

Transcript of Conversation between Alistair Darling and Arni M. Mathiesen 7 October 2008. Darling was in Luxembourg and Mathiesen in Reykjavik.

ARNI M. MATHIESEN: Hello.

ALISTAIR DARLING: Hello.

ARNI M. MATHIESEN: This is Arni Mathiesen, Minister of Finance.

ALISTAIR DARLING: Hello, we met a few months ago, weeks ago.

ARNI M. MATHIESEN: No, we have never met. You met the Minister of Trade.

ALISTAIR DARLING: Alright, sorry.

ARNI M. MATHIESEN: No problem.

ALISTAIR DARLING: Thank you for taking the call. As you know, we have a huge problem with Landsbanki, we have a branch here, which has got four billion pounds worth of deposits and it has now been shut and I need to know exactly what you are doing in relation to it. Could you explain that to me?

ARNI M. MATHIESEN: Yes, this was explained in a letter we sent the night before last from the Trade Ministry. Since then, we have set out a new legislation where we are prioritizing the deposits and where we are giving the FME, the Icelandic FSA authorities, the authority to go into banks, similar legislation to what you have in England, and the Landsbanki is now under the control of the FME, and they are in the process of working out how to do these things, but I think this legislation will help in solving this problem.

ALISTAIR DARLING: What about the depositors you have got who have got deposits in London branches?

ARNI M. MATHIESEN: We have the insurance fund according to the Directive and how that works is explained in this letter and the pledge of support from the government to the fund.

ALISTAIR DARLING: So the entitlements the people have, which I think is about sixteen thousand pounds, they will be paid that?

ARNI M. MATHIESEN: Well, I hope that will be the case. I cannot visibly state that or guarantee that now, but we are certainly working to solve this issue. This is something we really don't want to have hanging over us.

ALISTAIR DARLING: People are asking us already, what is happening there? When will you work that through?

ARNI M. MATHIESEN: Well, I really can't say. But I think it is the best thing that the FSA be in close touch with the FME about this to see how the timeline works out in this.

ALISTAIR DARLING: Do I understand that you guarantee the deposits of Icelandic depositors?

ARNI M. MATHIESEN: Yes, we guarantee the deposits in the banks and branches here in Iceland.

ALISTAIR DARLING: But not the branches outside Iceland?

ARNI M. MATHIESEN: No, not outside of what was already in the letter that we sent.

ALISTAIR DARLING: But is that not in breach of the EEA-treaty?

ARNI M. MATHIESEN: No, we don't think so and think this is actually in line with what other countries have been doing over recent days.

ALISTAIR DARLING: Well, we didn't when we had the problem with Northern Rock. It didn't matter where you saved money, we guaranteed your savings.

ARNI M. MATHIESEN: Well, yes, that was actually in the beginning at least debated. I am sure you cleared that up in the end.

ALISTAIR DARLING: The problem, I do understand your problem, the problem is that you have people who put their money into a bank here and they are finding that you have decided not to look after their interests. This would be extremely damaging to Iceland in the future.

ARNI M. MATHIESEN: Yes, we realize that and we will be trying as we possibly can to make this not a problem. We are in a very, very difficult situation ...

ALISTAIR DARLING: I can see that ...

ARNI M. MATHIESEN: ... and just this week, since we can't cure the domestic situation we can't really do anything about things that are abroad. So we must first deal with the domestic situation, and then we will certainly try to do what we possibly can, and I am personally optimistic that the legislation that we passed last night will strengthen this part of it. And we, of course, realize what could happen and don't want to be in ...

ALISTAIR DARLING: yes ...

ARNI M. MATHIESEN: but the point is also, Chancellor, that we have for months been trying to talk to everybody around us and trying to tell them that we were in trouble and ask them for support and we have actually gotten very little support.

ALISTAIR DARLING: I understand that, but I have to say that when I met your colleague and these others, basically, what we were told turns out not to have been right. I was very concerned about the London banking position and the kept saying there was nothing to worry about. And you know, with the position we are now in,

there will be a lot of people in this country who put money in and who stand to lose an awful lot of money and they will find it difficult to understand how that has happened.

ARNI M. MATHIESEN: Well, I hope that won't be the case. I wasn't at the meeting, so I can't say ...

ALISTAIR DARLING: Well, I know that. Can you tell me this, if the insurance fund you refer to, does it have money to pay out?

ARNI M. MATHIESEN: They have some money, but as is with most of these funds, it is very limited compared to the exposure.

ALISTAIR DARLING: Yeah, so you don't know. See, I need to know this, in terms of what I tell people. It is quite possible that there is not enough money in that fund. Is that right?

ARNI M. MATHIESEN: Well, yes, that is quite possible.

ALISTAIR DARLING: Well, that is a terrible position to be in.

ARNI M. MATHIESEN: Yes, we are in a terrible position here and the legislation we were passing through last night is an emergency legislation and, as I say, we are just trying to ensure the domestic situation so that we can then secure other situations.

ALISTAIR DARLING: What I ... I take it therefore that the promise Landsbanki gave us, that is was going to get 200 million pounds of liquidity back into it, has gone as well.

ARNI M. MATHIESEN: Yes, they didn't get that liquidity.

ALISTAIR DARLING: Well, you know, I do understand your position. You have to understand that the reputation of your country is going to be terrible.

ARNI M. MATHIESEN: Yes, we do understand that. We will try our utmost to avoid that. We need to secure the domestic situation, before I can give you any guarantees for anything else.

ALISTAIR DARLING: Obviously, I would appreciate any help you can give.

ARNI M. MATHIESEN: Obviously ...

ALISTAIR DARLING: Sure ... We would have to explain to people here what has happened. It will, of course, no doubt, have repercussions for others. It really is a very, very difficult situation where people thought they were covered and then they discover the insurance fund has got no money in it.

ARNI M. MATHIESEN: Yes, as we said in the letter ...

ALISTAIR DARLING: OK, I will appreciate whatever help you can give.

ARNI M. MATHIESEN: Yes, we will need for the FSA and FME to be in touch on the ...

ALISTAIR DARLING: Oh, I know they most certainly will. I know you were not at the meeting and weren't part of it. We doubted what we were being told then and I am afraid we were right.

ARNI M. MATHIESEN: Yes, that can be.

ALISTAIR DARLING: Anyway, please keep in touch. Whatever you can do to help, that will be very helpful indeed.

ARNI M. MATHIESEN: Yes: if there are any areas on your side, please be in touch.

ALISTAIR DARLING: Alright. I will do that. Thank you very much indeed.

ARNI M. MATHIESEN: Thank you.

ALISTAIR DARLING: Goodbye.

ARNI M. MATHIESEN: Bye.