Mortgages Savings Investments Pensions Life Assurance
Personal Lending General Insurance Off-shore Investments

Britannia

Britannia Building Society
Customer Support Centre Britannia House
Leek Staffordshire ST13 5RG

The Technical Director
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X8AL

14th October 2002

Dear Sir

FRED 30 Disclosure and Presentation & Recognition and Measurement

Britannia Building Society is the second largest mutually owned building society with total assets of £1 8bn. The Society uses a range of derivatives to hedge its product interest rate exposure and the proposals in FRED 30 will have a resultant impact.

The Society is currently considering the impact of IAS39, along with other international accounting standards, and the changes that will be required to systems and procedures. We have identified that IAS will require substantial changes to the way we operate and managing$_1$ these changes in by 2005 is a significant exercise for the Society. Our major concern is that the proposals in the FRED are bringing forward the implementation date for these significant changes.

My other concerns are as follows:

- I do not agree that a derivative should always be designated as held for trading unless it is a designated hedging instrument. The 1986 Building Society Act permits the use of transactions involving derivatives only for hedging purposes and not for trading. All of the Society's derivatives are therefore held for hedging purposes.

- The Society does hold non-designated instruments as part of its overall balance sheet hedging strategy. Despite being an important element of Society's hedging strategy, these will fail the effectiveness test and will be classed as held for trading.

- The proposals in the FRED will only lead to increased volatility and complexity in the financial statements and lead to confusion by the readers of the accounts in the group's performance. Thus negating the purpose of the proposed standard.

- Britannia currently hedges pipeline mortgage interest rate risk through the use of forward dated derivatives. Under FRED 30 the forward date will be irrelevant and the derivative will be measured at fair value. Hedging will not be allowed until sufficient mortgages have been originated to pass the effectiveness test, regardless of the date from which the derivative is 'live'. This will lead to unnecessary and pointless volatility in the group's accounts.

- Under the proposals unhedged fixed rate mortgages would be held on the balance sheet at cost. The interest rate exposure with respect to these mortgages would not be caught under the FRED. This seems to be an anomaly.

- I would expect there to be considerable administration time involved in allocating origination costs as part of the calculation of amortised costs for mortgage assets. I do not believe that this will add value to our published accounts.

Given the changes required to legislation required before FRED 30 can be implemented and the difficulties in accelerating the changes that will be required to meet the implementation date, we do not believe that FRED 30 should be introduced in advance of international accounting standards in 2005.

Overall these proposals are a step backwards at least ten years and could well lead to hedging strategies that increase risk and lead to greater confusion to the reader of the accounts.

In conclusion, I do not support the proposals and trust that my views will be taken into account before a FRS is issued.

Yours sincerely

Phillip Lee
Group Finance Director