CL 137M

Alliance Leicester

Alliance & Leicester plc
Customer Services Centre
Narborough Leicester LE19 0AL
Telephone 0116 201 1000 Fax 0116 200 4040
DX 11000 Leicester 14
www.alliance-leicester.co.uk

Mr. Paul Ebling
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X 8AL

Date: 14 October 2002

Our Ref: GW *I* MIPB

Dear Mr. Ebling,

Responses to FRED 30 'Financial Instruments: Disclosure and Presentation; Recognition and Measurement'

We welcome the opportunity to comment of this exposure draft. As we stated in our earlier response to you on FRED 23, we are opposed to the ASB proposals to align a number of UK standards more closely with International Accounting Standards before the changeover to IAS required in 2005. Our view is that this is not helpful in the difficult process of converting to IAS as it will force us to bring forward already demanding timescales. We are also concerned that accounts will be difficult for users to follow, with new accounting standards brought in each year. If IAS is to apply in the UK from 1 January 2005 then our strong preference is for a single 'big bang' changeover

Responses to ASB questions on FRED 30

We have the following comments on the questions posed in the FRED on pages 16-19:

ASB(z) We agree that IAS 32 and IAS 39 should be treated as a single package and should be implemented at the same time.

ASB(ii) As stated above, we are opposed to the introduction o IAS requirements into UK GAAP before 2005. We think that the proposed adoption of FRED 30 in 2004 would be particularly damaging. It would result in significant work to implement it, and there would need to be further work to adopt IAS 32 and IAS 39 in 2005 as there are many differences between these standards and FRED 30. Presumably the 2003 comparatives would need to be restated for FRED 30, then the 2004 comparatives would need to be restated on IAS first-time implementation. This is extremely onerous for preparers of financial statements, and we fail to see how it would be beneficial to users of the accounts.

ASB (iii) We agree that the recognition/derecognition rules in the proposed new IAS 39 should not be adopted in the UK until the direction of international convergence on this matter becomes clearer.

ASB(iv) (a) If the ASB insist on implementing FRED 30 for 2004, we agree that entities should have the option of using the IAS 39 measurement rules but not be compelled to do so, as it would be impractical to implement the new requirements in the necessary timescale.

(b) If FRED 30 is implemented we think the differences between it and IAS 39 should be kept to a minimum. Therefore, our view is that profits/losses on available-for-sale assets taken to the STRGL should be recycled through the profit and loss account when the asset is disposed of.

ASB(v) - The ASB is proposing new hedging rules for 2003 (FRED 23) and a new measurement standard for 2004 (FRED 30) which contains further rules on hedging. There will then be a further set of rules for 2005 when IAS 39 is implemented. This seems to us to be excessively complicated; and highly confusing to readers of the accounts. It highlights the difficulties that we believe will arise if the ASB continues with its gradual implementation of IAS into UK GAAP before 2005.

ASB(vi) - (a) We will need subsidiary companies to prepare figures for consolidation under IAS for 2005. Therefore it would be preferable to be permitted to produce statutory accounts for these companies on the same basis. This can be achieved either by permitting IAS for single entity accounts, or by making UK GAAP the same as IAS At this stage, we have no strong preference as to which option is chosen. However, many entities that do not have a parent company reporting under IAS will probably not want to adopt the complex IAS rules in the single company accounts. Therefore, we think that the measurement and and hedge accounting provisions under IAS 39 should be optional rather than mandatory.

(b)We agree with the proposed scope of the disclosure requirements.

(c)We agree with the disclosure exemption proposed by the FRED.

Responses to IASB questions on IAS 32 and IAS 39

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 ASB'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 contained on pages 20-24 of FRED 30.

IAS 32(i)-(iii) - We have no comments on these areas.

IAS 32(iv) - We would support the proposal to contain IAS 32 and IAS 39 in a single text.

IAS 39(i)-(iii)- We have no comments on these areas.

IAS 39 (iv) 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.

IAS 39 (v) - 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

IAS 39 (vi) 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.

IAS 39 (vii) - 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.

IAS 39 (viii)-(x) 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 sincerely

G. Wilkinson

GARY WILKINSON

Director of Accounting and Taxation