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EBRD stake in Parex included 'put option'

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The investment made by the European Bank for Reconstruction and Development (EBRD) in Latvia's failed Parex bank included a hitherto hidden “put option”, according to a Bloomberg report on July 10 citing Dutch Finance Minister Jeroen Dijsselbloem.

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In a written parliamentary answer to Dutch MPs, Dijsselbloem said: “The EBRD indeed has a put agreement with the Latvian Privatization Agency on the combined stake in Citadele and Reverta.”

Despite rumours of its existence, the put agreement has never previously been acknowledged by any senior officials and the reasons for its emergence in the Dutch parliament remain unclear.

A “put option”, “put agreement” or simply “put” is an agreement to sell a fixed quantity of a commodity, security or currency at a fixed price at a fixed date, generally done to ensure that if an asset or investment falls in value, the investor will be able to cash out their stake without suffering a substantial loss.

In the case of the 25% EBRD stake in Parex – which subsequently became stakes in both Citadele bank and the Reverta asset recovery firm – it would mean the EBRD could get most or all of its money back regardless of whether the companies succeeded or failed, making the investment essentially risk-free.

With government stepping up its efforts to sell off state stakes in Citadele bank and asset recovery firm Reverta – both created from the wreckage of bailed-out Parex bank – the exact size and nature of the put option could affect how much money the state ends up recouping of the more than €1.7bn it has sunk into Parex and its successor companies since 2009.

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The reason why the Dutch Parliament is investigating is because of articles published in 925.nl by Arno Wellens. LawlessLatvia provided information to Wellens. The secret "put option" is a serious issue affecting all of Europe, since the implication is that Latvia received a bailout from the EU and joined the Eurozone while hiding the true cost of the Parex bailout.

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