

# LAAP bulletin 82

## guidance on the impairment of deposits with Icelandic Banks

*Update No. 4*

*May 2011*

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, BVACOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, BVACOP or Prudential Code.

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## BACKGROUND

1. LAAP Bulletin 82 provided advice on estimating the impairments to be recognised in relation to deposits in Icelandic banks. This guidance was based on published information at the date the bulletin was issued, and since then three updates have been issued. The last update was issued in September 2010. Since that date, further information has become available. This update sets out the position at the end of April 2011 and provides advice on estimating the impairments based on the latest position.
2. The Code requires the Statement of Accounts to be adjusted for events that occur after the balance sheet date, and which provide evidence of conditions that existed at the Balance Sheet date:

*3.8.2.1 Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:*

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and*
- b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).*

*3.8.4.1 An authority shall disclose the following:*

...

- 2) If an authority receives information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period, the authority shall update disclosures that relate to these conditions, in the light of the new information.*

...

3. However, the Statement of Accounts need not be adjusted for immaterial amounts:

*2.1.2.7 ... An authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the true and fair view of the financial statements and to the understanding of users.*

4. The amounts to be recognised in the accounts in respect of the value of the deposits, and the impairments to be charged to the Income and Expenditure Account are accounting estimates.

## UPDATED ESTIMATES

5. The following paragraphs set out the latest information in respect of each bank.

### *Heritable Bank plc*

6. At the time LAAP Bulletin 82 Update 3 was issued, the total amount to be received was estimated to be between 79% and 85% of the claim. The seventh progress report from the administrators was issued on 10 February 2011<sup>1</sup>. As the report does not suggest any changes to the total amount estimated to be received, it is anticipated that the previous range remains appropriate.
7. At the time of the LAAP Bulletin 82 Update 3 interim payments totalling 41.27% of the claim had been made. Since then, further dividends have been paid out (4.1% in

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<sup>1</sup> [http://www.heritable.co.uk/Uploads/Documents/news/Seventh\\_Report.pdf](http://www.heritable.co.uk/Uploads/Documents/news/Seventh_Report.pdf)

October 2010, 4.71% in January 2011 and 6.25% in April 2011), bringing the total to date to 56.33% of the claim.

8. In view of the above information, LAAP recommends the estimate of the recoverable amount is based on a total repayment of 84.98% as set out in LAAP Bulletin 82. LAAP also recommends that the estimated repayment schedule is amended to reflect the repayments up to April 2011; and that subsequent repayments are profiled equally with the exception of the final repayment. This will produce a revised repayment schedule as follows:

Date	Repayment	Date	Repayment
April 2011	6.25%	April 2012	5.00%
July 2011	5.00%	July 2012	5.00%
October 2011	5.00%	October 2012	3.65%
January 2012	5.00%		

#### *Kaupthing Singer & Friedlander Ltd*

9. At the time LAAP Bulletin 82 Update 3 was issued, the total amount to be received was estimated to be between 65% and 78%. As per page 14 of the April 2011 report<sup>2</sup> to creditors this has improved to 78% to 86%. The revised estimated repayment schedule below assumes a prudent mid point repayment of 82%. A further interim payment of 8% was made in December 2010. The sixth dividend<sup>3</sup> has been announced indicating a payment of 5% on 25 May 2011.
10. In view of the above information, LAAP recommends the estimate of the recoverable amount is based on a total repayment of 82%, increased from 71% as set out in LAAP Bulletin 82 Update 3. LAAP also recommends that the increase in the expectation is reflected in increased estimates of future repayments on the same schedule as previously anticipated. This will produce a revised repayment schedule as follows:

Date	Repayment	Date	Repayment
May 2011	5.00%	July 2012	8.00%
January 2012	8.00%	January 2013	8.00%

#### Iceland-domiciled banks

11. LAAP Bulletin 82 Update 3 discussed a number of factors regarding the recovery of deposits with those banks domiciled in Iceland. Since that time the Reykjavik District Court issued a verdict on 1 April 2011 confirming the local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This related to both Glitnir and Landsbanki and also confirmed the position in relation to interest (see below). These decisions are being appealed to the Icelandic Supreme Court, however the current court ruling confirms the priority stance adopted in Update 3.

#### Interest

12. The District Court decisions confirmed the position in relation to interest in the authorities' favour. Where deposits matured between 6 October 2008 and 22 April 2009, local authorities claims should be on the value of the matured deposit plus interest of at least the contractual rate on the maturity value for the period from

<sup>2</sup> [http://www.kaupthingsingers.co.uk/Files/CustomerCreditorInformation/KSF\\_Progress\\_Report\\_April\\_2011.pdf](http://www.kaupthingsingers.co.uk/Files/CustomerCreditorInformation/KSF_Progress_Report_April_2011.pdf)

<sup>3</sup> [http://www.kaupthingsingers.co.uk/Files/CustomerCreditorInformation/Notice\\_Of\\_Sixth\\_Dividend\\_25\\_May\\_2011.pdf](http://www.kaupthingsingers.co.uk/Files/CustomerCreditorInformation/Notice_Of_Sixth_Dividend_25_May_2011.pdf)

maturity to 22 April 2009 (the decisions are contractual interest for Glitnir and 8% interest for Landsbanki). For interest post maturity and up to 22 April 2009, LAAP recommend that the contractual rate of interest be used.

#### *Glitnir Bank hf*

13. At the time LAAP Bulletin 82 Update 3 was issued, the total payment was estimated to be 100% if local authority deposits enjoyed priority status. It is anticipated that payment will be made in December 2011 and assuming that priority status is maintained this will be at 100%. LAAP therefore recommends that 100% repayment in December 2011 is used as the best estimate.

#### *Landsbanki Islands hf*

14. At the time LAAP Bulletin 82 Update 3 was issued, the total payment was estimated to be 94.85% if local authority deposits enjoyed priority status. Creditor updates have not changed this position materially.

15. The recommended repayment, based on priority status, is therefore as follows:

Date	Repayment	Date	Repayment
December 2011	22.17%	December 2015	8.87%
December 2012	8.87%	December 2016	8.87%
December 2013	8.87%	December 2017	8.87%
December 2014	8.87%	December 2018	19.46%

#### Scottish Authorities

16. The Scottish Government issued statutory guidance in March 2009 which permitted Scottish local authorities not to charge impairment losses arising from deposits with the failed Icelandic bank deposits to the General Fund until 2010-11. This was to allow time for the position to become clearer as to what, if any, losses local authorities will actually incur as a result of these investments. Based on an assessment of the current position Scottish Ministers have determined that further statutory intervention is appropriate.
17. Local Government Finance Circular No 5/2011<sup>4</sup> sets out the new guidance on the value of impairment of deposits with the failed Icelandic bank deposits to be charged to the General Fund.

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<sup>4</sup> <http://www.scotland.gov.uk/Resource/Doc/1070/0115980.pdf>