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Sandra Thompson
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International Accounting Standards Board
30 Cannon Street
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Dear Ms Thompson

Comments on 'Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk'

We appreciate the invitation to comment on the proposed amendments to IAS 39. The major points we would like to make are:

Question 1
As an organisation we are still finding it hard to find a practical solution to fair value hedging, despite the changes in this exposure draft. A way must be found to align fair value hedge accounting with the way organisations manage asset and liability risk. Internal risk management processes have been developed over many years and are a key tool to help manage interest rate risk, amongst other things. It would be a great help if the accounting could be more aligned with internal Risk Asset and Liability Management practice. We do not believe that Approach D meets this requirement and would urge the IASB to reconsider this and look at developing another approach based around Approach B and C.

Question 2
At present we feel that the only way to hedge account for Core Deposits under IAS 39 is to use cashflow hedging. This will involve volatility in equity which we believe is false. This volatility could result in larger capital buffers being maintained and therefore organisations could potentially have a higher cost of maintaining capital. It may also lead to a lack of comparability between organisations as different approaches may be used.
It is our view that these deposits are stable over a long time period and even though they are technically repayable on demand they are a stable source of funds for the Bank. The IASB should consider allowing Banks to fair value Core Deposits and include them in the maturity "buckets". For internal Risk Asset & Liability Management these are deemed to have a defined maturity profile.
We are also of the opinion that the current rules discriminate against organisations that due to the nature of their business have a mix of assets & liabilities that give significant net positions of core deposits.

Other Points
We would welcome clarification around the ability to use internal contracts between the Treasury function and individual business units in developing a fair value hedging solution.
Where internal contacts are set at market rates they provide a clear tool for measuring hedge effectiveness. In addition, by acting as a transfer pricing mechanism between the management of interest risk within business units and Treasury activity, there is a clear demarcation of the fair value movements arising from the 2 activities. If the rules as they stand are applied then there will be pressure to increase the level of external hedging leading to a grossing up of balance sheet exposure and hence regulatory capital requirements. It is our opinion that internal contracts should be permissible within IAS 39 at a group consolidated level, if it can be demonstrated that their use is consistent with asset & liability management best practice and that the hedging relationship is clearly documented.
An organisation should have the option to use this approach if it considers it appropriate.

These are by far the most important issues to the Alliance &Leicester with regard to fair value hedge accounting as it currently stands.

Yours sincerely

Mark Browne
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