



3 August 2004

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

Amendments to IAS 39 Financial Instruments: Recognition and Measurement, The Fair Value Option

Abbey National plc welcomes the opportunity to respond to the proposed amendment to IAS 39, *Financial Instruments: Recognition and Measurement (IAS 39), The Fair Value Option* (the Proposed Amendment). We have reviewed the Proposed Amendment and set out below our comments.

The existence of an option to designate any given financial instrument at fair value through profit and loss is, in our opinion, a sensible provision, which assists in the implementation of IAS 39. The principal weakness of the current fair value option is the potential for an entity to recognize a gain, due to the deterioration of its own credit risk, if its own debt is designated as being held at fair value. We would support a limitation on recognising gains following the deterioration of an entity's own credit risk.

However, we believe the Proposed Amendment adopts a set of arbitrary rules, which is inconsistent with the IASB's principle-based approach to standard setting, and does not focus on the principal weakness of the current fair value option as described above. The basis for the proposed rules is unclear, which creates the potential for differing interpretations, which may not be consistent with the IASB's intent.

Additional comments on specific areas of the Proposed Amendment:

- The introduction of a new "verifiability" measurement standard as a condition for using the fair value option will raise numerous implementation issues. In particular, the term *verifiable* is not an appropriate requirement.
- The fair value option is there to enable the economic hedging of items where it is difficult to apply the fair value hedging rules without inappropriate profit and loss volatility.
- In the case of unit linked life assurance liabilities, which may be closely but not precisely matched to related assets, it will not always be possible to comply with the restriction as currently drafted. We would consider that fair valuing the liabilities in these circumstances remain the most appropriate accounts methodology not least because the related assets will be fair valued.
- Under paragraph 9 b(ii) liabilities are eligible for measurement at fair value if they are contractually linked to the performance of assets. However, we believe this restriction may result in problematic situations.

Our apologies for the late submission of this response.

In summary, we do not believe the Proposed Amendment is an ideal or workable solution and should be rescinded by the IASB.

Yours sincerely,



Andrew Newell
Head of Finance