



Losses, woes at Parmalat keep growing

By Elliot Blair Smith, USA TODAY

Parmalat-related losses have cost U.S. financial institutions more than \$1.2 billion and are likely to climb, but investors might never know the true cost of the Italian dairy giant's collapse, say accounting experts who have reviewed recent regulatory filings.

Three Parmalat subsidiaries in the USA filed Chapter 11 bankruptcy petitions Tuesday under a plan to sell them to help pay the insolvent parent company's debts after Italian authorities seized control of the organization in December. The Securities and Exchange Commission also is investigating after the European parent's failure triggered default for much of its estimated \$16.2 billion in liabilities.

Parmalat's shadow

Seven U.S. financial institutions have disclosed \$1.2 billion in losses, write-downs or loan reserves related to Parmalat's default with at least \$440 million in additional exposure, SEC filings show:

	Write-downs, losses, reserves	Remaining exposure
Citigroup	\$371 million	\$302 million
Bank of America	\$266 million	\$91 million
Aflac	\$257 million*	0
John Hancock Financial Services	\$115 million	\$37 million
American International Group	\$117 million*	Not disclosed
Hartford Financial Services	\$25 million*	\$5 million
Nationwide Financial Services	\$13 million	\$5 million
Total	\$1.2 billion	\$440 million

Source: Securities and Exchange

* — pretax

As part of the global investigation, regulators are examining the role of U.S. banks in helping Parmalat sell \$1.5 billion in bonds and notes to U.S. investors.

Bank of America CFO James Hance, whose company touched off Parmalat's collapse with its disclosure to regulators that its European client had propped up the Parmalat financial statement with a fraudulent letter on bank stationery, said recently that a full accounting will "take a long time to be resolved."

The fourth-quarter financial statements of publicly held U.S. companies only hint at the damage.

In part, the problem of quantifying Parmalat's fallout stems from the ability of U.S. banks and insurers who invested in the European company to couch their disclosures and make discretionary accounting judgments, accounting experts say. Consider:

- Citigroup said in January that it recorded \$372 million in Parmalat-related write-downs, loan reserves and trading losses, leaving an additional \$302 million in credit exposure to Parmalat "the majority of which" is secured by third-party contracts. But lawyer Scott Green, a disclosure expert, says "the word 'majority' could mean only 51%" of the loans were secured, in which case Citigroup could still hold up to \$151 million in unsecured liabilities. A bank official confirmed some of the Parmalat loans are better than others. "This is an area of accounting that is subject to interpretation," says accounting consultant Steve Erickson.

- Bank of America reported year-end exposure to Parmalat of \$274 million in loans and derivatives — a securitized contract — most of which the bank has written down or created reserves for. But bank spokeswoman Eloise Hale acknowledges the bank has no security for Parmalat loans totaling \$61 million and retains \$30 million in Parmalat derivatives. The bank has marked down these derivatives to about 25 cents on the dollar, but securities traders

loss Commission filings in London say Parmalat derivatives are trading at only 12 cents to 14 cents on the dollar and haven't traded higher than 20 cents on the dollar since its bankruptcy filing.

•Major insurers Aflac, American International Group, Hartford Financial and John Hancock Financial Services (which is being acquired by Manulife Financial) collectively have reported \$495.3 million in pretax, Parmalat-related losses. Another insurer, Scottish Re, which includes a U.S. subsidiary, additionally reported a \$800,000 loss Tuesday on Parmalat bonds.

But life insurers aren't required to publicly update the value of their investment portfolios until the end of February and almost never identify individual investments, says Moody's Investors Service Vice President Arthur Fliegelman. "It's a lot of money that got lost," he says, "but it was spread in many ways."

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