandic authorities were negligent in their response to Glitnir's requests for a collateralized loan and in their reaction to Landsbanki's acquisition of foreign liabilities through Icesave.

The actions of Iceland's authorities in regards to Iceland's banking crisis have been popular topics in Iceland. The events which related to Glitnir's requests for a collateralized loan and Landsbanki's acquisition of foreign liabilities through Icesave were topics of particular public interest. Althingi's Special Investigation Commission report was meant to clarify to the Icelandic public why there was a financial crisis and how it happened. The report's conclusions were dramatic and shocking to many.

3.1 Althingi's Special Investigation Commission Report Claims that Former Icelandic government leaders were guilty of negligence

Althingi's Special Investigation Commission Report on Negligent Government Policy

The Special Investigation Commission report states that the Icelandic parliament and government "lacked both the power and the courage to set reasonable limits to the financial system" (Páll Hreinsson, Sigríður Benediktstóttir, Tryggvi Gunnarsson, 2010, book 1 pg.46). The report emphasizes its conclusion that the concerns of parliament and the government were focused on maintaining a large financial system which the report considered to be unsustainable (Páll Hreinsson, Sigríður Benediktstóttir, Tryggvi Gunnarsson, 2010).

According to the Special Investigation Commission report, the government should have responded sooner than they did to the overwhelming size of the Icelandic banking system. It states that, the government should have started reducing the size of the banks no later than 2006 in order to prevent the financial crisis of 2008. The report also states that the government did not demonstrate any effort to reduce the size of the banks in 2006 or 2007. The report also confirms that the leading government coalition of the Sjálfstæðisflokkur and Samfylkingin agreed in their 2007 coalition agreement to help financial facilities in Iceland to grow domestically and further develop their foreign expansion (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The report states that the government's decision to lower taxes, maintain low interest rates and make changes to the Housing Financing Fund in 2004 were mistakes made by the government with a clear understanding of the potential consequences. The report blames these policies for creating economic imbalances in Iceland which made the results of financial collapse worse (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission regarded the economic policies of the Icelandic government in 2006 and 2007 as being damaging for the long term economic progress of Iceland and that these policies did not address important factors that eventually led to the financial crisis. As an example the report also mentions that the governor of the Central Bank of Sweden, Stefan Ingves, wrote a letter to the Investigation Commission explaining how the Icelandic government had not understood that the banks rapid growth and unclear ownership created an unstable financial situation (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi's Special Investigation Commission Report on Negligent Ministers

In its report the Special Investigation Commission maintains that former Prime Minister Geir H. Haarde, former Minister of Finance Árni M. Mathiesen, and former Minister of Business Affairs Björgvin G. Sigurðsson “showed negligence during the time leading up to the collapse of the Icelandic banks, by failing to respond in an appropriate fashion to the impending danger for the Icelandic economy that was caused by the deteriorating situation of the banks” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.46).

According to the Special Investigation Commission report, there was insufficient discussion within the Icelandic government about the banks difficulties including a liquidity crisis which

had been ongoing since 2007. According to its findings none of the ministers of the Icelandic government submitted any reports concerning possible problems with the banks or possible economic problems that could occur due to problems in Iceland's banking sector before the bank's collapsed in October 2008 (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report states that at the beginning of 2008, the Icelandic government was unprepared and unfocused in relation to the banking crisis. According to the report there was insufficient understanding by the government of their capabilities to assist the banks and of the cost of the financial problems related to the banks. This lack of assessment by the government led to uninformed public discussions domestically and abroad. The Commission claims that during its assessment of their situation in 2008, the Icelandic government placed too much emphasis on maintaining the image of the financial institutions and not enough on the large size of Iceland's financial system in comparison to its overall economy (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The report emphasizes the negligence demonstrated by Geir Haarde, Björgvin G. Sigurðsson and Árni M. Mathiesen by referring to two meetings they had with the Central Bank of Iceland's Board of Governors on 7 February 2008. In the first meeting the Board of Governors expressed concerns about the Icelandic economy because of its dependency on unstable banks. The ministers failed to appropriately respond to these concerns. A second meeting was held on 1 April 2008 between the Central Bank of Iceland's Board of Governors, Geir Haarde and then Minister for Foreign Affairs Ingibjörg Sólrún Gísladóttir. In this meeting the Board of Governors maintained that Landsbanki could not withstand an ongoing outflow of withdrawals which would lead to the collapse of the bank. According to the report, the ministers did not respond to information given at this meeting with credible measures or policy changes (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report refers to five meetings that the Central Bank of Iceland's Board of Governors had with Geir Haarde, Árni M. Mathiesen and Ingibjörg Sólrún Gísladóttir between February and May in 2008. In these meetings Björgvin G. Sigurðsson did not attend and was not asked to attend. The Commission found this odd because Björgvin G. Sigurðsson was Minister of Business Affairs and the topics being discussed at these meetings concerned the liquidity crisis and the problems facing the banks. It is stated that Björgvin G. Sigurðsson was not informed of these meetings by Prime Minister Geir Haarde, which the

report considers as an example of insufficient communication between ministers and led to Björgvin G. Sigurðsson being unable to fulfill his duties as Minister of Business Affairs (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

In 2008 the central banks of Norway, Sweden and Denmark agreed to a currency swap agreement with the Central Bank of Iceland under the conditions that former Prime Minister, Geir Haarde, would agree to proposals made by the IMF to pressure the Icelandic banks into reducing their size. The ministers of Iceland signed a declaration in 15 May 2008 to have the Central Bank of Iceland and the Fjármálaeftirlitið take actions to reduce the size of Icelandic banks. However, according to the report, the declaration was not discussed in government cabinet meetings and the promises made in pressuring the banks to reduce the size of their balance sheets were not kept. The Special Investigation Commission report states that this was one reason why the Icelandic authorities became internationally isolated during the collapse of the Icelandic banking system in October 2008 (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

No Contingency Plans

When interviewing government officials about their roles in the 2008 financial crises, the Special Investigation Commission found that these officials were unaware of their responsibilities. In their replies to the Special Investigation Commission, government officials did not consider items of discussion as being something themselves or their institutions were responsible for. The report explains that government institutions that monitored Iceland's financial markets were confused about what their responsibilities entailed. According to the report, confusion over institutional responsibility created a lack of clarity which led the Icelandic government and its financial institutions to being unprepared when dealing with the financial crisis. The report claims that the government had not prepared adequate contingency plans for dealing with the difficulties that occurred during the financial collapse. The report also states that this lack of preparation and action by the government made the financial situation in 2008 more severe (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

According to the Special Investigation Commission, state contingency plans were poorly prepared and not thorough. The government placed itself in a situation in which it could not react quickly to the financial crisis and were unable to give accurate responses to foreign governments when they inquired about the financial situation. The report states "The

procedures by the authorities with regard to contingency plans for protecting the financial system of the country and other fundamental interests of state and the nation, were unacceptable. These methods were not in keeping with the manner in which nations with developed financial markets and administration operate in general” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.43).

Leading up to the financial collapse of October 2008, there was a lack of leadership and harmony between the government and the Central Bank of Iceland. This led to an indecisive decision making process and confusion over what should be done to resolve the crises. A course of action was not decided until then Prime Minister Geir Haarde enlisted the assistance of a group of experts on 4 October 2008. However, the government had previously also tasked contingency preparations to two other groups. For contingency planning, a government consultative group was used between 21 February 2006 and 3 October 2008. The Central Bank of Iceland also commissioned a group for contingency planning between 30 September 2008 and 3 October 2008. The contingency planning groups reported having difficulties in receiving access to information. The difficulties that these contingency planning groups had in working and assisting each other, is considered by the Special Investigation Commission to be an example of the communication difficulties and lack of transparency displayed by the government during the financial crises (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report declares that inadequate contingency planning by the government resulted in the Emergency Act being poorly constructed. According to the report, most of the Emergency Act was created between 4 October and 6 October 2008 with insufficient time and expertise. The Special Investigation Commission concludes that the Emergency Act that was accepted by Althingi on 6 October 2008 was unsatisfactory (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Failure to Move Liabilities Abroad

Iceland’s Depositors and Investors Guarantee Fund (TIF) dramatically increased its obligations in 2006 and 2007 through Landsbanki’s Icesave accounts in the UK, which increasing its foreign deposits by 50% in 2007. The Special Investigation Commission report could not see any evidence that the Icelandic government formally requested that Landsbanki’s Icesave accounts be transferred to foreign subsidiaries (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Accordingly the TIF's board of directors and the Icelandic government should have reacted to these developments by considering its capacity to ensure these liabilities. The report states that "it was clear that the fund's assets were insufficient to fulfill the liabilities it would have to meet if larger financial institutions became insolvent" (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.40). The government did not have a contingency plan that considered how the TIF could ensure these foreign liabilities if there was a financial crises. When the financial crises occurred the Icelandic government was therefore unsure what the TIF's responsibilities to foreign depositors were and how it could meet those responsibilities (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Around the time of Iceland's financial collapse there were discussions within the government concerning Iceland's obligations as a EEA member state if it was unable to meet payment obligations in accordance with EU deposit guarantee directives. The Special Investigation Commission report states that the Icelandic government should have sought clarification on this matter, especially in relation to enquiries in July and August 2008 by foreign governments about Iceland's Guarantee Fund's capacity to fulfill its obligations and whether these obligations would be guaranteed by the Icelandic government. Furthermore the Icelandic government did not use all available legal sources to gain a better understanding of their legal obligations in these matters, which again led to confusion within the government over what Iceland's obligations were to the banks for foreign liabilities leading up to and during the financial crises (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi's Special Investigation Commission Report Claims that Fjármálaeftirlitið was Negligent

According to its report the Special Investigation Commission concludes that the former Director General of Fjármálaeftirlitið, Jónas Fr. Jónsson, showed negligence. Fjármálaeftirlitið was responsible for regulating and overseeing the activities of Iceland's banks. The Special Investigation Commission states that the Director General of Fjármálaeftirlitið, Jónas Fr. Jónsson, should have responded to the banks rapid growth with specific actions (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010). In the report it mentions that Fjármálaeftirlitið "was lacking in firmness and assertiveness" (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.45) and that it did not "sufficiently ensure that formal procedures were followed in cases where it had been

discovered that regulated entities did not comply with the laws and regulations applicable to their operations” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.46).

Fjármálaeftirlitið did not grow at the same rate as the Icelandic banks and it fell behind in its ability to regulate them . According to the Special Investigation Commission there should have been greater budgetary resources allocated to Fjármálaeftirlitið in order for it to be able to regulate such a large financial structure (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The report considers that the operations of Fjármálaeftirlitið were conducted with insufficient intensity which led to a disregard for the compliance with the law. Actions that Fjármálaeftirlitið took in response to violations of the law were often nothing more than written letters of reprimand to financial institutions. The Special Investigation Commission states that Fjármálaeftirlitið should have realized that the large scale development of the banks and high risk was not in the long term interest of the banks. The report explains that Fjármálaeftirlitið should have been more coercive in its relationships with Iceland’s financial institutions (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

3.2 The Report’s Findings on How Former Governors of the Central Bank of Iceland were Negligent

According to the Special Investigation Commission report there were issues of mistrust between Davíð Oddsson and ministers of the Samfylkingin The report states that the previous political career of Davíð Oddsson affected his performance as the Chairman of the Board of Governors of the Central Bank of Iceland because he had difficulties in communicating with members of the Samfylkingin who had been his political adversaries during Oddsson’s career as Prime Minister of Iceland and chairman of the Sjálfstæðisflokkur . The report also states that Davíð Oddsson’s friendship with then Prime Minister Geir H. Haarde created an unusual relationship between the Chairman of the Board of Governors of the Central Bank of Iceland and the Prime Minister of Iceland in the years leading to the financial collapse (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Board of Governors of the Central Bank of Iceland had a multitude of meetings with ministers from the Icelandic government in which the Board of Governors raised some concerns over Iceland’s commercial banks. The Special Investigation Commission report

explains that the Board of Governors of the Central Bank did not circulate documents which summarized these concerns nor did they propose any actions to counter them. This lack of action by the Board of Governors is described by the Special Investigation Commission as “not as thorough as might have been expected” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.38). Even though ministers failed to request such documents from the Board of Governors, the report states that it was the responsibility of the Board of Governors to properly express and record their concerns to the ministers (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report explains that there was a clear communication problem between the Icelandic Central Bank and the Icelandic Government which was caused by mistrust and a lack of thoroughness by the Board of Governors of the Central Bank of Iceland. According to the report, this lack of communication made it difficult for the Icelandic ministers to assess the financial situation at the time. The Board of Governors of the Central Bank of Iceland chose to share their concerns informally with government consultative groups or with the Prime Minister and a small group of ministers. The Special Investigation Commission report states that the Board of Governors of the Central Bank of Iceland was responsible for submitting a formal document which described their concerns to the Icelandic Government, which they failed to do (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi's Special Investigation Commission Report Claims that Davíð Oddsson, Eiríkur Guðnason and Ingimundur Friðriksson were Negligent

In its report, the Special Investigation Commission declares that Davíð Oddsson, Eiríkur Guðnason and Ingimundur Friðriksson showed negligence during their time as Governors of the Central Bank of Iceland. The report states that the actions of the Governors of the Central Bank of Iceland were insufficient in combating inflation. The report also partially blames poor policy making by the Governors of the Central Bank of Iceland for creating a situation in Iceland which led to a financial crisis in 2008 (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Due to the inactivity of the Icelandic Government to combat the expansion of the Icelandic commercial banks, the Central Bank of Iceland was left to reduce this expansion by increasing interest rates in 2004. The Icelandic Central Bank did not take the initiative in combating inflation and instead of increasing rates it called for the Icelandic government to enact budget

restraints. The Icelandic government did not respond to the Central Bank's request for budget restraints. According to the Special Investigation Commission, by 2005 the Central Bank of Iceland's interest rates were too low. The report explains that the chief economist of the Central Bank of Iceland had proposed lowering the policy rate but the Board of Governors of the bank wanted to avoid restraining the rate policy (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report also describes how the Central Bank of Iceland's Board of Governors did not have the legal mandate to provide Icelandic private banks with loans because they did not fulfill all the legal provisions for valid collateral stipulates. According to the report, the Central Bank of Iceland was aware of the dangers inherent in the policies of expansion by Iceland's commercial banks. Knowing this the Central Bank of Iceland however continued to loan the Icelandic commercial banks against collateral in their securities. The Special Investigation Commission report states that these transactions by the Central Bank of Iceland did not fulfill the requirements of Article 7 of Act No. 36/2001 which declares that loans must be "granted against collateral that the bank considers eligible" (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.35). In October 2008 loans from the Central Bank of Iceland to Iceland's three largest commercial banks amounted to ISK 300 billion (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

An example is given by the Special Investigation Commission concerning the Icelandic Central Bank's Board of Governors refusal to deal with Iceland's unstable financial situation when the Bank of England received a formal request from Davíð Oddsson on 15 April 2008 for a currency swap agreement. The Governor of the Bank of England Mr. Mervyn King did not accept this request because he believed that the Icelandic financial system was vulnerable do to the large size of its commercial banks. Mervyn King offered his assistance in aiding the Icelandic Central Bank in reducing the size of its commercial banks. The Central Bank of Iceland did not accept Mervyn King's offer for assistance and sent another request for a currency swap. The Bank of England did not reply to this second letter (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi's Special Investigation Commission Report Claims that the Central Bank of Iceland's Board of Governors did not Appropriately React to Glitnir's Request for a Collateralized Loan

Þorsteinn Már Baldvinsson, the Chairman of the Board of Glitnir, asked the Central Bank of Iceland's Board of Governors on September 25, 2008 for a collateralized loan of 600 million Euros to pay back loans acquired from other parties. At this time the Icelandic Central Bank did not have access to foreign financial markets and the amount requested by Glitnir was a quarter of the Central Bank's dwindling foreign exchange reserves. It was publicly known at the time that Glitnir had liabilities of 1.4 billion Euros. Acting on the guidance of the Central Bank of Iceland, on the 29th of September 2008 the Icelandic government agreed to provide Glitnir with the 600 million Euros for 75 percent share in the bank (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

After investigating this agreement, the Special Investigation Commission report states that "it must strongly criticize how the Central Bank of Iceland's Board of Governors conducted the examination and processing of Glitnir's loan request. The Glitnir request was not processed properly and on sufficient grounds. At the same time the Central Bank of Iceland's Board of Governors did not have the necessary information to be able to assess in an adequate manner whether their proposed actions to the government were rational. In the end, actions taken by the ministers concerning Glitnir on Sunday 28 September 2008 were not credible" (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.42).

After this agreement between Glitnir and the Icelandic government, Glitnir was unable to repay a 500 million Euros loan that was due in October 2008 and the Icelandic government was also unable to pay because of their inability to acquire loans in international financial markets. Therefore Fjármálaeftirlitið decided to enact Act No. 125/2008, also known as the Emergency Act, on 7th of October 2008, a special resolution committee which took control over Glitnir (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

3.3 Althingi's Special Investigation Commission Report Explains how the Management of the Three Largest Commercial Banks in Iceland was Negligent in Pursuing the Interests of the Banks

Leading up to the financial crises of 2008 the principle owners of Iceland's largest banks were also its largest borrowers. During the 2008 financial collapse in Iceland, businesses connected to the chairman of the Board of Directors of Landsbanki, Björgólfur Thor Björgólfsson, were Landsbanki's largest debtors with debts of over 200 billion Icelandic Krona. Exista hf was Kaupthing's second largest debtor with debts of over 200 billion Icelandic Krona and was also Kaupthing's largest shareholder. Exista's board member Robert Tchenguiz was

Kaupthing's largest debtor. When the financial crises erupted in Iceland Baugur Group hf had acquired loans from Glitnir equaling seventy percent of Glitnir's equity base which was over 250 billion Icelandic Krona. According to the Special Investigation Commission report, these figures demonstrate that the principle owners of Iceland's largest banks had unusual access to credit from their banks (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report states that "the operations of the Icelandic banks were, in many ways, characterized by maximizing the interests of the larger shareholders, who managed the banks, rather than running solid banks with the interests of all shareholders in mind, where due responsibility was demonstrated towards their creditors" (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.33). The Special Investigation Commission report describes how bank management did not objectively determine whether its owners were good borrowers. This created a scenario where the interests of the banks' largest shareholders worked against the larger interests of the banks and created an untenable situation (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi's Special Investigation Commission Report Claims that the Banking System Became Unstable by Borrowing from Itself

Iceland's largest banks also acquired substantial risk through crossfinancing each other and financing their own share capital. In 2008 there was 300 billion Icelandic Krona worth of weak equity in the banks, which amounted to over twenty five percent of the bank's capital base. In 2008 the banks' crossfinancing of each other and themselves equaled to approximately 400 billion Icelandic Krona (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report explains how Glitnir, Kaupthing, and Landsbanki's capital ratio was above the statutory minimum in their annual reports because these reports did not include the risk acquired from the banks financing themselves and each other. According to the Special Investigation Commission report, such a scenario is less able to withstand shock (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010). The Special Investigation Commission states that "the financing of owners' equity in the Icelandic banking system had been based, to such a great extent, on borrowing from the system itself that its stability was threatened. The shares owned by the biggest shareholders of the banks were especially leveraged. This resulted in the banks and their biggest owners being very

sensitive to losses and the lowering of share prices” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.34).

The Special Investigation Commission report assesses that the difficulties faced by the banks during the financial crises were primarily caused by risk that had been acquired while the banks situation was stable. When the financial situation started to become more unstable for the banks, the risk they had acquired through financing each other’s and their own share capital became impossible to unwind (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010). The report states that such acquisition of risk was not “in line with healthy and normal business practices” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.37)

The Special Investigation Commission declares that Icelandic banks attempted to create demand for their own shares by purchasing them. When the prices of their shares dropped in 2008, Iceland’s three largest banks became 45% buyers of their own shares in automatically matched trades and under 2% sellers. In November 2008, the value of the three largest banks assets was determined to be only 40% of the value that was recorded before the financial crises, a difference of over 7000 billion Icelandic Krona (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

Althingi’s Special Investigation Commission Report Claims that the Icelandic Commercial Banks Policies of High Risk Growth was Not in the Long Term Interest of the Banks

Iceland’s largest commercial banks pursued policies that supported large scale growth. These policies were supplemented with incentive schemes that encouraged fast growth and the banks were heavily leveraged by its principle owners who saw it in their favor to pursue high risk growth. According to the Special Investigation Commission report, the banks rapid growth and their large size was the leading cause for the collapse of Glitnir Bank hf, Kaupthing Bank hf and Landsbanki Íslands hf (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010).

The Special Investigation Commission report also explains how the Icelandic banks management became overwhelmed by their rapid expansion and how the banks portfolios expanded with risk through the banks high risk growth policies which were “not compatible with the long term interests of solid banks” (Páll Hreinsson, Sigríður Benediktsdóttir, Tryggvi Gunnarsson, 2010, book 1 pg.31). The report does not directly state that the management of Iceland’s largest banks was negligent. However, it does say that the banks were managed with

careless, incompetent and reckless policies that produced long term damages and this can be interpreted as an indirect accusation of negligence.

4.0 Parliamentary Committee Reviews Althingi's Special Investigation Commission Report

On December 30th 2009 a parliamentary committee was created by Althingi to review Althingi's Special Investigation Commission report on Iceland's 2008 financial collapse. This parliamentary committee was represented by Atli Gíslason, Unnur Brá Konráðsdóttir, Birgitta Jónsdóttir, Eygló Harðardóttir, Lilja Rafney Magnúsdóttir, Magnús Orri Schram, Oddný G. Harðardóttir, Ragnheiður Ríkharðsdóttir, and Sigurður Ingi Jóhannsson. Margrét Tryggvadóttir became also a member of the parliamentary committee as a replacement for Birgitta Jónsdóttir (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The purpose for the parliamentary committee was to analyze and review the results of Althingi's Special Investigation Commission report in order to recommend Althingi's reaction to the report's conclusions (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*). In a response to the Parliamentary Committee's review of Althingi's Special Investigation Commission report, Althingi voted to have former Prime Minister Geir H. Haarde prosecuted for gross negligence during his term as Prime Minister (Þórhallur Jósefsson, Árni M. Mathiesen, 2010). Other ministers that were accused of negligence by the Special Investigation Commission and the parliamentary committee; i.e. former Minister of Finance Árni M. Mathiesen and former Minister of Business Affairs Björgvin G. Sigurðsson were not condemned by Althingi to be prosecuted for gross negligence during their duties as ministers (Þórhallur Jósefsson, Árni M. Mathiesen, 2010).

4.1 Parliamentary Committee Reviews Claims of Bad Banking and Regulatory Negligence

The parliamentary committee agreed with the Special Investigation Commission report's assessment that the financial crises in Iceland was the result of Icelandic banks rapid growth which was not in the long term interest of the banks. The parliamentary committee also agreed with the Special Investigation Commission reports criticism of how the owners of Iceland's banks had unusual access to credit which in turn created substantial risk for the banks. The parliamentary committee discusses how the Icelandic banking system had become unstable because the banks became too reliant on each other's success through investing substantial resources in each other. This relationship between the banks meant that one banks

financial difficulty would quickly spread through the whole Icelandic banking system. According to the parliamentary committee, it was the legal duty of government regulators to control these unstable developments within Iceland's banking sector and it was a failure on their part not to do so (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee states that Fjármálaeftirlitið did not fulfill its duties as a regulatory institution. According to the committee Fjármálaeftirlitið was unrealistically positive about the financial situation in Iceland and failed to recognize many of the problems that resulted in its financial collapse in 2008. The parliamentary committee explains how the Special Investigation Commission discovered that financial assessments by foreign institutions with less available resources than Fjármálaeftirlitið were more accurate in their assessment of Iceland's banking system than Fjármálaeftirlitið (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee proposed to parliament that the former Director General of Fjármálaeftirlitið, Jónas Fr. Jónsson should be charged with negligence. According to the parliamentary committee, Fjármálaeftirlitið failed by not addressing basic problems in relation to Iceland's banking system and it failed in using its legal capacities to restrict the high risks being taken by Iceland's banks leading up to the financial collapse (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

4.2 Foreign Liabilities

The parliamentary committee states that the management of Landsbanki did not manage the bank responsibly and therefore risked the financial well being of Iceland. According to the parliamentary committee, Landsbanki, was an important financial institution in Iceland which held many foreign liabilities. The parliamentary committee considered the irresponsible actions of Landsbanki's management to have resulted in financial difficulties for Iceland as well as leaving the Icelandic government with a large amount of foreign liabilities which it inherited from the bank after its collapse. It is also stated that Iceland's Central Bank and Fjármálaeftirlitið should have been aware of the dangerous aspects of Landsbanki's Icesave liabilities and these institutions should have enacted their authority to control Landsbanki's foreign expansion (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee criticizes Iceland's ministers for not requesting from Iceland's Central Bank and Fjármálaeftirlitið a formal plan of how to move the Icesave deposits into foreign subsidiaries. The parliamentary committee declares that it was the responsibility of the Icelandic ministers to prevent the expansion of Landsbanki's foreign liabilities through Icesave in Britain and Holland (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

4.3 Parliamentary Committee Reviews Claims that the Governors of the Central Bank of Iceland were Negligent

According to the parliamentary committee Davíð Oddsson, Eiríkur Guðnason and Ingimundur Friðriksson were negligent in their duties as Governors of the Central Bank of Iceland and should be charged with negligence. The parliamentary committee agreed with the Special Investigation Commission report in its assessment that the Governors of the Central Bank failed to present a formal strategy for dealing with Iceland's unstable banking system and that they did not fulfill their duties in assisting Iceland's financial sector (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee also agreed with the Special Investigation Commission report in criticizing the Icelandic Central Bank's Chairman of the Board of Governors Davíð Oddsson's inability to properly communicate with Iceland's commercial banks and government minister. The parliamentary committee explains how Davíð Oddsson cancelled previously scheduled meetings between representatives of Iceland's commercial banks and the Central Bank. The parliamentary committee also states that Davíð Oddsson's previous political career effected his relationship with government ministers and made communication between the Icelandic government and the Central Bank more difficult (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

4.4 Parliamentary Committee Accuses Ministers of Negligence

The parliamentary committee states that it concurs with the Special Investigation Commission report's assessment that former Prime Minister Geir H. Haarde was slow to react to Iceland's financial problems that led to the financial collapse of Iceland in 2008 and that he showed negligence in his duties as Prime Minister. The parliamentary committee and Special Investigation Commission report agree that it was Geir H. Haarde's responsibility to react to the developments that led to Iceland's financial crises and that he failed to do so even though

he had substantial evidence that pointed to the inherent dangers in Iceland's large banking sector. It also states that Geir H. Haarde publicly announced that Iceland's banking system was secure when it was apparent that it was unstable and insecure (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee agreed with the Special Investigation Commission statement that former Minister of Finance Árni M. Mathiesen and former Minister of Business Affairs Björgvin G. Sigurðsson had enough available information to react sooner and more efficiently to Iceland's unstable financial system. According to the parliamentary committee, Árni M. Mathiesen and Björgvin G. Sigurðsson were also negligent in their duties as ministers (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

The parliamentary committee did not see former Minister of Foreign Affairs Ingibjörg Sólrún Gísladóttir as being guilty of negligence. It explains that even though Ingibjörg Sólrún Gísladóttir was involved in governmental discussions and planning leading to Iceland's financial collapse, she did not hold a ministerial position that gave her enough authority over financial matters that called for the same accountability as Geir H. Haarde, Árni M. Mathiesen and Björgvin G. Sigurðsson had. The parliamentary committee also maintains, that as a member of the coalition government, Ingibjörg Sólrún Gísladóttir did not have enough information to demand a more restrictive financial policy (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

5.0 Former Icelandic Ministers Respond to Althingi's Special Investigation Commission's Accusations of Negligence

Althingi's Special Investigation Commission's report accuses several former Icelandic ministers of having been negligent in their duties. These accused individuals were asked to write letters to the Parliamentary Committee for Reviewing Althingi's Special Investigation Commission report in which they could respond to Althingi's Special Investigation Commission's report's accusations of negligence. The Parliamentary Committee for Reviewing Althingi's Special Investigation Commission report released these letters in their report and they reveal that none of the accused former ministers agreed with Althingi's Special Investigation Commission's report's accusations of negligence. All the accused individuals stated that they had not been negligent in their duties as ministers. In response to the accusations made by Althingi's Special Investigation Commission's report Árni M. Mathiesen and Björgvin G. Sigurðsson wrote two separate books that highlight their perspectives of Iceland's 2008 financial crisis. Both books echo the author's disagreement with Althingi's Special Investigation Commission's report's accusations of negligence.

The responses of Iceland's former ministers to Althingi's Special Investigation Commission's report were significant because the report was created to clarify the causes of the banking crisis in Iceland. By rejecting the results of Althingi's Special Investigation Commission's report these former ministers provided the Icelandic public with reasons to continue the debate over what were the causes of Iceland's financial crisis. By contradicting the conclusions of Althingi's Special Investigation Commission's report and by refusing to take responsibility for the causes of Iceland's financial crisis, Iceland's former ministers have prevented the report from establishing the public closure it was meant to create.

5.1 Árni M. Mathiesen

Árni M. Mathiesen Disagrees with Althingi's Special Investigation Commission's Accusations of Negligence

In a letter issued as a response to Althingi's Special Investigation Commission's report, Árni M. Mathiesen explains how the information that minister's received from Iceland's Central Bank, Fjármálaeftirlitið and commercial banks were misleading. According to Árni M. Mathiesen, leading up to Iceland's 2008 financial crises the real scale of Iceland's banking problems were not revealed to the ministries until it was too late to save Iceland's banking sector. Árni M. Mathiesen states that the Icelandic ministers were not negligent in their duties.

According to him the Icelandic ministers did all that they could, with the limited time and information they had, to prevent a financial collapse in Iceland (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen states that Iceland's former ministers were not negligent in monitoring Iceland's largest banks. According to him there were regulatory organizations in place that had sufficient access and authority to monitor Iceland's commercial banks. However, according to Árni M. Mathiesen, these organizations failed to fulfill their duties and alert ministers to the difficulties that were apparent in Iceland's banking sector. Árni M. Mathiesen explains that as Minister of Finance he was not responsible for the inaccurate information he received from institutions such as Iceland's Central Bank and Fjármálaeftirlitið (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

According to Árni M. Mathiesen the Icelandic Central Bank of Iceland and Fjármálaeftirlitið were responsible for monitoring Iceland's banking sector and providing Iceland's ministers with accurate data. He claims that the Central Bank of Iceland and Fjármálaeftirlitið were incompetent in providing other ministers and himself with accurate information. Árni M. Mathiesen also states that representatives from all of Iceland's biggest commercial banks continuously lied about their financial situation and that Iceland's ministers were repeatedly frustrated to discover that the situation of the banks was considerably worse than what they stated it to be (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen also explains that communication between the Icelandic ministries and the Icelandic Central Bank were made more difficult because of the Chairman of the Board of Governors of the Icelandic Central Bank, Davíð Oddsson. According to Árni M. Mathiesen the Chairman of the Board of Governors of the Icelandic Central Bank had difficulties communicating with many members of government and created an unprofessional environment in meetings that took place in regards to the 2008 financial crises (Þórhallur Jónsson, Árni M. Mathiesen, 2010).

Árni M. Mathiesen mentions in his response letter to the Special Investigation Commission report that former Prime Minister of Iceland Þorsteinn Pálsson stated that the Special Investigation Commission report did not use the term negligence properly and that their use of

the word is not compatible with its legal meaning (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*). According to Árni M. Mathiesen the Special Investigation Commission report does not produce sufficient information as to how the ministers were negligent in their duties. He also states that if the actions of the government in relation to regulating and assisting Iceland's banking sector was negligent then there must have been alternative actions which should have been enacted instead. Árni M. Mathiesen explains that the report does not offer any scenario or action that would have been more effective than those taken by Iceland's former government ministers and therefore does not give a clear understanding as to how they were negligent in their actions in response to Iceland's 2008 financial crises (Þórhallur Jónsson, Árni M. Mathiesen, 2010).

Árni M. Mathiesen States that Althingi's Special Investigation Commission's Report did not Place Sufficient Emphasis on the International Financial Crises

Árni M. Mathiesen states that "the Special Investigation Commission report did not analyze events that were happening abroad" (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*, pg. 271). According to Árni M. Mathiesen the financial collapse in Iceland was the result of many years of developments and it was primarily caused by international factors. Árni M. Mathiesen explains that he does not consider it practical to blame the actions of ministers in the years 2007 to 2008 for the financial crises because by that time it was too late to save Iceland's economy (Þórhallur Jónsson, Árni M. Mathiesen, 2010).

Árni M. Mathiesen considers the Icelandic financial crises to be similar to how other nations were affected by the international financial crises. According to Árni M. Mathiesen the international financial crises caused difficulties in most western economies and there was little their governments could do to prevent these difficulties from developing into a financial crisis. Árni M. Mathiesen also explains how the world's most respected economists could not foresee the international financial crisis. He states that if these experts could not predict this international financial crises then it is understandable why the Icelandic government could not predict it either (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen writes that it is not rational for the Special Investigation Commission to accuse Iceland's former government of negligence for not predicting an international financial crisis that most of the world's leading experts could not foresee. Also, he does not agree that

Iceland's former government was negligent for not avoiding the economic repercussions of the international financial crises when the same difficulties occurred in most of the western world's economies (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen States that it was Not His Responsibility as Minister of Finance to Regulate Iceland's Banks

According to Árni M. Mathiesen's interpretation of the law it is not the Ministry of Finance that regulates financial law. That is the responsibility of the Ministry of Business Affairs. Árni M. Mathiesen also writes that Special Investigation Commission member, Tryggvi Gunnarson, stated in the Morgunblaðið newspaper on the 14th of April 2010 that it was not the role of the Minister of Finance to regulate the banks (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen explains that it is not correct to accuse government ministers of negligence when they did not go beyond their legal framework to react to Iceland's banking problems. He states that it was not within his legal authority as Minister of Finance to regulate Iceland's banks and that he did not have the authority to force them into changing their business practices (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen writes that there were attempts made by the Icelandic government and Central Bank to stabilize Iceland's banking sector. According to Árni M. Mathiesen the Icelandic government and the Central Bank made requests to Iceland's largest commercial banks to reduce their size and growth. However, he explains that the process of reducing the size of these banks could be damaging if done too quickly and Iceland's largest commercial banks failed to effectively react to the governments requests (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Árni M. Mathiesen States that the Icelandic Government was not Responsible for the Collapse of Iceland's Commercial Banks

According to Árni M. Mathiesen the decisions made by Iceland's largest banks were the root cause of their difficulties (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*). Árni M. Mathiesen writes about how financing difficulties, management of liabilities and dealings with foreign regulators were the main problems Iceland's commercial banks faced while trying to maintain their risky high growth model.

Árni M. Mathiesen states that the Icelandic government was not responsible for the financial difficulties in Iceland but did everything it could in trying to prevent Iceland from financial collapse (Þórhallur Jósepsson, Árni M. Mathiesen, 2010).

In regards to the criticism directed at the Icelandic government for their failure to move the Icesave liabilities to foreign subsidiaries Árni M. Mathiesen explains that originally Icesave and Edge received positive feedback from international regulators and experts. According to Árni M. Mathiesen the acquisition of foreign deposits through Icesave and Edge did not cause the financial crises in Iceland and these branches were not a problem until the international financial crises made them a problem (Þórhallur Jósepsson, Árni M. Mathiesen, 2010).

Árni M. Mathiesen also disagrees with the Special Investigation Commission report's criticism of the governments reaction to Glitnir's request for a collateralized loan. According to Árni M. Mathiesen, Davíð Oddsson was in charge of handling Glitnir's request for a collateralized loan and Fjármálaeftirlitið approved his plans. He supports Davíð Oddsson's reaction to Glitnir's request by mentioning that when it was announced that the Icelandic government agreed to provide Glitnir with the 600 million Euros for 75 percent share in the bank, Nobel Prize winner Paul Krugman reacted by declaring his approval. Árni M. Mathiesen criticizes the negative reaction of Glitnir's largest shareholder Jón Ásgeir Jóhannsson who Árni M. Mathiesen accuses of attacking Davíð Oddsson's plans with media outlets that he owned. However, Árni M. Mathiesen writes that eventually everyone, including Glitnir's owners, decided that given the circumstances, Davíð Oddsson's plan to save Glitnir was the most practical option (Þórhallur Jósepsson, Árni M. Mathiesen, 2010).

5.2 Björgvin G. Sigurðsson

Björgvin G. Sigurðsson Refutes the Accusations that He was Negligent as Minister of Business

In a response letter to Althingi's Special Investigation Commission's report, Björgvin G. Sigurðsson states "I disagree that I was negligent in my duties and I strongly disagree that I should be held legally liable for the financial crises in Iceland" (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 292). Björgvin G. Sigurðsson does however admit that in hindsight he should have reacted to the financial difficulties in Iceland with more vigor. In his letter to the Parliamentary Committee for Reviewing Althingi's Special Investigation Commission report Björgvin G. Sigurðsson explains "When looking

back, I should have reacted more vigorously than I did” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 292).

Björgvin G. Sigurðsson does not reject the Special Investigation Commission’s report accusations of negligence that were directed at former government ministers other than himself. He writes “I fully fulfilled my responsibility during my time as Minister of Business. However I am not prepared to take responsibility for the actions of other ministers or the actions of the Board of Governors of the Central Bank of Iceland” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 300).

According to Björgvin G. Sigurðsson, the Special Investigation Commission did not fully understand his role as former Minister of Business. Björgvin G Sigurðsson explains that this misunderstanding led the Special Investigation Commission to blaming him for not fulfilling responsibilities that were not his duty to fulfill and making decisions that were not his decisions to make (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Björgvin G. Sigurðsson States that He is Not Accountable for Mistakes Made by Fjármálaeftirlitið

Björgvin G. Sigurðsson states that he was not accountable for the negligence of Fjármálaeftirlitið because according to him “Fjármálaeftirlitið is completely independent and the Minister of Business Affairs has no legal authority over it” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 293). Björgvin G. Sigurðsson explains that the independence of Fjármálaeftirlitið is protected by Icelandic law where it specifically states that the Minister of Business is not meant to influence its decisions (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*). This is why he as Minister of Business who was also the head of Fjármálaeftirlitið, would have been breaking the law by interfering with its activities (Björgvin G. Sigurðsson, 2010).

Björgvin G. Sigurðsson admits that the Icelandic Ministry of Business Affairs was unprepared for fulfilling its role of overseeing and regulating Iceland’s largest banks. He states “The Icelandic Ministry of Business Affairs had to oversee many diverse projects with few employees who lacked experience and resources” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 293). However, Björgvin G. Sigurðsson also explains that it was Fjármálaeftirlitið which was primarily responsible for regulating Iceland’s

banks and he could not be held responsible for Fjármálaeftirlitsins failures because he did not have the legal authority to influence it (Björgvin G. Sigurðsson, 2010).

According to Björgvin G. Sigurðsson Fjármálaeftirlitið did not even report to the Minister of Business Affairs. Björgvin G. Sigurðsson states that “according to Icelandic law the Fjármálaeftirlitið is to report financial irregularities to the Icelandic Central Bank’s Chairman of the Board of Governors and not to the Minister of Business Affairs” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 294). Björgvin G. Sigurðsson explains that not only did he not have the authority to influence the actions of Fjármálaeftirlitið but he also lacked access to the information he required to be informed about the financial irregularities presenting themselves in Iceland’s financial markets (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Björgvin G. Sigurðsson States that Iceland’s Financial Markets were Not the Responsibility of the Minister of Business Affairs

Björgvin G. Sigurðsson states that “according to Icelandic law, the Minister of Business does not possess the authority to effect matters that concern financial markets” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 295) because “It is the duty of the Icelandic Central Bank to monitor Iceland’s financial well being, No other regulatory authority has more responsibility in that regard” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 299). Björgvin G. Sigurðsson explains that as Minister of Business he was not responsible for monitoring Iceland’s financial markets and could not have been negligent in that regard. However, Björgvin G. Sigurðsson agrees that the Icelandic Central Bank could be rightfully criticized for failing to fulfill their responsibilities of insuring the security of Iceland’s financial markets.

According to Björgvin G. Sigurðsson “the Ministry of Business does not have access to information concerning financial institutions other than public information” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 298). Björgvin G. Sigurðsson writes that he received his information regarding Iceland’s financial markets from the Central Bank of Iceland which did not provide him with accurate information. He states that “according to a report conducted by the Central Bank of Iceland in May 2008, there was no immediate emergency in Iceland’s financial sectors” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 298). Björgvin G. Sigurðsson goes on to write “Is it fair to consider it negligence to believe the report of the Icelandic Central Bank? I

was under the impression as the Minister of Business that I could trust the opinion of the Icelandic Central Bank” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 299).

Björgvin G. Sigurðsson further criticizes the Icelandic Central Bank by mentioning that the Icelandic Central Bank received permission from Alþingi to increase its reserves in 2008 to improve their position in dealing with Iceland’s large commercial banking sector. According to him the Icelandic Central Bank did not feel the need to increase its reserves. Björgvin G. Sigurðsson explains his impression that some of the problems with the Icelandic’s Central Bank’s capacity to oversee Iceland’s financial markets were related to the incompetency of the Chairman of the Board of Governors of the Icelandic Central Bank, Davíð Oddsson. He states that Davíð Oddsson should never have become the Chairman of the Board of Governors of the Icelandic Central Bank because he was first and foremost a politician who was not suited for a prominent role in the Icelandic Central Bank (Björgvin G. Sigurðsson, 2010).

Björgvin G. Sigurðsson also criticizes former Prime Minister Geir H. Haarde for not giving other ministers in his government authority to react to the financial crises. He states that “within the Geir H. Haarde’s government there was a clear divide between the authority of the Ministry of Business Affairs and the Prime Minister in concerning the possible financial instability as a result of the size and position of the financial sector. The Prime Minister had undisputed authority in this field” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 304). Björgvin G. Sigurðsson explains that not only did he lack the authority to intervene in Iceland’s financial markets but his position as Minister of Business Affairs was not regarded by former Prime Minister Geir H. Haarde as a position of authority in terms of financial matters (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Björgvin G. Sigurðsson States that He was Excluded from Government Discussion’s on How to React to the Financial Crises

In his letter to the Parliamentary Committee for Reviewing Alþingi’s Special Investigation Commission report Björgvin G. Sigurðsson states “There were many important meetings concerning financial matters that were held without my presence” (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 296). He also states, “I was not informed about important decisions that were made concerning financial matters and I did not know of them until I read the Special Investigation Commission report” (*Skýrsla*

þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis pg. 297). Björgvin G. Sigurðsson states that he is convinced that other Icelandic government ministers excluded him from meetings concerning Iceland's financial difficulties so that he could not participate in their discussions.

According to Björgvin G. Sigurðsson "It is publicly known that during the years 2007 and 2008 access to certain financial information was limited to a tight group consisting of the Prime Minister, Minister of Financial Affairs and the Minister of Foreign Affairs" (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 296). He criticizes former Prime Minister Geir H. Haarde for not allowing him to perform his duties and Minister of Business Affairs. He states "The Special Investigation Commission report states that it was the duty of the Prime Minister of Iceland to inform me of these meetings so that I could fulfill my duties. He did not do this" (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 297).

Björgvin G. Sigurðsson refutes the Special Investigation Commission report's accusation of having been negligent in his duties as Minister of Business Affairs by stating that; "no one can take a position in accordance with information they have not received and no one can be negligent for not reacting to information that was presented at meetings that they did not know about" (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis* pg. 307). To clarify this point Björgvin G. Sigurðsson explains how he was not responsible for the governments reaction to Glitnir's request for a collateralized loan because he was not invited to the meeting in which Glitnir's request was discussed and decided upon (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

According to Björgvin G. Sigurðsson information about the financial difficulties facing Iceland was concealed from many ministers. He explains that ministers of the Samfylking were often left out of such discussions and were on many occasions ignored by members of the Sjálfstæðisflokkur. Björgvin G. Sigurðsson writes that such behavior was unacceptable within a coalition party and that many ministers of the Samfylking felt betrayed by ministers of the Sjálfstæðisflokkur (Björgvin G. Sigurðsson, 2010).

Björgvin G. Sigurðsson Claims that there was Nothing the Icelandic Government Could do to Prevent a Financial Crises in Iceland

Björgvin G. Sigurðsson states that the financial crisis in Iceland was the product of an international financial crisis that affected the financial sectors of many nations. Iceland's

financial crisis was particularly difficult because the Icelandic commercial banks had been managed in such a way that they became unstable and too large. However, he also claims that the government's actions in 2008 to prevent a financial crisis were futile because at that point there was nothing they could have done to prevent a financial collapse (Björgvin G. Sigurðsson, 2010).

Björgvin G. Sigurðsson agrees with Atli Gíslason, the parliamentary committee representative for Althingi's review of Althingi's Special Investigation Commission report on Iceland's 2008 financial collapse who stated in an interview on September 22, 2010 that from 2008 it was already too late for the Icelandic government to prevent the financial collapse. Björgvin G. Sigurðsson explains how the Special Investigation Commission report is mistaken in their accusations of negligence because they fail to understand how the international financial crises suddenly and dramatically affected Iceland's banking sector which had been developing for a long time prior to 2008 (Björgvin G. Sigurðsson, 2010).

5.3 Geir H. Haarde

Geir H. Haarde States that the Financial Crises in Iceland was Caused by the Negligence of Iceland's Commercial Banks

According to former Prime Minister Geir H. Haarde the Icelandic government was not responsible for Iceland's financial collapse. He states that Iceland's commercial banks created their own financial difficulties through irresponsible, high risk and unlawful conduct. Geir H. Haarde explains that the regulatory duties of the government were made impossible to fulfill by the Icelandic banks because they commissioned questionable auditing which concealed the reality of Iceland's financial situation from the Icelandic government. In his letter to the Parliamentary Committee for Reviewing Althingi's Special Investigation Commission report Geir H. Haarde states that he believes there were unethical and illegal activities taking place within Iceland's financial markets prior to the 2008 financial crises which were purposefully hidden from government regulators (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*)

In his letter to Althingi's Special Investigation Commission's Geir H. Haarde writes that it was incorrect for the Special Investigation Commission to state that the Icelandic government did not attempt to decrease the size of Iceland's largest banks. According to Geir H. Haarde the government had limited tools for achieving their goal of reducing the growth of the banks

and their best option was to request the banks to do so themselves. He explains that the reason why the size of the Icelandic banks was not reduced before the collapse of the Icelandic banking sector was that the banks did not manage to fulfill the government's request to do so (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Geir H. Haarde Disagrees with the Special Investigation Commission Report's Statement that He was Negligent for Failing to Turn Icesave Into a Foreign Subsidiary

Geir H. Haarde states that the Special Investigation Commission report was incorrect in stating that he was negligent for failing to move the Icesave liabilities abroad by converting Icesave into a foreign subsidiary when the Icelandic government still had a chance to do so. He explains that this is not a credible accusation because it was the duty of the Ministry of Business Affairs to oversee matters concerning the Icesave liabilities (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

According to Geir H. Haarde the duties of overseeing and regulating the foreign liabilities of Iceland's commercial banks were in the hands of the Ministry of Business Affairs and the Minister of Business Affairs Björgvin G. Sigurðsson (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*). Geir H. Haarde writes that it would not have been appropriate for him as Prime Minister to have broken the rules of government protocol and assume the responsibilities of the Minister of Business Affairs by attempting to turn Icesave into a foreign subsidiary. In his letter to the Parliamentary Committee for Reviewing Althingi's Special Investigation Commission report Geir H. Haarde explains that he should not be accused of negligence because of the mistakes made by the former Minister of Business Affairs Björgvin G. Sigurðsson who Geir H. Haarde considers responsible for not turning Icesave into a foreign subsidiary (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Geir H. Haarde States that Iceland's 2008 Financial Collapse was caused by Factors that the Icelandic Governments Could Not Control

In his response letter to Althingi's Special Investigation Commission's report Geir H. Haarde also states that in 2008 the financial difficulties of the Icelandic banks were greatly magnified by financial events in the United States. According to him these international developments created difficulties for the Icelandic financial markets which neither international experts or the Icelandic government could not have predicted. Geir H. Haarde explains further that the Icelandic government should not be held accountable for such financial difficulties caused by

international factors that they could not control (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

Geir H. Haarde also writes that it is apparent that banks throughout the world were unprepared for the international financial crisis and Iceland was not the only nation that inherited problems with its banking sector as a result of these international factors. Accordingly there was nothing the Icelandic government could have done in 2007 and 2008 to prevent Iceland's poorly managed banks from collapsing because of their self generated difficulties which were suddenly and dramatically magnified by the international financial crisis (*Skýrsla þingmannanefndar til að fjalla um skýrslu rannsóknarnefndar Alþingis*).

6.0 Former Chairman of the Board of Governors of the Icelandic Central Bank, Davíð Oddsson, Rejects Althingi's Special Investigation Commissions Accusations of Negligence

After receiving requests from Althingi's Special Investigation Commission asking for explanations for his actions as Chairman of the Board of Governors of the Icelandic Central Bank, Davíð Oddsson, replied in a letter received by Althingi's Special Investigation Commission on the 24th of February 2010. In it Davíð Oddsson aggressively protested against accusations that he or representatives of Iceland's Central Bank had been negligent in their duties in relation to Iceland's banking crisis.

Davíð Oddsson's reply to Althingi's Special Investigation Commission reveals the possibility that the commission was being used as a political tool to smear influential political figures by branding them with the term negligent. Davíð Oddsson's statements attempt to make Althingi's Special Investigation Commission report redundant by revealing it to be biased and politically motivated.

6.1 Davíð Oddsson States that He was Not Negligent as the Chairman of the Board of Governors of the Icelandic Central Bank

According to Davíð Oddsson, Althingi's Special Investigation Commission accuses him of having been negligent in his duties as Chairman of the Board of Governors of the Icelandic Central Bank without providing any reasonable evidence as to how he was negligent. He claims that as Chairman of the Board of Governors of the Icelandic Central Bank he did what could be done to prevent a financial crisis. However, Davíð Oddsson states that his ability to do so was limited by his authority as Chairman of the Board of Governors of the Icelandic Central Bank. Davíð Oddsson explains that he did not have the legal authority to assume the responsibility for other regulators and government officials (Davíð Oddsson, 2010).

In his response to Althingi's Special Investigation Commission's accusations of negligence, Davíð Oddsson writes that the Central Bank of Iceland lacked the authority or legal mandate to investigate and regulate Iceland's commercial banks because Fjármálaeftirlitið had this responsibility and the capacity to do so. According to Davíð Oddsson, Althingi's Special Investigation Commission did not understand the legal framework for the Central Bank of Iceland and they mistakenly blame it for the negligence of the Fjármálaeftirlitið. He also states that the Special Investigation Commission accusations that he was negligent in his

duties as Chairman of the Board of Governors of the Icelandic Central Bank reflects the incompetence and biased nature of their report (Davíð Oddsson, 2010).

According to Davíð Oddsson, most of the criticism directed at the Icelandic Central Bank is related to its management for not going against its legal protocol and taking decisions that were not within their authority to make. He states that it is not reasonable for Althingi's Special Investigation Commission to accuse someone of negligence for refusing to go against established law (Davíð Oddsson, 2010).

Davíð Oddsson states that Althingi's investigation was being used as a political tool to please those that protest in the streets and those who wish to settle political scores through unreasonable accusations. Davíð Oddsson also states that the assumptions and conclusions of Althingi's Special Investigation Commission are inaccurate. According to Davíð Oddsson, the criticism made by the commission towards the Central Bank of Iceland's Board of Governors does not explain how the actions of the Central Bank of Iceland could have caused the financial crisis in Iceland or how the Board of Governors of Iceland's Central Bank were negligent (Davíð Oddsson, 2010).

6.2 Davíð Oddsson Disagrees with Althingi's Special Investigation Commissions Claims that the Central Bank of Iceland's Board of Governors did not Appropriately React to Glitnir's Request for a Collateralized Loan

According to Davíð Oddsson, when the Central Bank of Iceland was approached by Glitnir's request for a collateralized loan the reality of the financial situation within the Icelandic commercial banks was first revealed to the Central Bank of Iceland's Board of Governors. He states that the Central Bank of Iceland's Board of Governors had suspected that the Icelandic commercial banks were faced with more difficulties than they had revealed, but they were previously unable to confirm their suspicions because of insufficient regulation on behalf of Fjármálaeftirlitið and questionable auditing (Davíð Oddsson, 2010).

Davíð Oddsson also explains that the Icelandic Central Bank's reaction to Glitnir's request for a collateralized loan was not the cause of Iceland's financial crisis. He states that before Glitnir came to the Central Bank of Iceland for assistance, Icelandic commercial banks had been used for years as a mechanism to lend money to the indebted businesses of the principle owners of Iceland's largest banks. According to Davíð Oddsson, by the time Glitnir asked the Icelandic Central Bank for help it was already too late to save Iceland's banking sector. Davíð Oddsson states further that the Central Bank of Iceland did the best it could to control the

damage that was caused by the negligence of Iceland's commercial banks. He explains that the Icelandic Central Bank made the best possible decisions in their response to Glitnir's request for a collateralized loan and should not be accused of negligence in that regard (Davíð Oddsson, 2010).

6.3 Davíð Oddsson States that Althingi's Special Investigation Commission was Incompetent and Biased

According to Davíð Oddsson Althingi's Special Investigation Commission report was full of misunderstanding and misinterpretation which he believes reflects the incompetence of Althingi's Special Investigation Commission. Davíð Oddsson explains that Althingi's Special Investigation Commission did not ask the right questions and they did not have a good understanding of the situations they were criticizing (Davíð Oddsson, 2010).

He maintains that Althingi's Special Investigation Commission member Sigríður Benediksdóttir had made herself incompetent to fulfill her duties as a commission member by stating publicly her opinion that Iceland's banking crisis was caused by greed and the negligence of government regulators. According to Davíð Oddsson, Sigríður Benediksdóttir had publicly announced her conclusion regarding the Special Investigation Commission report before the commission's investigation began. Davíð Oddsson also explains that it should have been the priority of Althingi's Special Investigation Commission to pursue the truth and not to confirm biased opinions that their members had established and publicly revealed prior to the commission's investigation (Davíð Oddsson, 2010).

According to Davíð Oddsson, Tryggvi Gunnarsson was also incompetent in his duties as a member of Althingi's Special Investigation Commission because his daughter in law had worked for Fjármálaeftirlitið. Davíð Oddsson explains that this made it impossible for Tryggvi Gunnarsson to be unbiased analyzing events that involved Fjármálaeftirlitið or other financial regulatory institutions. Davíð Oddsson states that with at least two members of Althingi's Special Investigation Commission unable to fulfill their duties the results of the Special Investigation Commission report cannot be considered fair or unbiased (Davíð Oddsson, 2010).

In his response letter to Althingi's Special Investigation Commission accusations of negligence Davíð Oddsson mentions that while being questioned by representatives of Althingi's Special Investigation Commission it was apparent that they had already an

established opinion of what the conclusion of their investigation would be. He recalls that they addressed him in a manner that made it apparent that they viewed the investigation as a formality for confirming an already established perspective (Davíð Oddsson, 2010).

Davíð Oddsson criticizes that even though Althingi's Special Investigation Commission holds every financial government and banking institution liable for the 2008 collapse of Iceland's banking sector they themselves are not willing to accept any responsibility for the mistakes they made concerning their report on the financial crisis. According to Davíð Oddsson, members of Althingi's Special Investigation Commission seem unable and unwilling to respond to criticism that undermines the accuracy of the statements they released with their report (Davíð Oddsson, 2010).

7.0 Former Director General of Fjármálaeftirlitið, Jónas Fr. Jónsson, States that Althingi's Special Investigation Commission is Biased

Lawyers for former Director General of Fjármálaeftirlitið, Jónas Fr. Jónsson, submitted a letter to Althingi's Special Investigation Commission on the 26th of February 2010 in which he complains about the incompetence of the commission's members and the biased nature of their investigation over Iceland's 2008 financial crisis. Jónas Fr. Jónsson fears that Althingi's Special Investigation Commission report will incorrectly and unfairly accuse him of negligence in regards to his duties as Director General of Fjármálaeftirlitið (Landslögum – lögfræðistofa).

Through his lawyers letter to Althingi's Special Investigation Commission Jónas Fr. Jónsson raises his concerns that the negative atmosphere in Iceland after the banking collapse makes it difficult for Althingi's Special Investigation Commission to produce a fair assessment of the causes for the banking collapse (Landslögum – lögfræðistofa). According to Jónas Fr. Jónsson, Iceland's communities and media placed much emphasis on searching for ways to blame Iceland's regulators for the banking crises. He also states that he is concerned that Althingi's Special Investigation Commission will put too much emphasis on trying to please the public's desire by inappropriately attacking influential individuals such as himself and avoid to properly investigate the financial variables that led to the banking crisis in Iceland. Jónas Fr. Jónsson explains further his concerns over politicians publicly accusing him of negligence in order to avoid being subjected to such accusations themselves (Landslögum – lögfræðistofa).

Jónas Fr. Jónsson states that during its investigation Althingi's Special Investigation Commission had not placed sufficient emphasis on investigating the responsibilities of Iceland's commercial banks and their advisors. According to him, Iceland's commercial banks were responsible for managing themselves responsibly and should be the recipients of the majority of the blame for Iceland's 2008 financial crisis. Jónas Fr. Jónsson mentions in his letter to Althingi's Special Investigation Commission that experts such as Kaarlo Jännäri and Mats Josefsson have emphasized the point that banks were responsible for their own policies and decisions. Jónas Fr. Jónsson explains how these experts maintain that regulatory authorities cannot insure that banks will never go bankrupt (Landslögum – lögfræðistofa).

According to Jónas Fr. Jónsson, in the volatile social environment that Althingi's Special Investigation Commission is conducting its investigation there are temptations to unfairly

single out individuals such as himself and blame them based on public pressure and pre-established opinions rather than unbiased truth. Jónas Fr. Jónsson expresses through his lawyers letter to Althingi's Special Investigation Commission his concern about the commissions ability to conduct its investigation fairly and without bias (Landslögum – lögfræðistofa).

7.1 Jónas Fr. Jónsson States that Sigríður Benediktsdóttir, Tryggvi Gunnarsson and Guðrún Johnsen Should Not Have Been Involved in Althingi's Special Investigation Commission's Investigation of Iceland's Banking Crisis

Jónas Fr. Jónsson states that Althingi's Special Investigation Commission members Sigríður Benediktsdóttir and Tryggvi Gunnarsson are not suitable commission members because they were not capable of investigating Iceland's banking crises with an unbiased perspective (Landslögum – lögfræðistofa). He also maintains that it is unacceptable that Guðrún Johnsen is assisting Althingi's Special Investigation Commission with their investigation because, according to him, Guðrún Johnsen is also a biased investigator (Landslögum – lögfræðistofa). However, Althingi's Special Investigation Commission did not consider the concerns of Jónas Fr. Jónsson strong enough to remove Sigríður Benediktsdóttir, Tryggvi Gunnarsson or Guðrún Johnsen from their duties.

According to Jónas Fr. Jónsson, Sigríður Benediktsdóttir is not a competent member of Althingi's Special Investigation Commission because on the 31st of March 2009 she stated in Yale Daily news that it was her personal opinion that the banking collapse in Iceland was in part caused by the negligence of Iceland's financial regulatory institutions. He explains that these public comments reveal that Sigríður Benediktsdóttir had established her opinions regarding Iceland's banking crisis before Althingi's Special Investigation Commission began its investigation. Jónas Fr. Jónsson states that it is unfair for himself to be investigated by individuals that have already established their conclusion regarding his actions as Director General of Fjármálaeftirlitið. He also states that Sigríður Benediktsdóttir's negative opinions of Fjármálaeftirlitið are not based on fact but have been developed through emotion, irresponsible Icelandic journalism and the opinions of certain politicians (Landslögum – lögfræðistofa).

In his letter to Althingi's Special Investigation Commission, Jónas Fr. Jónsson mentions that commission members Tryggvi Gunnarsson and Páll Hreinsson requested Sigríður Benediktsdóttir to remove herself from her duties as a member of Althingi's Special

Investigation Commission because of the complaints made by himself. According to Jónas Fr. Jónsson, Tryggvi Gunnarsson and Páll Hreinsson agreed that Sigríður Benediktsdóttir had, with her comments to Yale Daily news, made herself incompetent in fulfilling her role as an unbiased investigator for Althingi's Special Investigation Commission (Landslögum – lögfræðistofa). However, Sigríður Benediktsdóttir did not leave Althingi's Special Investigation Commission.

Jónas Fr. Jónsson also states that Tryggvi Gunnarsson is an incompetent member of Althingi's Special Investigation Commission because his daughter in law worked as a lawyer for Fjármálaeftirlitið. According to Jónas Fr. Jónsson this makes Tryggvi Gunnarsson incapable of conducting an unbiased investigation involving Fjármálaeftirlitið (Landslögum – lögfræðistofa).

Jónas Fr. Jónsson also explains that it was revealed in a letter from Althingi's Special Investigation Commission on the 12th of February 2010 that Guðrún Johnsen assisted the commission in their investigation. According to him, Guðrún Johnsen had requested a job at Fjármálaeftirlitið between 2005 and 2006. Jónas Fr. Jónsson states that when Fjármálaeftirlitið requested Guðrún Johnsen to send in a formal application before being considered for this job she was greatly offended and developed a grudge against Fjármálaeftirlitið. Jónas Fr. Jónsson mentions that after this occurrence Guðrún Johnsen had been openly hostile towards Fjármálaeftirlitið (Landslögum – lögfræðistofa).

Jónas Fr. Jónsson offers this story to Althingi's Special Investigation Commission as a reason for why he believes Guðrún Johnsen is incapable of assisting Althingi's Special Investigation Commission's investigation without being persuaded by her previously established grudges towards Fjármálaeftirlitið. According to Jónas Fr. Jónsson, Guðrún Johnsen is incompetent in assisting Althingi's Special Investigation Commission (Landslögum – lögfræðistofa).

Through the letter written by Jónas Fr. Jónsson's lawyers to Althingi's Special Investigation Commission it is apparent that he did not consider Althingi's Special Investigation Commission competent enough to accuse anyone of negligence. He also believes that Althingi's Special Investigation Commission was biased and had suspect motives which made it incapable of investigating the true causes for Iceland's 2008 financial crises.

8.0 Former Representatives of Iceland's Largest Commercial Banks Offer their Perspective of Iceland's Banking Crisis

Former employees of Iceland's largest commercial banks have received the most public criticism for their involvement in Iceland's 2008 financial crisis. Althingi's Special Investigation Commission Report stated that the former management of Iceland's largest banks Kaupthing, Landsbanki and Glitnir were negligent in pursuing the interests of their banks.

Former employees of these banks have disagreed with the public criticism they have received. On the 25th of February 2009 former joint CEO's of Landsbanki Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason released a report which explained their perspectives of the developments that lead to the Icelandic banking crisis of 2008. Also in 2009, a book concerning Iceland's 2008 banking crisis by former head of research and chief economist of Kaupthing, Ásgeir Jónsson, was published.

8.1 Former Employees of Kaupthing and Landsbanki State that the Icelandic Central Bank and Government were Not Properly Prepared for an International Financial Crisis

According to former joint CEO's of Landsbanki Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, with multiple international factors influencing the banking crisis in Iceland it is difficult to blame any single person for causing the financial crisis in Iceland. They explain that the international financial crisis created a sudden change in the world's financial markets that again created unprecedented difficulties that could not be controlled by Iceland's banks or its authorities (Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, 2009). However, former head of research and chief economist of Kaupthing, Ásgeir Jónsson, describes the scenario during Iceland's banking crisis by stating "The politicians seemed unable to fathom what was really happening and the bankers were not inclined or able to enlighten them" (Ásgeir Jónsson, 2009, pg. 140).

Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason write in their report that after the fall of Lehman Brothers in the United States, no commercial bank could survive the subsequent financial crisis without a lender of last resort with access to international currencies. They state that the severity of Iceland's financial crisis was the result of a banking sector receiving no support from the Icelandic government or the central bank (Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, 2009).

According to Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, the Icelandic government and Central Bank had difficulties in supporting Iceland's commercial banks because Iceland was a small country with a small currency which made it harder for Iceland's authorities to combat the problems presented by the international financial crisis (Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, 2009). Ásgeir Jónsson also refers to the antiterrorist laws enforced by Gordon Brown's government against Landsbanki as having "brought the Icelandic economy down to its knees with a single swipe" (Ásgeir Jónsson, 2009, pg. 188) and referred to it as "corporate ethnic cleansing" (Ásgeir Jónsson, 2009, pg. 187).

Ásgeir Jónsson criticizes the Icelandic government for never developing the infrastructure required to sustain Iceland's largest commercial banks. According to him the Icelandic government had insufficient foreign reserves and its financial regulatory institutions could not keep up with the rapid expansion of the banks. Ásgeir Jónsson also criticizes the government for not giving Fjármálaeftirlitið the capacity or authority to contain the growth of Iceland's commercial banks (Ásgeir Jónsson, 2009).

Ásgeir Jónsson explains that the Icelandic government was not concerned with making appropriate preparations for a financial crisis because "Expansionist fever had spread to the governing agencies" (Ásgeir Jónsson, 2009, pg. 139). He clarifies this point by mentioning that in 2005, former Prime Minister Halldór Ásgrímsson made a proposal for turning Iceland into an international finance center (Ásgeir Jónsson, 2009).

According to Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, the Icelandic authorities should have learned from Iceland's 2006 banking crisis and sufficiently strengthened its currency reserve. They also criticize the lack of coordination between the Central Bank of Iceland and the Icelandic government (Halldór Jón Kristjánsson and Sigurjón Þorvaldur Árnason, 2009).

Ásgeir Jónsson states that there was poor coordination between the Icelandic government and financial institutions because Iceland's financial supervisory powers were divided between multiple institutions and ministries. According to him, this created a confusing division of responsibility within Iceland's government which again made coordination near impossible and limited the authority of financial regulators (Ásgeir Jónsson, 2009).

Ásgeir Jónsson explains that that in 2008 it would have been difficult for the Icelandic government to prevent a financial crisis. However, he also states that the government could have attempted to obtain foreign funds with a major bond issue or they could have requested assistance from the IMF (Ásgeir Jónsson, 2009). Ásgeir Jónsson expresses his opinion on the Icelandic government's reaction to Iceland's 2008 financial crisis by writing "it turned out that doing nothing in the face of danger was the most reckless behavior imaginable" (Ásgeir Jónsson, 2009, pg. 148).

8.2 Ásgeir Jónsson Contradicts Claims that Landsbanki was Negligent for Its Failure to Transfer Icesave Deposits to the British Guarantee on Deposits

Ásgeir Jónsson explains in his book that the decision for having Icelandic deposit guarantees abroad was originally praised by experts and not considered a negligent maneuver. He mentions that Landsbanki's CEO, Sigurjón Þórvaldur Arnason, stated that Icesave was a "clear genius", in January 27th 2007. Morgunblaðið described Icesave as a great success and Fréttablaðið declared Icesave to be the best business concept of 2007. Ásgeir Jónsson states that with the majority of domestic experts praising Icesave it was understandable that Iceland's political leaders did not understand the risk inherent in Icesave and its possible ramifications (Ásgeir Jónsson, 2009).

According to Ásgeir Jónsson, in May 2008 Landsbanki had started working with the British Financial Service Authority to move Icesave deposits into the British guarantee on deposits by transferring Icesave accounts to Landsbanki's Heritable Bank in London (Ásgeir Jónsson, 2009). He claims that Landsbanki's management has stated the reason this transfer did not take place was because of interference from Icelandic government authorities and increasing demands from the British Financial Service Authority. However, Ásgeir Jónsson also mentions other inherent problems with Landsbanki's plans for transferring Icesave deposits to the British guarantee on deposits. Ásgeir Jónsson explains that Heritable Bank was too small for taking such a large loan exposure and there were limitations attached to asset transfers from Landsbanki to foreign subsidiaries (Ásgeir Jónsson, 2009).

Ásgeir Jónsson states that Landsbanki failed to transfer Icesave deposits to the British guarantee on deposits because of variables that were out of their control. He explains that with the difficulties Landsbanki faced in transferring the Icesave deposits to Heritable Bank they did not have enough time to negotiate with the British authorities before their plans were overtaken by the fall of Lehman Brothers in the United States and the government takeover of

Glitnir which made the British authorities lose interest in moving the Icesave deposits to British guarantee on deposits (Ásgeir Jónsson, 2009).

He criticizes the Icelandic government for not taking an active role in the negotiations between Landsbanki and the British Financial Service Authority. The Icelandic government was responsible for guaranteeing Landsbanki's deposits, but Ásgeir Jónsson perceived them as having been insufficiently concerned with the talks being conducted and the urgency of moving the Icesave deposits to the British guarantee on deposits (Ásgeir Jónsson, 2009).

Ásgeir Jónsson was also critical of the Icelandic financial authorities allowing Landsbanki to take on foreign deposits in Holland while they were negotiating with the British authorities to move Icesave deposits to the British guarantee on deposits. However, he mentions that representatives of Fjármálaeftirlitið claimed that Landsbanki had received permission for expanding operations to Holland in 2007 and that the Icelandic authorities did not have the legal authority to stop Landsbanki from entering the Holland market in 2008 (Ásgeir Jónsson, 2009).

8.3 Ásgeir Jónsson States that Davíð Oddsson was Negligent in His Interactions with Iceland's Largest Banks

According to Ásgeir Jónsson, "Oddsson moved into his governor's chair with enough political baggage to make building mutual trust among the three banks all but impossible" (Ásgeir Jónsson, 2009, pg. 142). Ásgeir Jónsson explains that Davíð Oddsson was publicly critical of Iceland's commercial bankers (Ásgeir Jónsson, 2009). Ásgeir Jónsson states that "Oddsson took a dim view of the youthful nouveaux riches as they flexed their foreign leveraged muscle in the face of the traditional business community" (Ásgeir Jónsson, 2009, pg. 142).

In his book, Ásgeir Jónsson, refers to many inappropriate interactions Davíð Oddsson had with the management and ownership of Iceland's largest commercial banks. Ásgeir Jónsson also mentions that as Prime Minister in 2003, Davíð Oddsson attempted to create a bank run on Kaupthing by removing his deposits from the bank and publicly announcing that he condemned the bank for greed and unethical dealings. He refers to about a newspaper article written in March 2009 by former Kaupthing chairman Sigurður Einarsson in which he claims that Davíð Oddsson leaked information regarding private meetings to the press and in 2007 during a banquet Oddsson threatened to nationalize Kaupthing if they did not end their pursuit of having the euro as their operating currency (Ásgeir Jónsson, 2009). Further he

criticizes Davíð Oddsson for his public feud with Jón Ásgeir Jóhannesson who was a major shareholder in Glitnir. Ásgeir Jónsson refers to Davíð Oddsson publicly calling Jón Ásgeir Jóhannesson a street hooligan (Ásgeir Jónsson, 2009). According to him, “Davíð Oddsson used his office to wage a personal campaign against the influence of the multinationals” (Ásgeir Jónsson, 2009, pg. 142).

Ásgeir Jónsson states that Davíð Oddsson’s aggression towards Iceland’s commercial banks made it difficult for Iceland’s regulatory authorities to regulate the banks because the general public often regarded Iceland’s banks as victims of the government’s persecution. He explains that any attempts to regulate the banks became unpopular and the motives of regulators became questionable. He also states that Davíð Oddsson’s aggression made it impossible for him as Chairman of the Board of Governors of the Icelandic Central Bank to professionally communicate with the management of Iceland’s commercial banks (Ásgeir Jónsson, 2009).

8.4 Ásgeir Jónsson Criticizes the Icelandic Central Bank and Government for their Response to Glitnir’s Request for a Collateralized Loan

According to Ásgeir Jónsson the Icelandic government’s nationalization of Glitnir as a response to Glitnir’s request for a collateralized loan “was in fact a gross, amateurish miscalculation” (Ásgeir Jónsson, 2009, pg. 167). He states that the refinancing of Glitnir resulted in depleting all of the Central Bank of Iceland’s currency reserves in a few months (Ásgeir Jónsson, 2009).

He further explains that “from a foreigner’s perspective, the nationalization of Glitnir was not a credible move and it helped demonstrate the severity of Iceland’s banking problem” (Ásgeir Jónsson, 2009, pg. 168). As a result of Glitnir’s nationalization all of Iceland’s largest banks were downgraded by Fitch, all their remaining lines of credit were closed and there were mass withdrawals (Ásgeir Jónsson, 2009). Ásgeir Jónsson describes the situation in Iceland after Glitnir was nationalized by stating that “distrust of the entire sector was building up into a tsunami abroad and the banks were now bleeding” (Ásgeir Jónsson, 2009, pg. 168).

9.0 Conclusion

In Althingi's Special Investigation Commission's report on Iceland's 2008 financial crises the term negligent is used to describe the policies of Iceland's former government and bankers. The parliamentary committee review of Althingi's Special Investigation Commission report agreed that Iceland's banking crisis was caused by the negligent actions of individuals in Iceland's government and banking institutions. Althingi's Special Investigation Commission and the parliamentary committee review tell a story in their reports that reveals that incompetence and negligence of individuals in influential positions as having been a primary factor in Iceland's banking crisis.

The individuals accused of negligence by Althingi's Special Investigation Commission report tell a different story. They reject the report's accusations and point to other factors that they state as having led to Iceland's banking crisis. Many of the accused individuals also criticize the competency and question the motives of Althingi's Special Investigation Commission. They state that negligent policies of Iceland's government and banking sector were not the cause of Iceland's financial crisis.

Every individual and institution that was accused of negligence by Althingi's Special Investigation Commission report claimed that the international financial crisis created a sudden change in the world's financial markets that again created unprecedented difficulties that could not be controlled, prevented or predicted by Iceland's authorities. According to them Iceland's financial markets operated in global financial markets that were lax and stimulated the production of unstable bubbles. Eventually, investors started realizing the bubble effect of the markets and fear became a financial plague which created an international financial crisis. With this perspective the individuals accused by Althingi's Special Investigation Commission of negligence were victims of an unstable financial system that they could not change.

The main reason for the contrasting nature of the stories told by Althingi's Special Investigation Commission report and the individuals accused of negligence is a result of Iceland's financial supervisory powers being divided between multiple institutions and ministries who were all reluctant to accept the responsibility of monitoring Iceland's commercial banks. This confusing division of responsibility made coordination difficult and makes it more difficult to pinpoint the institutions and individuals who were responsible for regulating Iceland's commercial banks. It can be argued that the complex arrangement of

Iceland's financial supervisory powers created a scenario where no institution or individual felt responsible for monitoring and regulating Iceland's commercial banks.

According to Árni M. Mathiesen it was not the Ministry of Finance that was responsible for regulating financial law. He states that this was the responsibility of the Ministry of Business Affairs, Fjármálaeftirlitið and the Central Bank of Iceland. Former Chairman of the Board of Governors of the Icelandic Central Bank Davíð Oddsson states that Iceland's Central Bank did not have the responsibility to regulate Iceland's commercial banks because that was the responsibility of Fjármálaeftirlitið. The head of Fjármálaeftirlitið was former Minister of Business Affairs Björgvin G. Sigurðsson who did not consider himself accountable for the policies of Fjármálaeftirlitið because he had no legal authority over it.

The division of Iceland's financial supervisory powers was used by individuals accused of negligence by Althingi's Special Investigation Commission's report to challenge these accusations. It is difficult to distinguish between the role and responsibilities of financial supervisory institutions when there are multiple institutions that seem to share the same responsibilities. During its investigation Althingi's Special Investigation Commission was placed in a difficult situation when none of the individuals entrusted to lead Iceland's financial supervisory and regulatory authority considered themselves responsible for the policies that led to Iceland's financial crisis.

Former Director General of Fjármálaeftirlitið Jónas Fr. Jónsson and former Chairman of the Board of Governors of the Icelandic Central Bank Davíð Oddsson, question the competence of Althingi's Special Investigation Commission members. Jónas Fr. Jónsson, Davíð Oddsson, Björgvin G. Sigurðsson, Árni M. Mathiesen and Geir H. Haarde all disagree with Althingi's Special Investigation Commission's accusations that they were negligent in their actions with regards to Iceland's 2008 financial crisis and make an argument for why Althingi's Special Investigation Commission showed poor judgment in its use of the term negligent. According to Davíð Oddsson and Jónas Fr. Jónsson, Althingi's Special Investigation Commission used the term negligent for its dramatic effect in helping them achieve political objectives that were established before the commission's investigation began.

The result of Althingi's Special Investigation Commission's report's accusations of negligence has been public anger towards the accused individuals and a parliamentary Committee review of Althingi's Special Investigation Commission report which resulted in Althingi voting to have former Prime Minister Geir H. Haarde prosecuted for gross

negligence during his term as Prime Minister. None of the other individuals accused of negligence by Althingi's Special Investigation Commission were held accountable for having been negligent and there is still an ongoing debate concerning who was responsible for the events that led to Iceland's 2008 banking crisis.

Althingi's Special Investigation Commission's report states that certain members of Iceland's former government and banking sector did not fulfill their duties while in public office and that their negligence led to Iceland's 2008 banking crisis. In accordance with article 14 in Iceland's constitution, Icelandic ministers that cause damage through negligence can be prosecuted for their actions. However, Althingi is only prosecuting former Prime Minister Geir H. Haarde for negligence. Althingi's decision not to prosecute other former ministers for negligence reflects the disagreement within Iceland's parliament about the report's conclusion and its accusations of negligence. If the report's accusations would have been considered accurate by all members of Althingi then all the former ministers accused by the report of negligence would have been prosecuted for damages caused by their negligence. It can also be argued that if Althingi does not agree with the Special Investigation Commission's report's accusations of negligence concerning Árni M. Mathiesen and Björgvin G. Sigurðsson then the report be considered accurate enough to be the basis for prosecuting Geir H. Haarde for this same offense.

It is expected that the leaders of a nation accept political responsibility for policy failures that occur on their watch. Accepting such responsibility would seem to be the leader's duty. However, in Iceland there has been little effort by its former leaders to accept responsibility for any mistakes made by themselves or their institutions. Althingi's Special Investigation Commission's report attempts to place such responsibility on Iceland's former leaders by using the term negligent and declaring their failures to the Icelandic public. The individuals accused of negligence have vigorously fought such accusations and declared that they did not make any mistakes that led to the banking crisis. Many of these former leaders have blamed others for the banking crisis and some have stated that no mistakes were made. Iceland's former leaders have also attempted to dilute the legitimacy of Althingi's Special Investigation Commission's accusations and other members of Althingi have been hesitant to fully agree with the report's accusations of negligence by calling only on former Prime Minister, Geir Haarde to face trial by "Landsdómur" leaving out other influential persons.

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