

CYNGOR SIR POWYS COUNTY COUNCIL

CABINET 4th October 2016

REPORT AUTHOR: County Councillor Wynne Jones
Portfolio Holder for Finance

SUBJECT: Icelandic Conclusion

REPORT FOR: Information

1. Summary

- 1.1 This report updates members on the final position in respect of the Icelandic bank deposits.

2. Background

- 2.1 Cabinet are aware that this Authority had £4m in Icelandic banks. This amount was held in two separate banks with £2m in Glitnir and £2m in Landsbanki. Cabinet will also be aware that this has been a long and complicated issue requiring considerable work to assess options and ensure the Council's position is protected. The unprecedented events in 2009 affected numerous local authorities and national bodies such as the Audit Commission that held deposits with Icelandic Banks.

3. Landsbanki

- 3.1 Cabinet will be aware that, up to and including September 2013, the Authority had received distributions amounting to circa 53% in respect of the Landsbanki claim.
- 3.2 A decision was made by Cabinet in October 2013 to take part in a competitive auction process in respect of the Authority's Landsbanki claims. This decision was made on the basis that the administration of the insolvent estate of Landsbanki was likely to continue for several years which would create a level of uncertainty around the timing of future recoveries and the fact that future distributions could have been made in a number of currencies, including Icelandic Krona, which would have been less advantageous. The decision to sell was made alongside a number of other priority creditors including other local authorities.
- 3.3 The successful sale took place on 30th January 2014 with each creditor who participated receiving the same auction price. The price at which the claims were sold was based on a reserve price set by the Authority on the basis of legal advice from Bevan Brittan, financial advice procured from the Local Government Association and the Authority's own analysis of the financial position.

- 3.4 Due to the various required accounting entries over the years, the sale resulted in an in-year surplus of £57,630.04 as the sale proceeds exceeded the balance of the debt outstanding in the ledger.

A chronological and overall financial summary of the Landsbanki situation is at Appendix A.

4. **Glitnir**

- 4.1 The winding up board of Glitnir made a full distribution to creditors in various currencies in March 2012. An element of this was in Icelandic Kroner (ISK) which was placed in an escrow account in Iceland. This means that the money is held in respect of the Creditor and cannot be accessed for any other purpose.

- 4.2 The escrow amount has been subject to interest applied. The rates of interest applied have been conducive in that they have been circa 2-3% above what the Authority was earning on its UK investments.

- 4.2 Cabinet will be aware that Creditors were unable to access their escrowed ISK until either (a) the Central Bank of Iceland approved the requests which were made by the winding-up boards (WUBs) to exempt the escrowed ISK from the capital controls in place so that the ISK could be paid from the escrow accounts to each individual Creditor i.e. into an ISK account in each creditor's name or (b) the capital controls were lifted. The Icelandic government had announced that it was taking steps towards (b).

- 4.3 Currency Auction 2015:
One of these steps was a currency auction being held by the Icelandic government in February 2015.

The currency auction represented a good opportunity for Creditors to exchange (for EUR) a substantial portion, if not all, of their escrowed ISK. Creditors could set their offer price at the level of their choice and their ISK would only sell if the offer price was at or below the price set by the Central Icelandic Bank on the day of the auction.

The auction took place on 10th February 2015 and a number of creditors sold their escrow but this did not include ourselves or the other two Welsh authorities involved, as the auction price did not meet our reserve price.

- 4.4 Deutsche Bank offer:
A briefing regarding this was issued by the advisors on 30th March 2015 to those creditors who had not sold at the currency auction.

On 2nd June 2015 the advisors issued an update in respect of an announcement from the Icelandic Government which gave some details of how they were going to take things forward in respect of ISK, the lifting of capital controls, etc. This authority raised a query with the advisors as did other authorities and this resulted in a telephone conference call on 8th June followed by an email update on 9th June.

The result of this was as follows:-

- (i) The circa 35% stability tax proposed by the Icelandic Government would not be applied to escrowed ISK
- (ii) The Icelandic government's announcement regarding "premium" to be paid by "offshore" ISK holders was a reference to the discount that ISK holders will have to accept if they converted their ISK to foreign currency via a currency auction which the Central Bank of Iceland would be arranging. The other two options were investing the ISK in Iceland (through long term Treasury bonds) or depositing the money in a non-interest bearing current account which would have restrictions on it (it is not clear what these would be).

It was indicated that the non-bearing interest account would be forced on ISK holders who did not pursue the auction or long-term investment options.

The Icelandic advisors said that owners of escrowed ISK were not expressly included in these plans but they expected that this didn't necessarily mean that the plans wouldn't apply to holders of escrowed ISK). Deutsche Bank interpreted the announcement as covering ISK holders.

The UK advisor's view was that it would be very surprising if holders of escrowed ISK did not have to pay some form of premium for converting their ISK. However, no further information clarifying the situation was anticipated in the short term.

Although, via a sale to Deutsche Bank, the authority would have recovered just over 96% of the original amount deposited in Glitnir, the sale would have resulted in an in-year cash loss to the Authority of circa £179k due to the amount physically received not meeting the balance held in the ledger. This balance reflects the original amount in Escrow updated each year in respect of the interest paid and updated as a one-off requirement in respect of the original currencies amounts paid out.

Based on all the facts above, it was decided not to proceed with the sale to Deutsche Bank. The other two Welsh authorities did proceed to take part.

4.5 Currency Auction 2016:

Following legislation passed by the Icelandic government on 22nd May 2016, we were made aware that this had brought about a Central Bank of Iceland (CBI) announcement that a currency auction would take place on 16th June. This was the final opportunity for holders of ISK to take part in an auction.

For those who did not sell their ISK in the auction there would be the entitlement to exchange this with the CBI up until 1st November 2016 at a rate of 220 ISK/Euro 1 or, if this was not done, the ISK would be automatically transferred to a deposit account where interest would be applied at a rate of 0.5% initially. There was no information available as to what options there would be in the future to access this ISK or on what timescale.

The auction prices were based on the volume of ISK offered for sale and ranged between 210 and 190 (190 being the best). There was the option to set a reserve price if required.

The options details above were most certainly geared towards encouraging ISK holders to take part in the auction.

Calculations carried out by Finance confirmed that all of the auction prices on offer would return a better result than the 2015 currency auction and the Deutsche Bank purchase of claims. They would also return a better result than the exchange with the CBI option on offer.

Based on the above information, the Authority proceeded to take part in the auction which took place on 16th June, the result of which was that the best price of 190 was achieved. This result was considerably better than the 2015 auction result which many other authorities, including the other two Welsh authorities, took part in.

As payment was going to be made in Euros the Authority would be subject to accepting the exchange rate on the date of payment if received into a GBP account. Payment date was due to be circa 29th June whereby the Euro/£1 exchange rates may have been detrimentally affected by the referendum on 23rd June. As such, it was agreed to open a Euro account with HSBC which allowed receipt of the payment whilst leaving the Authority in control of when it is transferred to GBP.

Payment was received in the Euro account on 30th June.

- 4.6 On 2nd September a delegated decision was made to convert the Euro amount to GBP. This resulted in a shortfall of £73,381.58 to clear the outstanding ledger balance, requiring funding from Corporate Reserves.

A chronological and overall financial summary of the Glitnir situation is at Appendix B.

5. Legal costs

- 5.1 Total external legal costs for the Icelandic situation are £46,914-57.

Proposal

It is proposed that this update Report is received.

Statutory Officers

The Strategic Director – Resources (s151 officer) has made the following comment:

“The report outlines the final position for the Council’s return of investments held in Icelandic banks.”

The Solicitor to the Council (Monitoring Officer) has made the following comment:

“I have nothing to add to the report.”

Recommendation:		Reason for Recommendation:	
That the Icelandic Banks Final Update Report be received		Update report agreed by Portfolio member	
Relevant Policy (ies):		Treasury Management Policy	
Within Policy:	Y	Within Budget:	N/A
Person(s) To Implement Decision:		N/A	
Date By When Decision To Be Implemented:		N/A	
Contact Officer Name:	Tel:	Fax:	Email:
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Appendix A:

Landsbanki

Date		Landsbanki Claims 884 and 899 GBP £
25-Jun-07	Original Principal deposited (1st year's interest was received in full)	1,000,000.00
05-Sep-08	Original Principal deposited	1,000,000.00
	Claim amount agreed by Icelandic Court:-	2,082,839.17
	Received:	
17-Feb-12	Received direct in GBP	212,940.20
	Received in Euros, transferred to GBP 21-Feb-12	266,012.39
	Received in USD, transferred to GBP 21-Feb-12	128,343.62
29-May-12	Received direct in GBP	254,819.68
09-Oct-12	Received direct in GBP	44,966.93
	Received in Euros, transferred to GBP same day	40,933.76
	Received in USD, transferred to GBP same day	35,439.35
12-Sep-13	Received direct in GBP	42,646.80
	Received in Euros, transferred to GBP same day	32,588.04
	Received in USD, transferred to GBP next day	29,401.77
03-Feb-14	Sale price	813,024.59
	Total received	1,901,117.13
	%age recovered (using claim amount agreed by Icelandic Court)	91.28

Appendix B:

Glitnir

Date		Glitnir Claim GBP £	Glitnir Claim ISK	Euros
25-Jun-07	Original Principal deposited	2,000,000.00		
	Claim amount agreed by Icelandic Court:- (1st year's interest was received in full)	2,105,244.93		
	Received:			
15-Mar-12	Received direct in GBP	245,682.08		
	Received in Euros, transferred to GBP next day	703,802.98		
	Received in USD, transferred to GBP 19-Mar-12	336,069.57		
	Received in NOK, transferred to GBP next day	370,828.53		
	ISK held in escrow		76,753,154.00	
31-Mar-15	Repayment due to Winding-up Board re: incorrect payments split between currencies 15.03.12	-23,124.23		
	ISK interest applied to 31.05.16		13,416,532.00	
30-Jun-16	Currency auction proceeds			475,240.11
02-Sep-16	Euros transferred to GBP	398,513.47		
	Total received	2,031,772.40		
	%age recovered (using claim amount agreed by Icelandic Court)	96.51		
	Please note the claim amount does not include the interest on the escrow			