

UPDATE ON THE POSITION WITH THE BALANCE OF THE COUNCIL'S DEPOSITS IN ICELAND

Background

- 1) The Council had 2 deposits totalling £3m in the Icelandic Bank, Glitnir when several Icelandic Banks failed in September 2008. In March 2012, the council received partial repayment of approximately £2.5m. The Icelandic Krona (ISK) elements of the deposits were retained due to currency controls imposed to maintain the financial stability of Iceland.
- 2) The balance of the council's deposits has been held in escrow since March 2012 earning interest averaging 4%. At the beginning of the year, the balance, which is subject to currency fluctuations and includes accrued interest was approximately £645,000.

Central Bank of Iceland Currency Auction

- 3) In January this year, as depositor creditors of Glitnir with ISK held in escrow, Bevan Brittan informed us of an opportunity to take part in a currency auction through the Central Bank of Iceland on 10 February.
- 4) The CBI periodically holds a currency auction to allow parties to purchase EURO in exchange for ISK as part of their strategy for an 'orderly' removal of the capital controls currently operating in Iceland. Results of previous auctions indicate that participants have exchanged their ISK for between 65% and 83% of the value of the CBI's official selling rate.
- 5) The CBI has stated that the auction on the 10 February will be the 'final auction of its kind'. It is possible that future auctions will be held but the rules that will apply to those auctions may exclude creditors from participating and so this auction represents the only opportunity for creditors to exchange their escrowed ISK for EUR via a CBI currency auction.

Decision to take part in the Auction

- 6) A conference call took place with Bevan Brittan, the LGA and those creditors who stated they 'planned' to take part in the auction. At this stage, of the 61 clients Bevan Brittan are acting for, 52 stated they planned to participate in the auction.
- 7) The CBI is currently reviewing how it can relax the capital controls in a way that will not negatively affect Iceland's financial stability. At the time, there was speculation that this may involve the imposition of an exit tax (with suggestions of up to 30-40%) on creditors of the failed Icelandic banks. It is therefore unlikely that any repatriation option will result in full recovery of all balances for creditors.

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AUDIT & STANDARDS COMMITTEE
INFORMATION SHEET (NO.1)
26 JUNE 2015**

- 8) For Stroud, the balance held in escrow is relatively small and although the deposit is earning a good rate of interest, it is still subject to currency fluctuations. Whilst there is no immediate need to have the deposit returned, recognising that unless the council is prepared to wait many years and still with no guarantee of full recovery, it is likely that losses on repatriation will be incurred.
- 9) Consultation with the Chief Executive, Group Leaders and the Chair and Vice Chair of the Audit and Standards Committee took place on Monday 2nd February. At this time, all information received by the Council was confidential and legally privileged and therefore not in the public domain. During the discussion, the S151 Officer advised the group that to submit a bid range may provide a greater opportunity for a successful outcome but still limits the overall losses. The general consensus was that the proposed bid range of 190-200 ISK : 1 EUR was acceptable.

The outcome of the auction

- 10) The CBI accepted offers of 200 ISK:EUR. All offers above this rate had their offers filled in full while those at 200 had a partial fill. The table below summarises the amount offered in the auction, the amount filled, the total losses including fees and the balance remaining:

	ISK	EUR	GBP
Total ISK	128,798,088	€ 857,521	£633,631
Less ISB fee 0.5%	309,134	€ 2,058	£1,521
Auction amount	128,488,954	€ 855,463	£632,110
Amount sold	61,826,829	€ 309,134	£228,694
Balance still in escrow	66,662,125		£327,949
Total loss including fees			£76,988

- 11) This represents a recovery at 75% of the value which was within the range expected. The Council has made provision of £127,000 in the accounts for losses on these deposits and so the loss incurred has been written off against this provision.
- 12) It is disappointing that the offer was not accepted in full and as a result, approximately £330,000 is still held in ISK in escrow. Another option for repatriation of the final amount is currently being pursued but as before, the details are legally privileged and cannot currently be disclosed. A further briefing will be provided at the appropriate time.

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