From: Henderson, Steven
To: UKFRS
Cc: Motler, Gosia
Subject: Comments on FRED 54
Date: 02 May 2014 20:24:27

Hello,

By way of background, the Wheatley Housing Group is the largest housing association group in Scotland, with turnover of around £200m and 46,000 social rented properties. We are by some way the largest housing association in Scotland (representing around 17% of the sector).

Our responses are:

Question 1:

Yes, agree.

Question 2:

We consider that the revised text is still ambiguous on a very common type of financial instrument, fixed rate loans with embedded swaps. For clarity, we refer to the case where an entity borrows a fixed rate loan, but the lender (rather than the borrower) enters into an interest rate swap arrangement on the borrower's behalf, and it is therefore a contractual condition of the loan that any early repayment of that loan results in an obligation for the borrower to pay relevant hedge breakage costs (in the case of out-of-the money swaps) or conversely for the lender to pay the borrower any mark to market gain it makes on terminating an in-the-money swap.

In our view, this is a common situation and should be treated as a basic financial instrument. The borrower has in effect a simple fixed rate loan that only gives rise to additional payments (or receipts) if the discretionary decision to exercise early repayment is taken. Under the proposed wording, we would argue that this case might fit within parts (c) and/or (d), since it does not represent a variation of return or loss of interest/principal to the lender, rather it is simply ensuring they remain in a neutral financial position from the early repayment. However, a counter-argument may be made that a lender having to pay a receipt on early termination of an in-the-money swap might "lose" some return and therefore treatment as an "other" financial instrument may be required. We would therefore seek additional clarity on this case.

Question 3:

It would be helpful for the above case to be covered by a worked example.

Question 4:

Provided satisfactory clarity can be provided on the points raised above by summer 2014, the timetable should be workable.

Question 5:

No further comments.

Regards,

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