



De Griekse schuldencrisis

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Agenda

- ▶ Background
- ▶ Accounting considerations under IFRS
- ▶ Key observations in Q2 reports
- ▶ Q2 examples
- ▶ IASB's reaction to divergent practices

Background

- ▶ As of 21 July 2011, announcement of a plan with respect to Greek sovereign debt agreed by the EU and the financial sector
- ▶ Different exchange options for Greek debt maturing on or before 2020 with a ,hair cut‘ of 21%
- ▶ As of 26 Oct. 2011, EU summit agreed to
 - ▶ leverage the resources of the EFSF and
 - ▶ require a higher capital ratio of 9% of the highest quality capital
 - ▶ invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors
- ▶ As of today unclarity about the status of this agreement

Accounting considerations under IFRS

- ▶ Q2 planned restructuring considered as ,trigger event‘ for impairment of Greek government bonds with maturities up to 2020
- ▶ Available for sale: Recycling of negative amount in Other Comprehensive Income (OCI) to income statement
- ▶ Determination of fair value: lack of liquidity requiring a move to a level 3 conclusion?
- ▶ At amortised cost: Impairment loss as difference between the carrying amount of the asset and the present value of the future expected cashflows using the original effective interest rate as discount factor
- ▶ Will restructuring result in derecognition?
- ▶ Would latest developments result in impairment for post 2020 bonds?

Key observations in Q2 reports

- ▶ No consistent method of impairing Greek government debt by European banks and insurers
- ▶ Level of write-downs of HtM/LaR assets varied from 13% to 44%
- ▶ German and UK companies' approach most conservative: impairment of all bonds and AfS bonds marked to market
- ▶ French companies generally applied the 21% haircut proposed by the IIF to both AfS and HtM/LaR exposures
- ▶ Several companies applying the 21% writedown to AfS holdings explicitly stated this was a level 3 valuation

Q2 examples (1): RBS

Analysis of results, p. 16

The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011.

The bonds are classified as available-for-sale financial assets and measured at fair value. Under IFRS, when an available-for-sale financial asset is impaired, cumulative losses in other comprehensive income are recycled to profit or loss as an impairment charge. This mark was taken as of 30 June 2011, as called for under IFRS, and does not reflect subsequent events.

On 21 July 2011 proposals to restructure Greek government debt were announced by the Heads of State or Government of the Euro area and EU institutions. These proposals include a voluntary programme of debt exchange for bonds that mature in 2020 or earlier and a buyback plan developed by the Greek government. There are four different instruments in the exchange programme but each will be priced to produce a c.21% net present value loss based on an assumed discount rate of 9%; the Group holds bonds with a notional amount of £941 million that would be eligible for the exchange programme. If the proposals go ahead, the Group could recognise a credit of c.£275 million.

Q2 examples (2): BNP Paribas Measurement, p. 42

Greek sovereign debt instruments due to mature prior to 31 December 2020 are covered by provisions under the second support plan for Greece, which was initiated in June 2011 and finalised on 21 July 2011, reflecting the banks' commitment to provide support. This plan has several options, including a voluntary exchange at par for 30-year debt securities with their principal collateralised by AAA-rated zero coupon bonds, with terms leading to recognition of an initial discount of 21%. The BNP Paribas group intends to take up this exchange option in connection with the collective undertaking given by the French financial sector. Accordingly, the debt securities held on the Group's balance sheet and due to be exchanged were measured by recognising the 21% discount. Treated as a concession by the lender owing to the difficulties encountered by the borrower, this discount led to an impairment loss being recognised through profit or loss. A loss of EUR 534 million was recognised in the cost of risk in relation to fully-consolidated units, plus a loss of EUR 26 million after tax against the share of income from companies accounted for entities under the equity method.

The measurement method adopted on the balance sheet for the Greek sovereign debt securities not exchanged, as well as for Irish and Portuguese sovereign debt instruments, consists in weighting market quotes and the values produced by an internal model incorporating risk parameters calibrated by the Group's Risk management function. After due consideration of the various aspects of the European support plan, there is no evidence to date that the recovery of the future cash flows associated with these securities is compromised, especially since the European Council has stressed the unique and non-replicable nature of the private sector's participation in such an operation. Accordingly, there are no grounds to recognise impairment in these securities.

Q2 examples (3): Unicredit Fair Value Hierarchy, p. 152.

The fundamental value was therefore determined, with reference to the instruments included in UniCredit's available-for-sale and held-to-maturity portfolios, by discounting the estimated cash flows at the interest rate of those assets, and is therefore classified in fair-value Level 3 as indicated above, in accordance with IAS/IFRS.

In the first place, this made necessary the posting of a negative revaluation reserve for available-for-sale financial assets amounting to €79,468 thousand.

According to IAS/IFRS, however, the granting from the lender of more favourable conditions for economic or legal reasons related to the financial difficulty of the beneficiary is objective evidence that a financial asset has been reduced in value; therefore, at June 30, 2011, the aforementioned negative reserve has been classified under the item 130.b) of Income Statement "Impairment losses on available-for-sale financial assets".

Finally, it should be noted that the valuation of these securities on the basis of a fair-value level 1 (market price) at June 30, 2011, i.e. the method used until March 31, 2011, would have resulted in a negative reserve of €154,608 thousand.

IASB's reaction to divergent practices

Letter to ESMA

- ▶ Disagreeing with the use of a mark to model approach for Greek bonds recorded as AfS
- ▶ Letter notes that market was not inactive and prices could be observed
- ▶ Even if model approach had been appropriate, valuation should reflect a price at which the asset could have been sold at the valuation date
 - ▶ **Mr. Hoogervorst: „It is hard to imagine that there are buyers willing to buy those bonds at the prices indicated by the valuation models being used.“**