Arrests follow publication of report on Iceland banking collapse

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April saw the release of the "Black Report" by a committee of Icelandic MPs into the banking collapse that hit the island's economy in 2008. Based on its findings, several arrests of leading figures in Icelandic financial circles have taken place.

The report was commissioned by Iceland's parliament (*Althingi*) to look into the events leading up to and surrounding the collapse of the country's three main banks in the autumn of 2008—Kaupthing, Landsbanki and Glittnir.

The report uncovered a combination of negligence and outright criminality that led to the crisis, involving the banks, the political establishment and international investors. Kaupthing, which was then Iceland's largest bank, is accused of falsifying documents to mislead investors as well as manipulating the market price of its shares by advancing huge unsecured loans to the firm's directors and main shareholders.

But the crisis was not merely the result of unscrupulous bankers. The government, which in the lead-up to the crisis was a coalition between the right-wing Independence Party and the Social Democrats, is accused of ignoring numerous warnings about the growing dangers facing Iceland's economy. Former Prime Minister Geir Haarde, as well as Finance Minister Arni Matthiesen and Commerce Minister and Social Democrat Bjorgvin Sigurdsson, are personally accused of negligence and could face criminal charges with the possibility of prison sentences of up to two years. The Social Democrats are also accused of having dismissed warnings made by Davíd Oddsson, former head of the Central Bank.

Financial regulators both in Iceland and abroad come in for strong criticism in the report for failing to prevent the rampant criminality within the financial elite. In the decade prior to 2008, Independence together with its coalition partners carried out systematic deregulation of the financial system, including the privatisation of the major banks at the beginning of the 2000s.

The findings have created difficulties for the main political parties, who are all implicated in the scandal.

Several MPs have resigned their posts, including the vice chairperson of the Independence Party, Thorgerdur Katrin Gunnarsdóttir. In a speech she said she had "lost the trust" of the electorate and would temporarily step aside in the interests of her party.

Anger with the ruling elite has deepened in Iceland since 2008. The right-wing coalition led by Haarde was the first government to fall as a consequence of the financial crisis. It was forced out after several days of protests in Reykjavik, which saw over one percent of the entire population take to the streets. The newly established Social Democratic-Left Green government sought to bail out the financial elite at the expense of working people by imposing massive spending cuts and tax hikes. But protests continued throughout last summer. Popular anger was focused on the so-called IceSave deal, in which the government sought to make ordinary Icelanders pay for the speculative practices of the big banks.

Reflecting such sentiments, the latest revelations saw the Independence party plummet in opinion polls by over 5 percent in just one month.

Immediately after the report was made public, it was announced that the evidence gathered would be made available to Olafur Hauksson, who is leading the special investigation into the banking crisis. Arrests were made at the beginning of May. First to be taken into custody was former Kaupthing head Hreidar Mar Sigurdsson, who was accused of market manipulation. The following day Magnus Gudmundsson, the man in charge of Kaupthing operations in Luxembourg, was detained. The special investigation had already examined material related to the operations of Kaupthing in Luxembourg in February.

The report and subsequent arrests have provided the current government with the opportunity to suggest that Iceland is “moving on” from the crisis by ensuring that individuals deemed to have been responsible for the crash are brought to book. Prime Minister Johanna Sigurdardottir released a statement shortly after the report came out, commenting, “Iceland needs closure in order to fully focus on and finish the reconstruction which lies ahead. I believe that this report with its difficult and painful truths is a crucial part of that process.”

She continued, “Mistakes were certainly made. The private banks failed, the supervisory system failed, the politics failed, the administration failed, the media failed, and the ideology of an unregulated free market utterly failed. This has called for a fundamental review of many elements of our society.”

Sigurdardottir’s rhetoric is for public consumption, since the government has done all it can over the past year to protect the interests of the financial elite. The claim that “many elements” of society have had to be altered is a patent lie. Instead, the government has fully recapitalised the bankrupt financial institutions with billions of kronur in public funds, and returned them to private hands—creating the conditions for continuation of the very speculative activities that contributed to their demise.

Sigurdardottir’s Social Democrats were amongst the most committed to the IceSave agreement, which would have resulted in a further €4 billion of public money used to pay off the gambling debts of the financial establishment.

The current inquiry is the least that could have been done, given the public anger in the country. From the start, the commission has been starved of funding, with the government pledging only a further 400 million kronur (nearly €2.5 million) next year, a drop in the ocean compared to the sums of money lavished on the failed banks. Eva Joly, an international expert in corporate crime who has been called in to provide support, admitted that even if the number of staff working for the special commission were increased to 80, the completion of the probe would take four years.

Sigurdardottir responded to the arrests by hailing them as a “milestone” and a “crossroads” for Iceland. These events were forcing those implicated in the banking collapse to “shoulder responsibility”, she claimed. Coming from a government that has opened the treasury to the financial elite, such statements are stretching credulity. Fully accounting for the banking crash would implicate the entire political establishment. Nevertheless, if charges are brought against Haarde and other politicians, it will be one of the first times this has happened since the financial collapse of 2008.

Across the globe, those whose actions played a considerable role in the greatest crisis of world capitalism since the 1930s have faced no threat of prosecution. This has led to stepped-up interest outside Iceland, particularly in Britain where Kaupthing and Landsbanki operated large parts of their business prior to 2008.

Tony Shearer, the chief executive of City Investment Bank before it was taken over by Kaupthing in 2005, is pursuing a case against the UK Financial Services Authority (FSA) in order to force an investigation of its role in the collapse of Iceland’s banks. In a letter to former UK Prime Minister Gordon Brown, sent shortly after the publication of the report in April, Shearer wrote, “UK depositors have lost a great deal of money through the failure of an FSA regulated bank. In addition UK taxpayers have lost a great deal of money. The FSA continues to refuse to provide any information on what they knew and did in respect of these banks.”

The FSA continues to place all responsibility on the regulators in Reykjavík, with its chairman Lord Turner claiming that there is “nothing further to be gained” by holding an inquiry.