

Icelandic Pension Funds contribute to the removal of Capital Controls by buying bonds from the Central Bank for ISK 88 billion

The Boards of 26 Icelandic pension funds have agreed to purchase bonds from the Central Bank of Iceland for over ISK 88 billion. The bonds are on one hand Housing Financing Fund bonds that Landsbanki Íslands put into Avens B.V., a company the bank founded in 2008. The bonds were used as mortgage for loans from the Banque Central du Luxembourg. On the other hand the pension funds are buying bonds that the Treasury and the Central Bank acquired following the banks' collapse.

The Central Bank of Iceland is now fully in control over Avens' assets, after a deal made with the liquidator of Landsbanki Luxembourg and with the Banque Central du Luxembourg. The deal is an important step towards removing the capital controls in Iceland, since Avens was the largest non-residents' holder of bonds in Icelandic Króna.

The Central Bank of Iceland offered the pension funds to buy the bonds from the "Luxembourg package" as well as other bonds. **The bonds are index-linked with a fixed yield of 7.2%, with an average duration of 9 years.**

The Icelandic Pension Funds Association discussed the matter over the weekend with the managing directors of the pension funds and board meetings of the pension funds were held. On Sunday, it was agreed that 26 pension funds would buy bonds from the Central Bank of Iceland for ISK 88 billion.

The Central Bank set the condition that the pension funds pay for the bonds in Euros, financing the purchase with the selling of foreign assets. **By the end of March, 2010, the foreign assets of the Icelandic Pension Funds amounted to ISK 554 billion.**

The pension funds got a good deal on the bonds, better than is readily available on the market in Iceland at the moment. By liquidating their foreign assets and transporting their finances to Iceland the pension funds are indeed temporarily increasing their risks. However this investment will contribute to the creation of better conditions for the removal of the capital controls. Last but not least, the bonds fixed yield is significantly higher than is expected in the pension funds' actuarial statements. **One can therefore expect that the transaction will improve the actuarial position of the Icelandic Pension System by 1-2 %.**

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