

# LAAP bulletin 82

## guidance on the impairment of deposits with Icelandic Banks

*Update No. 3*

*September 2010*

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, and since then two updates have been issued. The last update was issued in May 2010. Since that date, further information has become available. This update sets out the position at the end of August 2010 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 prepared prior to 30 June 2010 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 Update 2 was issued, the total amount to be received was estimated to be between 79% and 85% of the claim, and the fourth interim payment (due in June or July 2010) was estimated to be 5% of the claim. The fifth progress report from the administrators to all creditors was sent on 11 August 2010<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. The fourth interim payment was made in July 2010, and was for 6.27% of the claim. The report indicates that a further interim payment is expected to be made in October 2010, although there is no indication as to the amount of this payment.

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

7. 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 increased repayment in July 2010; and that subsequent repayments are reduced equally. This will produce a revised repayment schedule as follows:

Date	Original	Revised	Date	Original	Revised
June 2010	5%	0.00%	June 2011	5%	4.86%
July 2010	0%	6.27%	September 2011	5%	4.86%
September 2010	5%	0.00%	December 2011	5%	4.86%
October 2010	0%	4.86%	March 2012	5%	4.86%
December 2010	5%	4.86%	June 2012	5%	4.86%
March 2011	5%	4.86%	September 2012	5%	4.85%

8. The revised estimated repayment schedule is expected to increase the carrying amount of the deposit by approximately 0.1%. This is not expected to be material in most cases.

*Kaupthing Singer & Friedlander Ltd*

9. At the time LAAP Bulletin 82 Update 2 was issued, the total amount to be received was estimated to be between 65% and 78% of the claim, and the fourth interim payment (due in June or July 2010) was estimated to be 6% of the claim. This payment was made in July 2010, and the payment was for 10% of the claim. The letter from the administrators<sup>2</sup> indicates that a fifth dividend is anticipated to be paid in November or December 2010; but no further information about the amount of this dividend or 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 71% as set out in LAAP Bulletin 82 Update 2. LAAP also recommends that the increase in the July 2010 repayment is offset by reducing the remaining repayments equally. This will produce a revised repayment schedule as follows:

Date	Original	Revised	Date	Original	Revised
July 2010	6%	10.0%	January 2012	6%	5.2%
December 2010	0%	5.2%	July 2012	6%	5.2%
January 2011	6%	0.0%	January 2013	6%	5.2%
July 2011	6%	5.2%			

11. The revised estimated repayment schedule is expected to increase the carrying amount of the deposit by approximately 0.9%. This is not expected to be material in most cases.

Iceland-domiciled banks

12. LAAP Bulletin 82 Update 2 discussed a number of factors regarding the recovery of deposits with those banks domiciled in Iceland. The factors discussed were the forthcoming court cases regarding the priority status of local authority deposits, the recovery of interest and exchange rate risk.

<sup>2</sup> <http://www.kaupthingsingers.co.uk/Files/CustomerCreditorInformation/Notice of fourth dividend 26 July 2010.pdf>

13. At the time this Update was prepared, there were no changes to the factors discussed. LAAP therefore recommends that the basis of the estimate of the recoverable amount remains unchanged.

*Glitnir Bank hf*

14. At the time LAAP Bulletin 82 Update 2 was issued, the total payment was estimated to be 100% if local authority deposits enjoyed priority status; and 29% if they did not enjoy priority status. This latter figure was based on assets of 808bn ISK, and liabilities (excluding subordinated loans) of 2,792bn ISK. An updated financial position was presented to the creditors meeting on 6 August 2010<sup>3</sup>. This showed assets of 811bn ISK and liabilities (excluding subordinated loans) of 2,780bn ISK. As this still produces an estimated recoverable amount of 29%, LAAP recommends that the estimated repayment schedule in LAAP Bulletin 82 Update 2 continues to be used when estimating the recoverable amount.

15. The recommended repayment schedule in LAAP Bulletin 82 Update 2 is as follows:

Date	Repayment (No Priority Status)	Repayment (Priority Status)	Date	Repayment (No Priority Status)	Repayment (Priority Status)
June 2011	0%	100%	October 2013	4.35%	0%
October 2011	4.35%	0%	October 2014	4.35%	0%
October 2012	4.35%	0%	October 2015	11.60%	0%

16. LAAP Bulletin 82 Update 2 recommended that that the estimated recoverable amount to be included in the balance sheet is based on the assumption that local authority deposits will enjoy priority status. However, the panel also accepted that some authorities may take a different view. Authorities should refer to LAAP Bulletin 82 Update 2 for further details.

*Landsbanki Islands hf*

17. At the time LAAP Bulletin 82 Update 2 was issued, the total payment was estimated to be 94.85% if local authority deposits enjoyed priority status; and 38.21% if they did not enjoy priority status. These figures were based on the analysis included in the Impairment Calculator spreadsheet provided with the Update.

18. Since Update 2 was issued, further creditor reports have been issued. The last report was presented to the creditors meeting on 23 August 2010. The figures presented to the creditors meeting<sup>4</sup> show an immaterial increase in assets (from 1,172bn ISK to 1,177bn ISK) and no change in liabilities. LAAP therefore recommends that the estimated repayment schedule in LAAP Bulletin 82 Update 2 continues to be used when estimating the recoverable amount.

19. The recommended repayment schedule in LAAP Bulletin 82 Update 2 is as follows:

<sup>3</sup> [http://www.glitnirbank.com/images/stories/Creditors\\_meetings/6August2010/Glitnir\\_Creditors\\_Meeting\\_06\\_08\\_2010\\_presentation.pdf](http://www.glitnirbank.com/images/stories/Creditors_meetings/6August2010/Glitnir_Creditors_Meeting_06_08_2010_presentation.pdf)

<sup>4</sup> [http://www.lbi.is/library/Opin-gogn/skyrslan/FINAL\\_4th%20Creditor%20Meeting%20Presentation%2020100823\\_ensk%20utg.pdf](http://www.lbi.is/library/Opin-gogn/skyrslan/FINAL_4th%20Creditor%20Meeting%20Presentation%2020100823_ensk%20utg.pdf)

Date	Repayment (No Priority Status)	Repayment (Priority Status)	Date	Repayment (No Priority Status)	Repayment (Priority Status)
October 2011	8.93%	22.17%	October 2015	3.57%	8.87%
October 2012	3.57%	8.87%	October 2016	3.57%	8.87%
October 2013	3.57%	8.87%	October 2017	3.57%	8.87%
October 2014	3.57%	8.87%	October 2018	7.84%	19.47%

20. LAAP Bulletin 82 Update 2 recommended that that the estimated recoverable amount to be included in the balance sheet is based on the assumption that local authority deposits will enjoy priority status. However, the panel also accepted that some authorities may take a different view. Authorities should refer to LAAP Bulletin 82 Update 2 for further details.

#### **UPDATES TO LAAP 82 RECOMMENDED DISCLOSURES**

21. LAAP Bulletin 82 included an example disclosure note that included the following sentence:

*Discussions are ongoing with DCLG [Assembly Government] [Scottish Government] to amend Regulations to allow the authority to charge the relevant proportion of the impairment loss, including lost interest, to the Housing Revenue Account and Pension Fund.*

22. This sentence should now be removed. No changes to the Item 8 Determinations have been made that would allow any impairment losses to be charged to the Housing Revenue Account in England and Wales (authorities in Scotland should refer to LAAP Bulletin 78).
23. LAAP 79 included a discussion of the treatment of investments on behalf of Pension Funds. Where an authority has determined (in accordance with the principles set out in LAAP 79) that moneys were invested on behalf of the Pension Fund, the relevant proportion of any impairment loss (which may in some cases be 100%) should be charged to the Pension Fund.