



Contingent Liabilities

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- Interest in Contingent Liabilities/State Guarantees has heightened noticeably,
 - Global financial crisis
 - Bail-out of banks
 - Deposit insurance schemes
 - Fannie Mae, Freddie Mac, AIG etc.
 - SOE's, PPP's etc.
- Fiscal risk has increased because of global financial crisis
 - increased contingent liabilities
 - change in the role of the government
 - from a supplier of public services
 - to a facilitator extending guarantees to public & private sector

Contingent Liabilities

- Contingent Liability – not an obligation to pay unless a certain discrete event(s) occurs. Therefore often referred to as off-balance sheet item.
- State guarantee = Contingent Liability
 - however contingent liability not necessarily a guarantee, e.g.
 - indemnities
 - potential legal claims from pending court cases
- Contingent liabilities can be explicit or implicit

CL - Explicit vs. Implicit

- Explicit – specific obligations of the government that is established by law or a contract authorized by law
- Examples
 - loans and obligations of SOE
 - mortgage / student / agriculture loans etc.
 - civil service pensions
 - Central Bank obligations
 - deposit insurance etc. (is established by law)

CL - Explicit vs. Implicit

- Implicit – moral obligation or expected responsibility usually recognized after an event or condition is realized
- Examples:
 - default of municipalities
 - bank failure (bail-out)
 - deposit insurance
 - failure of a non-guaranteed pension fund
 - natural disaster relief

CL – Legal environment

- Legislation necessary to ensure
 - proper authority for issuance of state guarantees
 - who can issue state guarantees – Parliament, Ministers, Institutions etc.
 - what preconditions need to be in place for legitimate issuance of state guarantees
 - who can receive state guarantees
 - institutional settings for issuance, monitoring and reporting
 - fee structure and its reasoning
 - penalties for non-conformance by receiver of state guarantee

CL – Legal environment

- Legislation necessary to ensure (cont.)
 - proper procedure for maintaining state guarantees
 - disclosure requirements for state guarantees
 - reasons and procedures for withdrawal of state guarantee
 - state guarantee can be suspended, but
 - already existing guarantees impossible to withdraw from
 - fee collection (state-aid considerations)
 - risk monitoring and reporting
 - compliance with international obligations (EU/ESA)

CL – Institutional environment

- The institutional framework is best set up by the Legislature, where institutional authority is designed to
 - facilitate request for information from entities that enjoy or will possibly enjoy state guarantees
 - establish institutional monitoring of state guarantees and follow-up w.r.t. violations
 - explicit state monitoring
 - external monitoring
 - limits monitoring
 - legitimize the use of penalties for non-conformance, i.e. a mandate to intervene if size or risk getting to large

Transparency

- Transparency is important
- Regular publishing of data on State Guarantees
- Publishing of all relevant data concerning new state guarantees
- Off-balance sheet items numerated at least annually in the Treasury's annual accounts
- Some information are too sensitive to be disclosed

Market Information

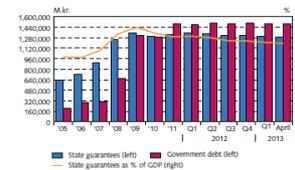


State guarantees

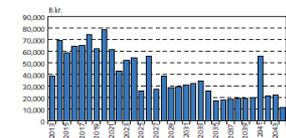
State guarantees 2008–2013

M.kr.	April 2013	Outstanding end of year				
		2012	2011	2010	2009	2008
Lending agencies	957,789	956,735	961,148	927,947	901,382	836,144
Housing Financing Fund	944,761	942,169	943,880	910,657	878,552	814,247
Regional Development Fund	13,028	14,565	16,993	17,038	22,586	21,670
Other	0	0	275	253	243	227
Co-operative and Limited Partnerships	324,873	358,920	250,744	251,455	271,714	250,031
National Power Company	300,145	342,231	233,417	232,854	251,128	234,097
RARÍK Ltd. (Iceland State Electricity)	2,438	2,638	2,794	3,063	5,220	5,450
Farice	6,553	6,828	7,025	7,357	7,056	1,657
Isavia Ltd.	2,616	2,917	3,106	3,639	3,483	3,368
RUV Ltd. (National Broadcasting Service)	3,369	3,479	3,553	3,685	3,944	4,607
Other	752	828	849	857	882	853
Industries/Municipalities	3,656	3,964	5,357	5,242	38,523	33,621
Commercial Banks	0	0	1,608	1,699	28,220	23,859
NIS - Nordic Investment Bank	2,818	3,110	2,855	2,759	2,813	2,706
Other	838	854	894	840	7,490	7,256
State Guarantees total	1,286,318	1,319,619	1,217,250	1,184,644	1,211,618	1,119,796

State guarantees - government debt and GDP



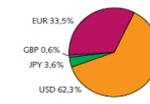
State guarantees - Maturity profile



State guarantees - Currency ratio



State guarantees - Currency ratio FX



Notes:

- Guarantees shown include accrued interest and indexation at the end of each period. Guarantees in foreign currency are valued at ask exchange rate. Numbers for 2012 and 2013 are preliminary.
- Numbers for the Housing Financing Fund are at nominal value and include accrued interest and indexation on securities issued, except for Housing Bonds, which are at market value. Included in the position of HFF-bonds are bonds reserved for security lending contracts with Primary Dealers.
- The Treasury redeemed the contingent liabilities of the Agricultural Lending Fund, Landsbanki hf and Gíðir hf as of the end of 2010, amounting to 22.53 bISK.
- The Treasury redeemed the contingent liabilities of Kaupþing bank hf as of the end of 2012, amounting to 1.5 bISK.
- The Statement of the Icelandic Government guaranteeing domestic deposits of Icelandic banks are not included here in government guarantees.
- The Treasury has guaranteed the indemnity of Arion banki hf regarding takeover of deposits from SPBON Savings bank, amounting to 70.6 b ISK with accrued interest at 31. March 2013.

Notes

The requirements for obtaining a state guarantee are set by an act of Parliament.

The Parliament can therefore, if it so chooses, change the law and set new requirements when issuing new state guarantees.

Therefore it is very important that the Parliament has full information regarding possible new state guarantee – members of Parliament need to be fully aware of possible ramifications and risk for the Treasury regarding new state guarantees

Discussion points

- Legal framework for contingent liabilities – how should it be set up in order to ensure transparency?
- Institutional framework – to ensure transparency and accountability as well as informational correctness?
- Informational disclosure – explicit contingent liabilities should be obvious, but how about implicit CL. How much should be disclosed, is there some line that should not be crossed, some information's that are too sensitive to be disclosed?
- Under what circumstances are CL in the form of government guarantees most useful and what should be avoided?