

LAAP bulletin 82

guidance on the impairment of deposits with Icelandic Banks

Update No. 5

September 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.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students
020 7543 5888

The Chartered Institute of Public Finance and Accountancy
Registered with the Charity Commissioners of England and Wales Number 231060

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the only UK professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation of a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. Our in-house CIPFA Education and Training Centre delivers the range of our programmes at locations across the UK, and works with other places of learning to provide our courses locally. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with governments, accounting bodies and the public sector around the world to advance public finance and support its professionals.

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 four updates have been issued. The last update was issued in May 2011. Since that date, further information has become available. This update sets out the position at the middle of September 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 Comprehensive Income and Expenditure Statement 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 4 was issued, the total amount to be received was estimated to be between 79% and 85% of the claim and the eighth interim dividend (due in July 2011) was estimated at 5.00%. The ninth progress report from the administrators was issued on 10 August 2011¹. This report provides a revised estimate of a base case return of between 86% and 90% of the claim. The eight interim payment was made in July 2011, and was for 4.05% of the claim. The report indicates that a further interim payment is expected to be made in October 2011, although there is no indication as to the amount of this payment.

¹ http://www.heritable.co.uk/Uploads/Documents/news/ninth_report.pdf

7. In view of the above information, LAAP recommends the estimate of the recoverable amount is based on a total repayment of 88% based on the mid point of the base case return. LAAP also recommends that the estimated repayment schedule is amended to reflect the repayments up to July 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	Original	Revised	Date	Original	Revised
April 2011	6.25%	6.25%	April 2012	5.00%	4.50%
July 2011	5.00%	4.05%	July 2012	5.00%	4.50%
October 2011	5.00%	4.50%	October 2012	3.65%	4.50%
January 2012	5.00%	4.50%	January 2013	-	5.12%

8. The revised estimated payment schedule is expected to increase the carrying amount of the deposit by approximately 7.5%. Whilst this is unlikely to be material, authorities will need to determine whether this is material in their particular circumstances. They do not need to adjust the accounts where the amount is not judged to be material.

Kaupthing Singer & Friedlander Ltd

9. At the time LAAP Bulletin 82 Update 4 was issued, the total amount to be received was estimated to be between 78% to 86%. The estimated repayment schedule below assumes a prudent mid point repayment of 82%. The sixth dividend had been announced indicating a payment of 5% on 25 May 2011. This payment was made in May 2011, and the payment was for 5% of the claim.
10. In view of the above information, LAAP recommends the estimate of the recoverable amount remains at 82% as detailed in LAAP Bulletin 82 Update 4. The payment schedule therefore remains 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. The appeals to the Icelandic Supreme Court have yet to be concluded and hence there are no changes to the estimates in relation to Iceland-domiciled banks. If required, a further update will be issued once the appeal verdict is announced.

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 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 4 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 4 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%