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Sandra Thompson
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
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21 July 2004

Dear Ms Thompson

Exposure Draft of Proposed Amendments to IAS 39 'Financial Instruments: Recognition and Measurement': The Fair Value Option

The Royal Bank of Scotland Group is one of the world's largest banks with shares listed on the London and New York Stock Exchanges. The Group's financial statements are prepared under UK GAAP and reconciled to US GAAP for its US filings. We support the introduction of IFRS and the aim of global harmonisation of accounting standards.

We do not agree with the amendments to IAS 39 proposed in the Exposure Draft. We regard the fair value option as potentially very valuable in reducing the complexities of applying IAS 39. We firmly support retaining the option unamended.

Given our view, we have not attempted to answer the specific questions posed by in the invitation to comment. However, we would like to make three further observations:

Trading financial instruments – the trading classification in the current text of IAS 39 requires (except in the case of derivatives) short-term selling or repurchasing or, in a portfolio of identical instruments, profit taking. In reality, financial institutions trade risks rather than instruments. An unrestricted fair value option has great merit in allowing all financial instruments in a trading portfolio to be valued on a consistent basis.

Verifiability – one of the proposed restrictions on the fair value option is that the fair value of the instrument is 'verifiable'. We fail to see the conceptual underpinning for two fair value measurement bases. We believe that it would introduce further complexity into what is already a far from simple standard. We are also concerned that users of financial statements may not understand the distinction in fair value approaches.

The Royal Bank of Scotland Group plc
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Agency agreements exist between members of The Royal Bank of Scotland Group

Substantially offsets – as with the verifiability criterion, we believe this condition is likely to create further confusion. It is not clear how this condition articulates with the existing requirements in the standard on offsetting that must be met to apply hedge accounting.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Rajan Kapoor', with a stylized flourish at the end.

Rajan Kapoor
Group Chief Accountant