

From: PCC Media Team  
Sent: 14 October 2008 15:45  
To: Parsons Caroline; Cllr Peach John; Beasley Gillian; Ticehurst Ben; Harrison John  
Subject: LGA STATEMENT ON ICELANDIC BANKS

Importance: High

FYI

For immediate release: Tuesday 14 October  
Contact: LGA Media Office 0207 664 3333

## COUNCILS CALL FOR INQUIRY INTO CREDIT RATINGS FOR ICELANDIC BANKS

The Local Government Association has today called for a Government inquiry, led by the Financial Services Authority, into how credit ratings agencies continued to give Icelandic banks high credit ratings right up until a matter of days before they went into administration or receivership.

The call came as the LGA:

- Reveals the outcome of encouraging discussions with the administrators Ernst & Young. The administrators consider that that the value of the book value of the assets of Heritable Bank Plc and Kaupthing Singer & Friedlander Limited (both in administration) appeared to be of the same order of magnitude as the liabilities.
- Publishes an update on how many councils have been affected, which shows that 116 councils are currently known to have had deposits in Icelandic banks, with deposits totalling £858.3m.
- Calls on councils that invested after the credit ratings were downgraded to an unacceptable level on 30 September to carry out their own inquiries to discover what happened.

Analysis by the LGA of the ratings issued by the main credit ratings agencies shows that Icelandic banks and their UK subsidiaries continued to receive relatively high ratings up until the afternoon of 30 September.

Analysis shows that:

28 February

Fitch's long-term ratings for Glitnir Bank h.f (Glitnir), Kaupthing Bank h.f (Kaupthing) and Landsbanki Islands (Landsbanki) were all A. Their corresponding short-term ratings were all F1. Moody's reduced its long-term rating for Landsbanki from Aa3 to A2, and held their short-term rating at F1. Its long-term and short-term ratings for Glitnir were Aa3 and F1 respectively.

April

Fitch announces that Icelandic banks were being put on negative rating watch, warning that short and long term ratings on Icelandic banks could be reduced.

9 May

Fitch reduced the ratings for Glitnir and Kaupthing to A minus (long-term) and F2 (short-term). Landsbanki's ratings remained the same but the outlook rating was changed to Outlook Negative.

30 September

Fitch reduced Landsbanki's long-term ratings from A to BBB and its short-term ratings from F1 to F3. The long-term and short-term ratings for Glitnir were reduced to BBB minus and F3 respectively. The long-term and short-term ratings for Kaupthing were reduced to BBB and F3 respectively. Moody's announced it was reviewing Landsbanki's ratings.

8 October

There was a general downgrade of the Icelandic banks' ratings.

Cllr Margaret Eaton, Chairman of the LGA, said:

"This isn't the time for a blame game. This is an unprecedented situation, the extent of which could not have been foreseen. However, at the appropriate moment, there needs to be a full and independent inquiry to find out just how these banks continued to get relatively strong credit ratings until a few days before they went under.

"No council should rely solely on credit agencies and must use their financial nous. But there must be confidence in credit ratings as councils continue to invest billions of pounds in a whole range of financial institutions. Our analysis dispels the myth that many councils were investing recklessly after credit warnings were issued.

"The good news for council taxpayers is that discussions with the administrators have been hugely encouraging. The administrators considered that the book value of the assets of each business appeared to be of the same order of magnitude as the liabilities, although it is too early to give exact figures.

"The evidence shows that, overwhelmingly, town halls have acted prudently and within strict guidelines to get the best rates of interest on savings whilst investing in institutions deemed to be strong. If it is discovered that individual councils invested significant sums following the credit rating downgrading, the LGA expects them to set up their own inquiries to find out what happened.

"Prudent financial management means that councils put their money into a diverse range of banks to make sure that any risk is spread to minimise the impact of problems in the financial markets. We are not aware of councils that are in serious imminent liquidity problems and in the long term we are confident that vital frontline services will remain unaffected.

ENDS

Notes to editors:

1. The following is an agreed statement between the LGA and Ernst & Young

LGA talks with administrators of Heritable Bank Plc and Kaupthing Singer & Friedlander Limited (Both in Administration)

1. The Local Government Association (“LGA”) held talks with Alan Bloom, Joint Administrator of Heritable Bank Plc (“Heritable”) and Patrick Brazzill, Joint Administrator of Kaupthing Singer & Friedlander Limited (“KSF”) on 13 October. The LGA was represented by Stephen Jones, Director of Finance and Performance.

2. The Administrators confirmed that they were seeking to maximize value from both companies, for the benefit of creditors. The LGA said that local authorities were looking to the Administrators to do their utmost to recover monies deposited, and would expect vigorous action from the Administrators to that end.

3. The Administrators said that they could not currently give an estimate of the level of funds expected to be recoverable nor when any payout could be expected. However, they agreed to provide estimated outcomes which local authorities could use (if they see fit), in planning their budgets, by mid-November.

4. The Administrators advised that both Heritable and KSF operated a number of businesses. In broad terms, the Administrators considered that the value of the book value of the assets of each business appeared to be of the same order of magnitude as the liabilities but that the recoveries for the Local Authorities would be dependent on the final level of actual realizations.

5. The LGA agreed to assist the Administrators by exploring with member local authorities whether arrangements could be made to co-ordinate contact through representative groups acting on behalf of the local authority creditors of Heritable and KSF.

6. The Administrators confirmed that they intended to contact known wholesale creditors of Heritable and KSF on or before 14 October to provide formal notification, a short summary on the current situation and to invite these creditors to confirm details of the amounts deposited with Heritable and KSF.

7. This statement has been agreed between the LGA and the Administrators of Heritable and KSF.

2. Information about the credit rating systems adopted by the rating agencies can be found at their respective websites:

[www.fitchratings.com](http://www.fitchratings.com) (Fitch's)

[www.moody.com](http://www.moody.com) (Moody's).

3. A report on the update is available on request

From: PCC Media Team

Sent: 14 October 2008 15:35

To: Ticehurst Ben; Beasley Gillian; Cllr Peach John; Harrison John

Subject: LATEST ICELANDIC BANKS UPDATE

Importance: High

FYI – LGA Update

Dear all

We will very shortly be releasing a significant statement to the media regarding the Icelandic banks situation. This statement will:

1) Call for a government inquiry into how credit ratings agencies continued to give Icelandic banks high ratings up until just a few days before they ran into trouble.

2) Say that, having analysed the advice issued by credit ratings agencies in the eight months or so prior to the banks collapsing, any council investing prior to 30 September 2008 acted in accordance with government guidelines.

3) Say that Ernst & Young, administrators for the banks Heritable and Kaupthing Singer & Friedlander, has said:

"In broad terms, the Administrators considered that the value of the book value of the assets of each business appeared to be of the same order of magnitude as the liabilities but that the recoveries for the Local Authorities would be dependent on the final level of actual realisations."

On this point, in any press release, the wording is crucial. Ernst & Young have said that this must be produced verbatim.

4) Publish a definitive picture for the number of authorities with exposure to Icelandic banks and the total amount invested by councils.

5) Say that councils which invested in Icelandic banks after 30 September should launch internal inquiries.

We will be working on the exact wording of the statement right up until it is released and will send it to you simultaneously.

Best regards,

Seb Gordon

LGA Media Office

Tel. 020 7664 3147

This page is intentionally left blank