

LAAP bulletin 82

guidance on the impairment of deposits with Icelandic Banks

Update No. 8

September 2013

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, SeRCOP 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, SeRCOP 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. The last update (Number 7) was issued in May 2013. Since that date, further information has become available in relation to Heritable Bank plc. This update sets out the position for Heritable Bank as at September 2013 and provides advice on estimating the impairments based on the latest position. The position for the remaining banks has not changed from that estimated in Update 7.
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. It is for each authority to determine whether the impact of this Bulletin is material based on its own circumstances, however, initial indications are that it is unlikely to be material.
5. The spreadsheet accompanying this Bulletin has been amended for Heritable to reflect the recommended treatment.

UPDATED ESTIMATES

Heritable Bank plc

6. At the time LAAP Bulletin 82 Update 7 was issued, the total amount to be received was estimated to be between 86% and 90% of the claim. Since that time Heritable administrators paid a dividend of 16.73% on 21 August 2013, bringing the total repayment to 94%. At the time of issuance of this Bulletin, there was no evidence to suggest that there will be any further dividends in amounts that might be considered material. Such evidence may become available in future, for example through the medium of statutory

reports to creditors issued by the Heritable administrators, at which point a further update to this Bulletin will be considered.

7. In view of the above information, LAAP currently recommends the estimate of the recoverable amount is based on a total repayment of 94% and that no further dividends are assumed to be paid after August 2013 as follows:

Date	Repayment
August 2013	16.73%