

# LAAP BULLETIN 82

## May 2009

### Guidance on the impairment of deposits with Icelandic Banks

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. In October 2008, a number of local authorities had deposits in various Icelandic banks with a range of payment due dates. In the week beginning 6 October 2008, a number of Icelandic banks went into administration.
2. LAAP Bulletins 78 and 79 provided advice on the accounting arrangements for authorities with deposits in these banks. This bulletin provides further information regarding the impairment to be recognised in authorities' 2008/09 accounts.
3. This bulletin applies to the 2008/09 accounts only, and the advice in the bulletin on the level of impairment to be recognised in the 2008/09 accounts may be superseded if more information becomes available.
4. Authorities should note that the SORP requires the responsible finance officer (proper officer in Scotland) to certify that the information in the accounts is accurate as at the date of certification. It is not currently anticipated that further information will become available in relation to Heritable and KSF until the next six monthly progress reports (due in October 2009). Similarly, we do not at this stage anticipate new information in relation to Glitnir or Landsbanki that would change the position outlined in this paper. However, if more information does become available between the date of this bulletin and the date the accounts are certified, this will need to be reflected in the statement of accounts. Information that is up to date when the accounts are submitted for audit in June may not be up to date when the accounts are signed off by auditors in September, and any impairment recognised will need to be reviewed prior to the accounts being certified at that date. Where more up to date information is available, the impairment should reflect this later information. Any changes to the amount of the impairment should be treated as a change of accounting estimate.

## ACCOUNTING REQUIREMENTS

5. Both FRS 26 and the SORP require authorities to make their best estimate of any impairment of financial assets. This bulletin considers the information that has been published, to date, in respect of each Icelandic bank with which authorities had money deposited, and recommends an appropriate level of impairment for each bank, based upon the information currently available. When certifying the accounts, the responsible finance officer (proper officer in Scotland) should satisfy themselves that this level of impairment is still appropriate in light of any further published information.
6. While the following paragraphs recommend an appropriate level of impairment for each bank, it is for the responsible finance officer (proper officer in Scotland) to determine the appropriate level of impairment. The responsible finance officer (or proper officer) may therefore make an alternative estimate if particular circumstances apply or if they consider another approach would provide a better estimate. Appendix A provides a worked example of the calculations and accounting entries for an impaired deposit.

### *Heritable Bank plc*

7. Heritable Bank is a UK registered bank, in administration under Scots law. The company was placed in Administration on 7 October 2008 and the Administrators are partners of Ernst & Young LLP.
8. The administrators issued a progress report to creditors on 17 April 2009<sup>1</sup>. This report indicated that an interim payment of 15% of creditors' claims would be paid in July or August 2009, and that based on present information the total payment could be either 70% or 80%, depending on the strategy followed. Claims are based on the principal and interest accrued to 6 October 2008.

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<sup>1</sup>[http://www.heritable.co.uk/Uploads/Documents/news/6\\_Month\\_Report.pdf](http://www.heritable.co.uk/Uploads/Documents/news/6_Month_Report.pdf)

9. The circular indicated that a total repayment of 70% could result if the administration were wound up in 2010, and that a total repayment of 80% could result if the administration were wound up in 2012. Public sector bodies constitute a majority of the creditors and local authority representatives on the creditors committee have indicated that they will ask the administrator to proceed on the basis that the administration will be wound up in 2012. It is expected that this will be supported by all public sector creditors. It is therefore likely (but not certain) that this strategy will be followed.
10. It would therefore be appropriate for authorities to recognise impairment based on an 80% recovery. The discounted cash flow calculations will need to take into account a payment of 15% of the claim amount at the end of July or August 2009, based on the administrators' intention to declare a dividend of that amount. Because the administrators are gradually running down the business of the bank, the bank will receive income throughout the process, rather than a single sum on the sale of assets. The administrators' have indicated informally that is anticipated that there could be some front loading of these repayments. It is also anticipated that a final sale of assets will take place after the books have been run down to the end of 2012. For this reason, it is recommended that the expected balance of repayments (65%) is split as follows:  
  
July 2010 – 30%  
July 2011 – 15%  
July 2012 – 10%  
July 2013 – 10%
11. A worked example is given in Appendix A. Whilst this example is based on the dates and percentages that apply to deposits with Heritable Bank, the principles in the example will apply to deposits with all Icelandic banks.

#### *Kaupthing Singer & Friedlander Ltd*

12. Kaupthing Singer & Friedlander Ltd is a UK registered bank, in administration under English law. The company was placed in Administration on 8 October 2008 and the Administrators are partners of Ernst & Young LLP.
13. The administrators issued a progress report to creditors on 20 April 2009<sup>2</sup>. This report indicated that an interim payment of at least 10% of creditors' claims would be paid in June or July 2009, and that based on current forecasts, the total payment should be at least 50%. However, the administrators stressed that "this estimate could be lower or higher if there are significant issues which impact either future realisations or the level of claims from creditors". Claims are based on the principal and interest accrued to 7 October 2008.
14. It would therefore be appropriate for authorities to recognise impairment based on a 50% recovery, as the statements from the administrators indicate that this is the best estimate within a range of possible amounts. The discounted cash flow calculations will need to take into account a payment of 10% of the claim amount at the end of June or July 2009. As with Heritable Bank, the administrators are gradually running down the business of Kaupthing Singer & Friedlander and intend to pay dividends at regular intervals. The report to creditors also indicated that the administrators were seeking an extension of the administration until October 2012: this has now been granted by the High Court. For these reasons, it is recommended that the expected balance of repayments (40%) is split approximately evenly between December 2009, December 2010, December 2011 and October 2012.

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<sup>2</sup><http://www.kaupthingsingers.co.uk/lisalib/getfile.aspx?itemid=20165>

## *Glitnir Bank hf*

15. Glitnir is an Icelandic entity. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (New Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a Resolution Committee.
16. Old Glitnir's affairs are being administered under Icelandic law. In Iceland, Act No. 125/2008 provides for claims for 'deposits' to have priority when distributing the assets of a bankrupt financial undertaking. A legal opinion obtained by the Local Government Association indicates that the deposits made by local authorities, (including interest up to 14 November 2008) will rank as priority claims; a briefing note will be provided to authorities to provide evidence of this position. Interest accruing after 14 November 2008 will rank as an unsecured claim. Where the maturity date of the deposit was before 14 November 2008, it would be prudent to treat the priority claim as being based on interest to the maturity date, although it is possible that ultimately additional interest will be added to the priority claim.
17. The latest public presentation of Glitnir's affairs<sup>3</sup> indicates that the banks assets are significantly greater than the liabilities owed to depositors, indicating that a full repayment of the principal and interest up to 14 November 2008 (or the maturity date) is likely. It would therefore be appropriate to use the full amount of the priority creditor when calculating the recoverable amount.
18. The presentation also indicates that, excluding priority creditors, repayments are not likely to be significant. Available assets amount to ISK 922bn (ISK 1,008bn – ISK 86bn that it is assumed will be repaid to depositors). Unsecured creditors (assuming depositors are the only priority creditors) would amount to ISK 2,331bn (ISK 2,417bn – ISK 86bn relating to the depositors that it is assumed will be paid as priority creditors). Assets are therefore likely to cover less than 40% of the unsecured creditors. Given that there is uncertainty as to the level of interest that would be credited after 14 November (or the maturity date), and that the amount is expected to be relatively small compared to the deposit, it would be prudent not to take this interest into account when calculating the recoverable amount (and therefore the level of impairment).
19. No indication as to the timing of repayments is given in the public presentation. It is, however, anticipated that the Icelandic administrators will finalise the claims filing process and confirm the priority status of priority deposits at a meeting of creditors within the next 6-8 months. Repayments will be made shortly thereafter subject to cash being available and any legal challenge to the administrators' decision regarding depositors' priority status. The value of deposits is small compared to the total asset value. On that basis it would be reasonable to estimate that the repayment of the priority deposits will be made by 31 March 2010.
20. Impairment will need to be recognised based on these assumptions. Authorities should note that the impairment loss would be significantly greater if local authority deposits are not deemed to have priority. This should be disclosed in the notes to the accounts. Given the significance of the status of the local authority deposits as priority deposits in estimating the recoverable amount, responsible financial officers (proper officers) will wish to ensure that they have evidence to support this assumption. LAAP considers that the note provided by the LGA's legal advisors provides evidence to support the recommended level of impairment, and that further support for this position can be found on the Glitnir Bank website<sup>4</sup>.

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<sup>3</sup> [http://www.glitnir.co.uk/servlet/file/\[Islandsbanki%20Open%20Creditors%20Meeting.pdf?ITEM\\_ENT\\_ID=32026&COLL\\_SPEC\\_ENT\\_ID=156](http://www.glitnir.co.uk/servlet/file/[Islandsbanki%20Open%20Creditors%20Meeting.pdf?ITEM_ENT_ID=32026&COLL_SPEC_ENT_ID=156)

<sup>4</sup> See Question 26 at <http://www.glitnir.co.uk/frontpage/meeting/>

## *Landsbanki Islands hf*

21. Landsbanki Islands is an Icelandic entity. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a Resolution Committee.
22. Old Landsbanki's affairs are being administered under Icelandic law. 1. In Iceland, Act No. 125/2008 provides for claims for 'deposits' to have priority when distributing the assets of a bankrupt financial undertaking. A legal opinion obtained by the Local Government Association indicates that the deposits made by local authorities, (including interest up to 14 November 2008) will rank as priority claims; a briefing note will be provided to authorities to provide evidence of this position.
23. If this is the case, authorities are likely to recover a significant portion of their deposits. The latest public presentation of Landsbanki's affairs<sup>5</sup> indicates that the banks assets (ISK 1,194bn) are sufficient to repay approximately 90% of the deposits from customers (ISK 1,338bn). As with Glitnir Bank, it is assumed that interest up to 14 November 2008 will rank as a priority claim. It is assumed that where the maturity date of the deposit was before 14 November 2008, the priority claim will be based on interest to the maturity date.
24. The value of the assets in the public presentation includes a bond from the new Landsbanki, valued at ISK 284bn. The value of this bond is subject to confirmation. The International Monetary Fund, in setting out its position in relation to its support for Iceland, has explained<sup>6</sup> that 'the authorities in Iceland have expressed a commitment to recognise the obligations of insured depositors, and to engage in a fair and equitable process to resolve the treatment of such creditors in their ongoing efforts to restructure the failed banks. ... As the IMF's program documents have indicated from the start, the fair treatment of depositors and creditors is a subject that is featuring in our review discussions with Iceland's government.' In the light of this it is considered that arrangements sufficient for full repayment of depositors remain possible.
25. This gives a likely range for the recoverable amount of 90% - 100%. Paragraph AG86 of the Application Guidance to FRS 26 states:

*The process for estimating the amount of an impairment loss may result either in a single amount or in a range of possible amounts. In the latter case, the entity recognises an impairment loss equal to the best estimate within the range\* taking into account all relevant information available before the financial statements are issued about conditions existing at the balance sheet date.*

*\* IAS 37, paragraph 39 contains guidance on how to determine the best estimate in a range of possible outcomes.*

26. The last sentence of paragraph 39 of IAS 37 states that:  
*Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.*
27. Authorities will therefore need to assess their best estimate of the impairment within the range outlined above. In the absence of any information to indicate that one point in the range is more likely than another, authorities should take the mid-point of the range and assume that the recoverable amount will be 95%.

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<sup>5</sup><http://lbi.is/Uploads/document/Landsbanki-OCM-en-version-190209.pdf>

<sup>6</sup>See letter of 10 March 2009 by Mark Flanagan, IMF Mission Chief for Iceland, published at: <http://www.imf.org/external/np/vc/2009/031009.htm>

28. The impairment will need to be estimated using a discounted cash flow calculation. In order to perform this calculation, an estimate of the date(s) when amounts will be recoverable is required. No indication as to the timing of repayments is given in the public presentation. However, because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Based on the estimated repayment schedules for Kaupthing Singer & Friedlander, it would be appropriate to assume that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.
29. Impairment will need to be recognised based on these assumptions. Authorities should note that the impairment loss would be significantly greater if local authority deposits are not deemed to have priority. This should be disclosed in the notes to the accounts. Given the significance of the status of the local authority deposits as priority deposits in estimating the recoverable amount, responsible financial officers (proper officers) will wish to ensure that they have evidence to support this assumption. LAAP considers that the note provided by the LGA's legal advisors provides evidence to support the recommended level of impairment, and that further support for this position can be found on the Landsbanki website<sup>7</sup>.

## **NOTES TO THE FINANCIAL STATEMENTS**

30. LAAP Bulletin 79 sets out the recommended notes to the financial statements in respect of these impairments. The example notes refer to "statements made by the administrator"; it would be appropriate to summarise those statements that are relevant to the authority, and to refer the reader to the administrators' statements for further information.
31. In addition, the note to the financial statements on credit risk should include details of the fact that any impairment in relation to Glitnir Bank and Landsbanki Islands would be greater if local authority deposits were not deemed to have priority.
32. Appendix B includes an example disclosure note. Authorities may wish to adapt this for their own purposes, selecting only those sections that are relevant to their situation.

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<sup>7</sup>See page 13 of the latest public presentation of Landsbanki's affairs (web link above)

**Worked Example (based on deposit with Heritable Bank)**

*This example shows the accounting entries throughout the life of a deposit; the estimated cash flows are based on those for Heritable Bank, but the principles can be applied to a deposit with any of the banks. To simplify the calculations for the example, interest has been calculated to the nearest month. More accurate dates should be used where the amount of interest recognised would be materially different.*

On 1 March 2008 an authority deposited £5 million with ABC bank for 1 year at 5.5%. The bank went in to administration at the start of October 2008, and as a result the repayment of the deposit has not been made. The administrator has announced that 80% of the amount outstanding at the end of September 2008 (i.e. 80% of the principal and 80% of the interest outstanding as at the end of September 2008) is expected to be repaid by the end of July 2013. An interim payment of 15% is to be paid at the end of July 2009.

At the end of September 2008, the amount outstanding, on which the repayments are based, was the principal of £5 million plus seven months interest of £160,416.67 giving a total amount of £5,160,416.67.

Based on this information, the authority estimates that it will receive repayments based on the following schedule:

July 2009	15%	(£774,062.50)
July 2010	30%	(£1,548,125.00)
July 2011	15%	(£774,062.50)
July 2012	10%	(£516,041.67)
July 2013	10%	(£516,041.67)

The authority will recognise impairment at the balance sheet date (31 March 2009). The carrying amount of the deposit at the balance sheet date (prior to the impairment) is £5,297,916.67 (the principal of £5 million plus 13 months interest); this is compared with the recoverable amount to give the impairment. The recoverable amount is calculated on a discounted cash flow basis (using the original effective interest rate of the deposit as required by paragraph 4.67 of the SORP and FRS 26) as follows:

Date	Discount Factor	Repayment	Present Value
July 2009	0.981875	£774,062.50	£760,032.48
July 2010	0.929447	£1,548,125.00	£1,438,899.71
July 2011	0.879818	£774,062.50	£681,034.17
July 2012	0.832839	£516,041.67	£429,779.83
July 2013	0.788369	£516,041.67	£406,831.34
TOTAL			£3,716,577.53

The recoverable amount of £3,716,577.53 is less than the carrying amount of the deposit (£5,297,916.67). The difference between the two amounts (£1,581,339.14) is therefore recognised as an impairment in the 2008/09 accounts, and the carrying amount of the deposit is written down to the recoverable amount.

The amortised cost method requires that interest continue to be credited to the Income and Expenditure Account until the financial instrument has been derecognised. This will be the point at which the final payment in respect of the deposit is received, i.e. December 2012. The

carrying amount of the deposit following impairment until December 2012 will move as follows:

<b>Month</b>	<b>Carrying Amount (start of month)</b>	<b>Interest Accrued</b>	<b>Repayments</b>	<b>Carrying Amount (end of month)</b>
April 2009	3,716,577.53	17,034.31	0.00	3,733,611.84
May 2009	3,733,611.84	17,112.39	0.00	3,750,724.23
June 2009	3,750,724.23	17,190.82	0.00	3,767,915.05
July 2009	3,767,915.05	17,269.61	774,062.50	3,011,122.16
August 2009	3,011,122.16	13,800.98	0.00	3,024,923.14
September 2009	3,024,923.14	13,864.23	0.00	3,038,787.37
October 2009	3,038,787.37	13,927.78	0.00	3,052,715.15
November 2009	3,052,715.15	13,991.61	0.00	3,066,706.76
December 2009	3,066,706.76	14,055.74	0.00	3,080,762.50
January 2010	3,080,762.50	14,120.16	0.00	3,094,882.66
February 2010	3,094,882.66	14,184.88	0.00	3,109,067.54
March 2010	3,109,067.54	14,249.89	0.00	3,123,317.43
April 2010	3,123,317.43	14,315.20	0.00	3,137,632.63
May 2010	3,137,632.63	14,380.82	0.00	3,152,013.45
June 2010	3,152,013.45	14,446.73	0.00	3,166,460.18
July 2010	3,166,460.18	14,512.94	1,548,125.00	1,632,848.12
August 2010	1,632,848.12	7,483.89	0.00	1,640,332.01
September 2010	1,640,332.01	7,518.19	0.00	1,647,850.20
October 2010	1,647,850.20	7,552.65	0.00	1,655,402.85
November 2010	1,655,402.85	7,587.26	0.00	1,662,990.11
December 2010	1,662,990.11	7,622.04	0.00	1,670,612.15
January 2011	1,670,612.15	7,656.97	0.00	1,678,269.12
February 2011	1,678,269.12	7,692.07	0.00	1,685,961.19
March 2011	1,685,961.19	7,727.32	0.00	1,693,688.51



<b>Month</b>	<b>Carrying Amount (start of month)</b>	<b>Interest Accrued</b>	<b>Repayments</b>	<b>Carrying Amount (end of month)</b>
April 2011	1,693,688.51	7,762.74	0.00	1,701,451.25
May 2011	1,701,451.25	7,798.32	0.00	1,709,249.57
June 2011	1,709,249.57	7,834.06	0.00	1,717,083.63
July 2011	1,717,083.63	7,869.97	774,062.50	950,891.10
August 2011	950,891.10	4,358.25	0.00	955,249.35
September 2011	955,249.35	4,378.23	0.00	959,627.58
October 2011	959,627.58	4,398.29	0.00	964,025.87
November 2011	964,025.87	4,418.45	0.00	968,444.32
December 2011	968,444.32	4,438.70	0.00	972,883.02
January 2012	972,883.02	4,459.05	0.00	977,342.07
February 2012	977,342.07	4,479.48	0.00	981,821.55
March 2012	981,821.55	4,500.02	0.00	986,321.57
April 2012	986,321.57	4,520.64	0.00	990,842.21
May 2012	990,842.21	4,541.36	0.00	995,383.57
June 2012	995,383.57	4,562.17	0.00	999,945.74
July 2012	999,945.74	4,583.08	516,041.67	488,487.15
August 2012	488,487.15	2,238.90	0.00	490,726.05
September 2012	490,726.05	2,249.16	0.00	492,975.21
October 2012	492,975.21	2,259.47	0.00	495,234.68
November 2012	495,234.68	2,269.83	0.00	497,504.51
December 2012	497,504.51	2,280.23	0.00	499,784.74
January 2013	499,784.74	2,290.68	0.00	502,075.42
February 2013	502,075.42	2,301.18	0.00	504,376.60
March 2013	504,376.60	2,311.73	0.00	506,688.33
April 2013	506,688.33	2,322.32	0.00	509,010.65

Month	Carrying Amount (start of month)	Interest Accrued	Repayments	Carrying Amount (end of month)
May 2013	509,010.65	2,332.97	0.00	511,343.62
June 2013	511,343.62	2,343.66	0.00	513,687.28
July 2013	513,687.28	2,354.39	516,041.67	0.00

The accounting entries required throughout the life of the deposit are shown below. Where an authority takes advantage of regulations or statutory guidance to defer the impact of the impairment on the general fund, these entries are shown in bold. This example assumes that an authority will defer the impact of the whole impairment. The responsible finance officer (proper officer in Scotland) will need to consider whether this is appropriate in the light of the anticipated impairment, level of reserves and other relevant factors. These entries also assume that the full amount of interest credited to the Income and Expenditure Account will be transferred to the Financial Instrument Adjustment Account; for authorities in Scotland, the requirement is to transfer an amount equal to the 'prudent reduction' in the interest to be recognised in the Income and Expenditure Account, which in some circumstances may be a lower figure. The figures for interest credited to the Income and Expenditure Account in 2009/10, 2010/11, 2011/12 and 2012/13 are taken from the table above.

2007/08

Dr	Financial Assets	£5,000,000.00
Cr	Cash	£5,000,000.00

Being the initial cash deposit

Dr	Financial Assets	£22,916.67
Cr	Income & Expenditure Account	£22,916.67

Being the interest receivable credited to the Income and Expenditure Account for March 2008.

2008/09

Dr	Financial Assets	£275,000.00
Cr	Income & Expenditure Account	£275,000.00

Being the interest receivable credited to the Income and Expenditure Account 2008/09

Dr	Income & Expenditure Account	£1,581,339.14
Cr	Financial Assets	£1,581,339.14

Being the impairment of the deposit charged to the Income and Expenditure Account.

<b>Dr</b>	<b>Financial Instruments Adjustment Account</b>	<b>£1,581,339.14</b>
<b>Cr</b>	<b>General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)</b>	<b>£1,581,339.14</b>

**Being the application of the regulations to transfer the impairment charge to the Financial Instruments Adjustment Account to mitigate the impact on the General Fund balance.**

Dr	<b>General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)</b>	<b>£297,916.67</b>
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Cr	<b>Financial Instruments Adjustment Account</b>	<b>£297,916.67</b>
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**Being the application of the regulations to transfer the interest receivable (but not received at the time of the impairment) to the Financial Instruments Adjustment Account; as interest accrued in 2007/08 had not been received, this amount is included in the transfer. In Scotland this transfer is the 'prudent reduction', and could be a lower amount.**

2009/10

Dr	Financial Assets	£180,802.40
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Cr	Income & Expenditure Account	£180,802.40
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Being the interest receivable credited to the Income and Expenditure Account for 2009/10

Dr	<b>General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)</b>	<b>£180,802.40</b>
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Cr	<b>Financial Instruments Adjustment Account</b>	<b>£180,802.40</b>
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**Being the application of the regulations to transfer the interest receivable to the Financial Instruments Adjustment Account. In Scotland this transfer is the 'prudent reduction', and could be a lower amount.**

Dr	Cash	£774,062.50
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Cr	Financial Assets	£774,062.50
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Being the receipt of the payments made by the administrator in July 2009.

2010/11

Dr	Financial Assets	£118,496.08
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Cr	Income & Expenditure Account	£118,496.08
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Being the interest receivable credited to the Income and Expenditure Account for 2010/11.

Dr	Cash	£1,548,125.00
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Cr	Financial Assets	£1,548,125.00
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Being the receipt of the payments made by the administrator in July 2010.

Dr	<b>General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)</b>	<b>£1,102,620.07</b>
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Cr	<b>Financial Instruments Adjustment Account</b>	<b>£1,102,620.07</b>
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**Being the application of the regulations to effect the transfer of the net balance in relation to the impairment from the Financial Instruments Adjustment Account to the General Fund once the protection offered by the regulations has expired (where in Scotland the 'prudent reduction' is less than the total interest credited, this transfer will be a larger amount).**

2011/12

Dr	Financial Assets	£66,695.56
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Cr	Income & Expenditure Account	£66,695.56
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Being the interest receivable credited to the Income and Expenditure Account for 2011/12.

Dr	Cash	£774,062.50
Cr	Financial Assets	£774,062.50

Being the receipt of the payments made by the administrator in July 2011.

2012/13

Dr	Financial Assets	£36,408.43
Cr	Income & Expenditure Account	£36,408.43

Being the interest receivable credited to the Income and Expenditure Account for 2012/13.

Dr	Cash	£516,041.67
Cr	Financial Assets	£516,041.67

Being the receipt of the payments made by the administrator in July 2012.

2013/14

Dr	Financial Assets	£9,353.34
Cr	Income & Expenditure Account	£9,353.34

Being the interest receivable credited to the Income and Expenditure Account for 2013/14.

Dr	Cash	£516,041.67
Cr	Financial Assets	£516,041.67

Being the receipt of the payments made by the administrator in July 2013.

### **Example Disclosure Note**

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £Xm deposited across X of these institutions, with varying maturity dates and interest rates as follows:

[Include list as per LAAP Bulletin 79]

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

#### **Heritable Bank**

Heritable bank is a UK registered bank under Scots law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 09 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment the Authority has made the following assumptions re timing of recoveries:

July 2009 – 15%  
July 2010 – 30%  
July 2011 – 15%  
July 2012 – 10%  
July 2013 – 10%

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

#### **Kaupthing Singer and Friedlander Ltd**

The creditor progress report issued by the administrators Ernst and Young, dated 17 April 09 outlined that the return to creditors was projected to be a minimum of 50p in the £ but no timescale is indicated. The administrator indicated that the estimate could be lower or higher if significant issues arose; the 50p in the £ stated is therefore the best estimate within a range of possible amounts. The first dividend payment of 10p in the £ minimum is due in the summer of 2009. The authority has decided to recognise an impairment based on it recovering 50p in the £ up to October 2012 (the date when the High Court has permitted the administration to be extended to).

In calculating the impairment the Authority has therefore made the assumption that the remaining 40% recovery will be split evenly between December 2009, December 2010, December 2011 and October 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 7 October 2008.

## **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100 % could be achieved, and the authority has taken a mid point position and assumed recovery at 95% by 2012. The authority has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and KS&F as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008 [maturity date if earlier].

## **Glitnir Bank hf**

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 [maturity date if earlier] in the future. The impairment therefore reflects the loss of interest to the authority until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £xxx, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £xxxm has been transferred to the Financial Instruments Adjustment Account. The balance of £xxxm relates to interest which has been borne in full by the General Fund.

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.

[LAAP Bulletin 79 also includes recommended disclosures in relation to interest accrued and received on impaired deposits, and on transfers to and from the Financial Instruments Adjustment Account in relation to impaired deposits. Authorities should provide these disclosures where relevant to their circumstances.]