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Banco Bilbao Vizcaya Argentaria

Javier Malagón Navas
Subdirector General Adjunto

Madrid, February 6 th, 2003

Wayne Upton
Director of Research
International Accounting Standard Board
30 Canon Street
London EC4M 6XH
United Kingdom

Dear sir,

In relation to your e-mail of February 5th, it is our understanding that the European Banking Federation (EBF) has had different meetings with the IASB in relation to IAS 39. Since 2001 we have participated with the Accounts Committee of the EBF contributing with proposals, concerns and practical experiences on the field.

Nonetheless, we welcome the openness of the IASB and we are please to give you a briefing of our comments and concerns.

Hedge accounting

Hedge accounting rules as defined by IAS 39, would not reflect the economic reality of the banking entities because:

- In the case that the loan portfolio is being hedged with a derivative instrument, the valuation methodology proposed by the IASB would add volatility to the financial statements.
- It is almost impossible from an operative perspective to comply with the IASB requirements in order to qualify as a hedging relationship.
- Our experience with our subsidiaries in the United States of America has shown that the SFAS 133 adds noise to the financial information which is more significant for the retail banking industry.

Impairment and uncollectability of financial assets

Within the traditional Banking industry the loan portfolio accounting and its loss allowance are very sensitive issues since they represent the core of our financial statements.

Our organization agrees on the need of having comparable information between entities in the same economic sector and if possible with loan portfolios of roughly the same credit quality and size. Nonetheless IAS 39 and its exposure draft convey a radical shift for the Banking industry, since they imply a change in the fundamentals.

Nowadays for accounting purposes loan loss allowance is determined by the Supervisory Authority, it is standard for the Spanish Banking Industry and is analysed in terms of type of loan and uncollectability.

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Considering their experience and expertise, during the last years banks throughout the world have been working with the Basle committee in the development of credit risk management models in order to develop sound provisioning practices.

We understand that the principles are different, loosely said, accounting reflects the losses incurred or highly probable losses as of the date of the financial statements and the Basle rules look for solvency and have an economic perspective.

Nonetheless we believe that there are ways or methodologies by which both criterion would converge. Therefore we would encourage the IASB and the Basle Committee in a common methodology at least in the fundamentals.

Effective interest rate definition

We do not agree with the consideration of the fees paid or received as part of the effective interest rate because:

It can be the case that this fees are just enough to compensate for the expenses of credit granting (matching income and expenses);
In the case that there is an excess over the expenses this income is not subject to any contingency, there are no costs to confront with and it is truly a realised income.
Implementing the proposal of the IASB would imply a major negative impact in the income statement, which from our point of view is not real and has no reasoning.
Finally we are deeply concern on the feasibility of implementing this principle in the short run.

Sincerely,

Javier Malagón Navas
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