CL 24

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Date: 14 October 2002

Our Ref.: GW / MPB

Dear Sir

<u>Responses to 'Exposure Draft of Proposed Amendments to IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement'</u>

We welcome the opportunity to comment of this exposure draft. We have significant reservations on the accounting requirements of IAS 32 and IAS 39, and we are concerned that the results reported may be difficult for users to interpret. The UK Accounting Standards Board's Statement of Principles says that accounts should provide information that is relevant, reliable, comparable and understandable. We question whether the greater use of fair values for financial instruments gives more relevant information than historic cost accounting. We certainly feel that the complexity of IAS 39 makes the results less understandable. Even items that are not fair valued are subject to additional complexity, such as the need for discount cash flow calculations at an "effective" interest rate to obtain the carrying value of simple instruments such as mortgages. Finally, the significant level of management assumptions that are required by IAS 39 could make results less reliable and comparable than under UK GAAP.

We also have reservations on the hedging rules in IAS 39. These seem unnecessarily onerous, and will penalise former building societies such as ourselves who were encouraged to "macro" hedge but now find that this is not permitted under IAS. We have concerns that some banks will achieve hedge accounting on a much larger proportion of their book than others, and that this will prevent meaningful comparisons between similar entities.

However, we do note the intention of the IASB not to make fundamental changes to IAS 32 and IAS 39 at this stage. Therefore, our comments below are restricted to the "improvements" proposed, and the specific questions listed under 'Invitation to Comment'.

<u>IAS 32</u>

Q1-3 – We have no comments on these areas.

Q4 – We would support the proposal to contain IAS 32 and IAS 39 in a single text.

IAS 39

Q1-3 – We have no comments on these areas.

Q4 – We welcome the proposal to permit entities to designate a financial instrument at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit and loss.

Q5 –. We think that the valuation guidance in paragraphs 95-100D is both reasonable and useful. However, it cannot eliminate the subjectivity and therefore lack of comparability that fair value accounting will inevitably require, due to the need for techniques involving estimates and assumptions where no active market exists

Q6 – We welcome the clarification of the methodology for calculating collective loan impairments. Whilst we have concerns on the overall IAS 39 methodology, we do support consistency within the standard which this guidance delivers.

Q7 – We disagree with this proposal. We think it is consistent to recognise any reversal in impairment in the profit and loss account, since the original impairment would also have been recognised in profit and loss.

Q8-10 – We have no comments on these areas.

Additional comments

A key area of accounting policy for a mortgage lender is the treatment of incentives offered to customers. Guidance is currently given on this area by the BBA SORP on Advances. We would ask that clarification of the accounting in this area is provided, either by the IASB or by updating the SORP.

Yours faithfully

GARY WILKINSON

Director of Accounting and Taxation