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Dear Ms Thompson

ED 6: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

This is the response of Aviva plc, the UK's largest insurer, to ED 6 " Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk." We have read the exposure draft and have no significant comments to make on the hedging proposals contained in that standard. However, we note the Board has specifically requested comments on the Board's decision that the fair value of a financial liability is not less than the amount payable on demand. As a major European insurer, we have significant concerns about this requirement.

We believe that this does not adequately reflect the nature of long term insurance products with investment characteristics. These are products that are contractually issued to span many years into the future and which are priced on the basis of expected surrender rates. We do not believe such an approach is consistent with the going concern concept and the IASB Framework, which indicates that excessive prudence is not compatible with reliable financial statements.

The principle that the net profit or loss on initial recognition of a financial liability should be nil is not, in our opinion, consistent with an (economic) fair value model. In any event, the decision that the fair value of a financial liability should be at the least the amount payable on demand will usually result in a net loss, representing the expense of the transaction costs incurred when writing long term products. A significant number of policyholders will hold these products for the long term and surrender penalties would not usually be assessed on the highly prudent and remote scenario that all surrender in the early years.

We therefore recommend that the Board removes the above requirement from IAS32/39.

Yours sincerely

Nic Nicandrou
Group Financial Reporting Director