

SHARMAN INQUIRY
Sharman Secretariat
c/o Financial Reporting Council
Aldwych House
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6th July 2011

Dear Mr. Grabowski

Going concern and liquidity risks: Lessons for companies and auditors

1. Thank you for your letter dated 2 June 2011 in respect of the above referenced call for evidence, which we read with interest.
2. We believe the FRC "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" note issued in 2009 provides invaluable and clear guidance to directors and audit committees when determining whether to adopt a going concern basis and in making balanced and transparent disclosures to the market. The note strikes the right balance between encouraging best practice and requiring directors to exercise judgment and, in our view, does not require significant amendment.
3. Like other major UK banks, liquidity and capital are central to Barclays (the Group's) activities and receive detailed management attention at all levels of the Group. This is reflected in our Annual Report, which certainly meets, and in some respects considerably exceeds, the various disclosure requirements regarding the management of liquidity risk. These include the quantitative and qualitative disclosures of IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements which are based on a 'through the eyes of management' approach. Quantitative disclosures include detailed maturity liquidity analyses of financial liabilities and assets on both a contractual and behavioral basis, as well as information on what we, internally, view and manage as capital (as opposed to any accounting-based capital definition). Our qualitative disclosures provide a description of our approach to managing liquidity and capital risk and detail key objectives, policies and processes for measuring and managing the above (please see Appendix for further information). These disclosures indicate how Barclays would withstand stressed conditions. We also provide useful commentary on our liquidity and capital position in other parts of our Annual Report, including the reviews by our Chief Executive and Chief Financial Officer.
4. In addition to the Annual Report, Barclays and other major UK banks publish interim management statement at quarterly intervals, and an interim results announcement for the half year. Each of these reports to the market includes the details of any material stresses affecting the Group's performance and financial position. These statements include disclosure of key regulatory capital ratios, and Barclays provides quarterly disclosure on its liquidity pool, leverage position and term funding during the period.

5. Whilst the financial reporting of the Group necessarily complies with all relevant IFRS requirements, we are also subject to significant regulations that are a pre-requisite for authorization to conduct banking and financial services business. It is our obligation as a financial institution that is both regulated and listed to give full and clear disclosure of our capital resources, risk weighted assets, liquidity position and the risk framework within which they are managed on a going concern basis. These requirements are imposed by central banks and regulatory authorities and reflect global standards developed by, among others, the Basel Committee on Banking Supervision (BCBS) and other EU directives. The current Basel framework has been applied by the Bank since 2008 and is made up of three pillars. In particular, on an annual basis we produce a publicly available Pillar 3 report which provides detailed risk and capital information on the Group as specified in the Basel rules.
6. At a national level, the Financial Services Authority (**FSA**) also seeks to maintain the safety and soundness of financial institutions. The FSA's continuing supervision is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. Of particular relevance to your request for evidence, the FSA also promulgates (among other things) specific requirements that banks and other prudentially regulated financial institutions are required to meet on capital adequacy and liquidity management.
7. Specifically, the FSA requires banks to conduct stress tests of their capital and liquidity position on an ongoing basis to ensure they can withstand severe market wide and idiosyncratic stress scenarios. These stress tests provide a foundation for the Group's own going concern assessment.
8. We believe there is little need for further financial reporting guidance to be issued on liquidity or going concern risk for financial institutions subject to prudential regulation, given the clear current guidance already in place and that the regulatory reporting standards are constantly being reviewed as part of the Pillar 3 requirements.
9. In our view, financial institutions already provide considerable information on these issues. Indeed for financial institutions specifically, an expansion of mandatory liquidity disclosure without appropriate expert guidance, is open to misinterpretation and could in itself trigger unintended consequences and risk (eg "a run on a bank"), and as such would need to be managed closely with regulators and institutions alike.
10. However we welcome the decision to review the existing guidance and to identify key lessons in this area and would be pleased to discuss these with you further.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Jon Stone', with a long horizontal line extending to the right.

Jon Stone
Group Treasurer

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Capital Risk Management & Reporting

We refer you to pages 66 to 182 of our 2010 annual report - with particular reference to pages 126 to 130 in respect of capital risk management - and to the 2010 Pillar 3 Disclosures (<http://group.barclays.com/Investor-Relations/Financial-results-and-publications/Annual-Reports>).

The Group operates a centralised capital management model with the objective of maintaining sufficient capital resources to:

- a. ensure the financial holding company is well capitalised relative to the minimum regulatory capital requirements set by the UK FSA and the US Federal Reserve;
- b. ensure locally regulated subsidiaries can meet their minimum regulatory capital requirements;
- c. support Barclays risk appetite and economic capital requirements; and
- d. support Barclays credit rating.

To achieve this, the Group sets internal targets for its key capital ratios. Internal targets are reviewed regularly within the Group's risk framework to take account of:

- a. changes in forecast demand for capital by accessing new business opportunities, including mergers and acquisitions;
- b. flexibility in debt capital issuance;
- c. the possible impact of stress scenarios including:
 - i. changes in forecast demand for capital from unanticipated drawdown of committed facilities or as a result of deterioration in the credit quality of the Group's assets;
 - ii. changes in forecast profits and other capital resources; and
 - iii. changes to capital resources and forecast demand due to foreign exchange rate movements.

Stress testing occurs throughout the Group and it helps to ensure that our medium term plan has sufficient flexibility to remain appropriate over a multi-year time horizon during times of stress. It helps the Group understand how its portfolios would react if business conditions became significantly more challenging. We generate specific forward-looking scenarios and analyse how well our profitability would be maintained, whether our levels of capital would be adequate and what managers could do in advance to mitigate the risk. At the Group level, stress tests capture a wide range of macroeconomic variables that are relevant to the current environment, such as:

- a. GDP;
- b. unemployment;
- c. asset prices; and
- d. interest rates.

The Board Risk Committee agrees the range of scenarios to be tested and the independent Group Risk function co-ordinates the process, using bottom-up analysis performed by the businesses. The results of the stress tests are presented to the Executive Committee, the Board Risk Committee, the Board and the FSA.

Liquidity Risk Management and Reporting

We refer you to pages 66 to 182 of our 2010 annual report with particular reference to pages 131 to 136 in respect of liquidity risk management.

The Group operates a centralised governance and control process that covers all of its liquidity risk management activities. The objective of the Group's liquidity risk management strategy is to ensure that the funding profile of individual businesses and the Group as a

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whole is appropriate to underlying market conditions and the profile of our business in each given country. Liquidity risk limits and controls are flexed to achieve that profile and are based on regular qualitative and quantitative assessments of conditions under both normal and stressed conditions.

The Group has a comprehensive Liquidity Risk Management Framework (the Liquidity Framework) for managing its liquidity risk. The objective of the Liquidity Framework is for the Group to have sufficient liquidity to continue to operate for at least the minimum period specified by the FSA in the event that the wholesale funding markets are neither open to the Group nor to the market as a whole. Stress tests applied under the Liquidity Framework consider a range of factors of particular relevance to the banking sector:

- a. maturing wholesale liabilities;
- b. loss of secured financing and widened haircuts on remaining book;
- c. retail and commercial outflows from savings and deposit accounts;
- d. drawdown of loans and commitments;
- e. potential impact of downgrades by credit rating agencies; and
- f. withdrawal of initial margin amounts by counterparties.

These stressed scenarios are used to assess the appropriate level for the Group's liquidity pool, which comprises unencumbered assets and central bank deposits.