

# LAAP BULLETIN 82

## Guidance on the impairment of deposits with Icelandic Banks

*Update No. 1*

*September 2009*

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the SORP, 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 SORP, 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. Since that date, further information has become available. This update sets out the position at the end of August 2009 and provides advice on estimating the impairments based on the latest position.
2. The SORP 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:

*3.43 Where an event after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, occurs (**adjusting event**) the amounts recognised in the Statement of Accounts should be adjusted, eg the settlement of a court case that confirms the entity had a present obligation at the Balance Sheet date. Any disclosures affected by the new information about the adjusting event should be updated in the light of the new information.*

*3.45 Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue. The date when the Statement of Accounts was authorised for issue and who gave that authorisation should be disclosed in the notes to the Statement of Accounts, including confirmation that this is the date up to which events after the Balance Sheet date have been considered.*

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

*2.13 Strict compliance with the SORP, as to both disclosure and accounting principles, is not necessary where the amounts involved are not material to the fair presentation of the financial position and transactions of the authority and to the understanding of the Statement of Accounts by a reader.*

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. As such, the figures recognised in the accounts approved by members prior to 30 June 2009 will only need to be changed where the revised estimates are materially different; where the revised estimates are not materially different, there is no requirement to restate the accounts to reflect the more up to date information.

## 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 was issued, the total amount to be received was estimated to be between 70% and 80% of the claim, and the first interim payment (due in July or August 2009) was estimated to be 15% of the claim. A letter from the administrators to all creditors was sent on 13 August 2009 and confirmed that estimated total amount to be received remains unchanged<sup>1</sup>. The first interim payment was made in July 2009, and was for 16.13% of the claim. The letter indicates that a further interim payment of at least 10 pence in the pound is expected to be made by the end of the calendar year.
7. In view of the above information, LAAP recommends the estimate of the recoverable amount is based on a total repayment of 80% as set out in LAAP Bulletin 82. LAAP also

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<sup>1</sup> [http://www.heritable.co.uk/Uploads/Documents/news/Second\\_6\\_Month\\_Report.pdf](http://www.heritable.co.uk/Uploads/Documents/news/Second_6_Month_Report.pdf)

recommends that the estimated repayment schedule is amended to reflect the increased repayment in July 2009 and to incorporate a 10% repayment in December 2009; and that subsequent repayments are reduced equally. This will produce a revised repayment schedule as follows:

Date	Original	Revised
July 2009	15.00%	16.13%
December 2009	0.00%	10.00%
July 2010	23.00%	20.22%
July 2011	22.00%	19.22%
July 2012	10.00%	7.22%
July 2013	10.00%	7.21%

8. The revised estimated repayment schedule is expected to increase the carrying amount of the deposit by approximately 1.6%. This is not expected to be material in most cases.

*Kaupthing Singer & Friedlander Ltd*

9. At the time LAAP Bulletin 82 was issued, the total amount to be received was estimated to be at least 50% of the claim, and the first interim payment (due in June or July 2009) was estimated to be 10% of the claim. This payment was made in July 2009, and the payment was for 20% of the claim. No further information about the total amount to be received has been made available.
10. In view of the above information, LAAP recommends the estimate of the recoverable amount is based on a total repayment of 50% as set out in LAAP Bulletin 82. LAAP also recommends that the small increase in the first repayment is offset by reducing the remaining repayments equally. This will produce a revised repayment schedule as follows:

Date	Original	Revised
July 2009	10.00%	20.00%
December 2009	10.00%	7.50%
December 2010	10.00%	7.50%
December 2011	10.00%	7.50%
December 2012	10.00%	7.50%

11. The revised estimated repayment schedule is expected to increase the carrying amount of the deposit by approximately 2.1%. This is not expected to be material in most cases.

*Glitnir Bank hf*

12. At the time LAAP Bulletin 82 was issued, the total payment was estimated to be 100% of the claim due to the small proportion of priority claims. Claims were estimated to include interest up to the earlier of the deposit's maturity date or 14 November 2008.
13. Act No 44/2009 has now come into force in Iceland. Under this act, claims should include interest up to 22 April 2009<sup>2</sup>. In cases where the maturity date is before 22 April 2009, interest between the maturity date and 22 April 2009 will be credited at a

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<sup>2</sup> See 'Role of the Winding Up Board' at <http://www.glitnirbank.com/the-winding-up-proceedings.html>

penalty rate. In the absence of clarity from the bank Winding-Up Committees about whether the UK or Icelandic penalty rate should apply, local authorities' legal advice (as set out in the guidance note to local authorities on claims filing for Landsbanki and Glitnir) is that the current penalty rate of interest in Iceland is 22% and that claims should include calculations based on this amount.

14. No further information about the total amount to be received has been made available. In view of this, LAAP recommends that the estimate of the recoverable amount is based on a total repayment of 100%, as set out in LAAP Bulletin 82. This will be based on the revised claim, including interest to 22 April 2009. No further information about the likely repayment profile has been made available, and LAAP therefore recommends that the original estimated repayment profile (full repayment in March 2010) is retained.
15. The change to the date up to which interest can be claimed will increase the recoverable amount of the deposit. The level of the increase will depend on the maturity date of the deposit.

#### *Landsbanki Islands hf*

16. At the time LAAP Bulletin 82 was issued, the total payment was estimated to be 95%. Claims were estimated to include interest up to the earlier of the maturity date of the deposit or 14 November 2008.
17. The Landsbanki Resolution Committee has announced that its best estimate of the amount to be repaid to preferential claimants is 83%<sup>3</sup>. This will be based on the revised claim, including interest to 22 April 2009. LAAP therefore recommends that the estimate of the recoverable amount is based on a total repayment of 83%, using the latest estimate from the Resolution Committee.
18. Act No 44/2009 has now come into force in Iceland. Under this act, claims should include interest up to 22 April 2009<sup>4</sup>. In cases where the maturity date is before 22 April 2009, interest between the maturity date and 22 April 2009 will be credited at a penalty rate. In the absence of clarity from the bank Winding-Up Committees about whether the UK or Icelandic penalty rate should apply, local authorities' legal advice (as set out in the guidance note to local authorities on claims filing for Landsbanki and Glitnir) is that the current penalty rate of interest in Iceland is 22% and that claims should include calculations based on this amount.
19. The change to the date up to which interest can be claimed will increase the amount of the claim, but this will be offset by reduction in the estimated percentage of the claim to be repaid. This is expected to lead to a reduced recoverable amount; the level of this reduction will depend on the maturity date of the deposit.
20. No further information about the likely repayment profile has been made available. LAAP therefore recommends that the repayment profile is based on the original estimated repayment profile, adjusted for the reduced total repayment, as follows:

Date	Original	Revised
March 2010	24.00%	21.00%
December 2010	24.00%	21.00%
December 2011	24.00%	21.00%
December 2012	23.00%	20.00%

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<sup>3</sup> <http://lbi.is/newsandevents/?NewsID=54>. Local government's legal advice remains that depositors (including local authorities) should be treated as preferential creditors.

<sup>4</sup> See 'Role of the Winding Up Board' at <http://www.glitnirbank.com/the-winding-up-proceedings.html>