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Dear Ms Thompson,

**Feedback on the Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Fair Value Hedge Accounting for a Portfolio Hedge Of Interest Rate Risk**

We have reviewed the above exposure draft and considered the practical implications of implementing the proposed Standard. Whilst we remain unconvinced of the benefits to users of financial accounts of the application of the proposed IAS 39, we welcome this move toward a "macro hedging" approach and understand the rationale for the proposed amendments. We have the following observations:

1. The proposals still do not fully support those institutions that manage their financial risks under a macro approach. The constraints that remain around the ability to hedge an exposure, even if generated by a derivative, with a derivative do not yet mirror the practical approach. This is because when a portfolio is managed in reality, all positions, irrespective of whether they are assets, liabilities or derivatives are combined and the resultant net exposure is hedged. We would very much welcome changes to the proposal to further mirror this aspect of macro hedging.
2. We consider that the recently proposed revision to the prospective effectiveness test to return to the 95 – 105% range is too restrictive and not practical. We would welcome a return to the previous proposal of 80-125%.
3. The apparent bias toward underhedging is inconsistent with the management of economic risks in the balance sheet. It potentially encourages greater exposures than would ordinarily be acceptable within the business.

PTO

I look forward to receiving the new version of the proposals in this area of IAS 39.

Yours sincerely,

PHIL LEE  
**Group Finance Director**