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Letter of Comment No: 23
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September 7, 2004

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1201-100
Proposed Statement of Financial Accounting Standards -
Fair Value Measurements

Dear Sir or Madam:

MBNA Corporation ("MBNA"), a bank holding company, would like to thank the Financial Accounting Standards Board for the opportunity to comment on the Exposure Draft dated June 23, 2004, entitled Fair Value Measurements (the "Exposure Draft"). Through its principal subsidiary MBNA America Bank, N.A., a national bank, MBNA is the largest independent credit card lender in the world with \$60.9 billion in total assets, and \$87.6 billion of outstanding securitizations that it has originated and services, as of June 30, 2004.

We applaud the Financial Accounting Standards Board for undertaking this project to address the inconsistency in fair value measurements that currently exists and to improve comparability and reliability of financial statements that include fair value measurements. We agree with the overall concepts proposed, and the objective of the Exposure Draft. However, we have a number of concerns regarding the application of certain provisions within the Exposure Draft, which include: application of the cost approach, systematic risk adjustments, valuation of financial instruments traded in active dealer markets, the meaning of "objectively determinable," application of Level 3 estimates, and the proposed disclosures. Our specific concerns are outlined in detail below. We appreciate the opportunity to share our thoughts, concerns and suggestions with the FASB and hope they will be considered during the final deliberations of this proposed Statement. Following are our specific concerns, thoughts and suggestions on the Exposure Draft.

Cost Approach

In describing the cost approach (or current replacement cost) valuation technique, guidance is given regarding downward adjustments to the cost to acquire a substitute asset of comparable utility. However, we believe, that in certain circumstances, upward

adjustments may also be necessary to reflect the cost incurred to obtain the comparable utility, or efficiencies, from an asset that is developed over time.

For example, consider the valuation of a broker network in conjunction with a business combination. In estimating the fair value of the intangible asset under the cost approach, one would certainly consider the “cost to build” in terms of time and effort to establish the relationship with the brokers. However, the value of an *existing* broker network is certainly higher than a newly established network due to synergies and efficiencies that develop over time through the ongoing relationship with the brokers.

We recommend that language be added to the description of the cost approach valuation technique that acknowledges that both adjustments to increase or decrease the value may be appropriate depending on the asset being valued. We also recommend that additional guidance be provided regarding positive adjustments to the estimated value of an asset under the cost approach.

Systematic Risk Adjustments

We commend the Board for clarifying that systematic risk should be considered, either as direct adjustment to derive the expected cash flow or as an adjustment to the discount rate used, when applying the present value of cash flows technique to measure fair value. The proposed guidance is consistent with current valuation practice and it resolves uncertainty that currently exists in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*.

The concept of systematic risk is very difficult to comprehend and it is even more challenging to quantify. As such, many discounted cash flow valuations performed in current practice utilize a marketplace participant weighted average cost of capital which presumably incorporates systematic risk. This technique focuses more on the market risk associated with potential buyers as opposed to potential risk or variability in the underlying cash flows of the item being valued. We suggest that in the implementation guidance or basis for conclusions the Board address the appropriateness of current practice regarding the use of a weighted average cost of capital as a proxy for the risk adjusted discount rate.

Active Dealer Markets

We believe the proposed guidance in the Exposure Draft is a significant deviation from current practice. The proposed guidance will significantly affect financial institutions as well as other constituents that enter into derivative financial instruments to manage interest rate, credit, or foreign currency risk. The derivative instruments which are typically used to hedge these risks are generally traded in active dealer markets. These instruments are valued using mid-point or other prices within the bid/ask range which practice currently views as the best representation of fair value. We are especially concerned about the impact on the accounting for fair value hedging relationships that do

not satisfy the conditions in paragraph 68 of FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, (FAS 133) and therefore do not qualify for the short-cut method. We are concerned that the fair value of the derivative instrument may be measured based on a reference price for the underlying that is different from the reference price used to value the hedged item.

For example, a long-haul fair value hedge of a fixed-rate instrument for changes in the benchmark interest rate (i.e. LIBOR) would be measured pursuant to paragraph 120C of FAS 133, as amended, and paragraph 24 of FAS 138, *Accounting for Derivative Instruments and Hedging Activities, an amendment to FAS 133*. The fair value of the hedged item will be remeasured based on the effect of changes in the LIBOR yield curve on the contractual cash flows from the instrument. The hedging instrument, on the other hand, will be measured based on reference to the dealer bid/ask prices. As such, the hedging instrument is affected not only by changes in the benchmark rate, but also by changes in dealer profit (i.e. dealer profit in an active dealer market represents the difference between the bid/ask price) and changes in measurement between bid price and ask prices. This phenomenon will impact hedge effectiveness for long-haul hedges and will need to be considered in prospective assessments of hedge effectiveness.

We would also like to make the Board aware of the significant costs, which will be incurred in order to comply with this provision of the ED. For example, new data will need to be requested from pricing services and systems and software for many constituents will likely need to be reconfigured in order to capture appropriate reference prices.

Meaning of "Objectively Determinable"

A Level 2 estimate requires that the price effect of differences in the reference asset or liability be objectively determinable. If the price effect of the differences are not objectively determinable, a level 3 estimate must be used. The term "objectively determinable" is an ambiguous term and, as currently written, the Exposure Draft does not define this term. As a result we believe differences in interpretation of this term may result in inconsistent application of the guidance in this Exposure Draft.

For example, an entity that believes the price effect of differences are objectively determinable, and therefore, applies a level 2 fair value estimate, may calculate a fair value that differs from an entity that does not believe the price effect of differences are objectively determinable and therefore applies a level 3 fair value estimate, such as the cost approach.

We recommend that the final Statement define the term objectively determinable and provide implementation guidance and examples of situations in which the Board believes that the price effect of differences is or is not objectively determinable.

Level 3 Estimates

The Exposure Draft requires that Level 3 estimates be based on multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort. The use of multiple valuation techniques is proposed to mitigate concerns regarding the subjectivity of the estimates and assumptions used in those valuation techniques. We agree with the Board that the use of multiple techniques will mitigate concerns around the additional assumptions and subjectivity involved with those techniques. However, while information necessary to apply multiple techniques may be available without undue cost, applying multiple techniques is not without cost. In situations where there is a preferred valuation technique for a particular asset or liability, we do not believe that the benefit of applying multiple valuation techniques outweighs the cost to do so.

We recommend that the final Statement provide an exception to the requirement of applying multiple valuation techniques in Level 3 estimates where a preferable technique for a particular asset or liability exists in practice.

Disclosures

While we understand and appreciate the need for increased transparency in financial reporting, especially in today's environment, we believe current fair value disclosure requirements are sufficient and the incremental disclosures proposed in the Exposure Draft are excessive. In addition, such disclosures, if required in the final Statement, would be very burdensome and costly, especially for financial institutions, which hold many financial assets and liabilities that are measured at fair value.

As stated above, we believe existing disclosure requirements in other Statements as well as SEC Regulations provide similar disclosure information. For example, Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, currently requires disclosure of the fair value of financial instruments and the method(s) and significant assumptions used to estimate the fair value of those financial instruments. Existing SEC Regulations and US GAAP currently require disclosure of reasons for significant changes in earnings (Item 303 of Regulation S-K and FR-72) and disclosure or separate reporting of unusual and infrequently occurring transactions that are material with respect to the operating results of the interim period (APB 28). Assuming the effects of remeasurements on earnings is significant, such disclosure shall have already been made, and any disclosure pursuant to this Exposure Draft does not provide incremental value to the financial statement user. In addition, if such remeasurements are not significant, (and therefore not discussed in the MD&A or notes to the financial statements), we do not believe the benefit of such disclosures under this Exposure Draft outweigh the cost to prepare such disclosures.

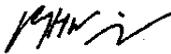
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Conclusion

Again, we commend the Board for undertaking such a comprehensive and complex project in order to provide a consistent foundation for measuring fair value for accounting purposes. We believe the framework provided in the Exposure Draft is consistent with generally accepted valuation principles and will enhance the consistency of fair value measurements and comparability of financial reporting. However, we believe there are several unintended consequences which should be considered in finalizing the guidance.

We urge the Board to consider our comments in finalizing the proposed amendment. If you have any questions on any of the comments contained in this letter, please contact me at (302) 453-2074 or Kenneth A. Vecchione, Vice Chairman and Chief Financial Officer of MBNA America Bank, N.A. at (302) 432-1103.

Sincerely,



Vernon H.C. Wright
Chief Financial Officer
MBNA Corporation

Vice Chairman
MBNA America Bank, N.A.