

23 May 2008

Chris Hodge  
Corporate Governance Unit  
Financial Reporting Council  
Fifth Floor, Aldwych House  
71-91 Aldwych  
London WC2B 4HN

Lawrence Dickinson  
Company Secretary

1 Churchill Place  
London  
E14 5HP

Tel +44 (0)20 7116 8099  
Fax +44 (0)20 7116 7785  
lawrence.dickinson@barclays.com

Dear Mr Hodge,

### **Consultation on Proposed Changes to the Smith Guidance**

Thank you for giving Barclays PLC the opportunity to respond to the above consultation. Barclays continues to be committed to having robust corporate governance practices in place and applying the highest standards of business integrity in all of its activities. Barclays is responding as a listed company.

We set out below our comments on the issues raised.

**1. Do you agree with the proposed changes based on MPG recommendations? If not, please explain and, if possible, suggest how the proposed changes could be improved.**

#### **4.19 – MPG recommendation 5 (consideration of audit firm's annual transparency reports)**

Barclays has no objections to Audit Committees considering audit firm's transparency reports.

#### **4.21 - MPG recommendation 15 (public interest entities should consider the risk of their audit firm withdrawing from the market)**

Barclays does not support the proposal on the basis that it is unlikely that the Audit Committee will gain any significant benefit from such a review. A review may be appropriate in a small number of cases but it should not be introduced into the guidance as a blanket requirement.

Introducing a requirement to conduct a specific assessment relating to the risk of the audit firm leaving the market would be unlikely to provide any real benefit if the risk is not perceived to be major and would reduce time on the Audit Committee agenda for other matters.

Taking mitigating action may be problematic for many companies. It could be difficult to find another auditor that is independent, when allowing for non-audit work carried out by other firms and audit firms that audit competitors. It is difficult to see what cost-effective mitigating action could be taken in these circumstances.

#### **4.22 - MPG recommendation 8 (provision of information to shareholders relevant to auditor selection process)**

Barclays does not support this proposal and believes it would result in unhelpful boilerplate disclosures.

As a complex multinational company, Barclays needs an auditor with an international presence and standing in the audit world, along with the resources and expertise to conduct an audit on this scale. As this is the primary driver in selecting an auditor for such a company it leaves only a few firms suitable to conduct the audit. A perception of increased confidence on the quality of the audit supplied by the 'Big Four' firms was noted in the 'Competition and choice in the UK audit market' paper.

Increased costs could be incurred by Audit Committees seeking unnecessary tenders for audits when their current audit arrangements are satisfactory. When tendering for a new audit firm companies may need to disclose commercially sensitive information to other audit firms who may audit competitors, which many companies may not be comfortable with.

In particular, companies have to be careful to ensure their auditors remain independent. Excessive tendering and switching of audit firms could lead to overlaps where a new audit firm is selected, but elsewhere within the Group the same audit firm is carrying out non-audit work which could affect the independence of the audit firm, thus breaching auditor independence rules. Therefore, it could be difficult to find another firm that is independent. This would be more effectively addressed by increasing the choice of big players in the audit world rather than imposing increased disclosure on companies.

Barclays makes itself available to major shareholders to discuss any issues, including auditor independence. Any such discussions are likely to be more helpful than providing boilerplate disclosures in Annual Reports.

#### **4.22 - MPG recommendation 9 (disclosure of contractual obligations to appoint certain types of audit firms)**

Barclays does not agree with this proposal. Any such obligations may relate to arrangements that are commercially sensitive or deemed inside information, for example due diligence work as part of a transaction, and it would not be desirable to require such disclosures.

#### **4.31 – MPG recommendation 12 (close personal relationships)**

Barclays believes the wording is too open to interpretation to be of any benefit. The explanation given for the change refers to the delivery of non-audit services, such as recruitment services. It would be more beneficial to simply prohibit the delivery of such services. Many companies already prohibit such services in their policies on the provision of non-audit services by their auditor.

## **2. Do you have comments that will assist the FRC in finalising the impact assessment?**

Barclays would not envisage a significant increase in costs or time for considering the audit firm's annual transparency report.

There would be little increase in costs for periodically assessing the risks associated with the possible withdrawal of the external auditor from the market, if it was considered as part of the Company's overall risk assessment process and not considered to be a major risk. However, if the Company was required to consider such a risk, independently to the overall assessment of risks, and mitigate against it a significant amount of time and resources could be needed.

Increased disclosure around reporting to shareholders on the Audit Committee's decision to appoint the auditor would incur additional costs as set out in the consultation. Barclays believes that the increased time and cost would outweigh any benefit to shareholders in providing such disclosure.

### 3. Changes to the Combined Code

Barclays responded to the consultation on the proposed changes to the Combined Code and supported the recommendation to allow a company chairman of a listed company outside the FTSE 350 to be a member of, but not chair, the Audit Committee if considered independent on appointment. The requirement that the appointment of the chairman is in addition to two independent non-executive directors ensures that this recommendation continues to exceed the requirements of the proposed FSA Rules.

Please note that, although you may list Barclays in the index of respondents and refer to comments made in our submission, we would request that this is only done on a non-attributable basis. Please let me know if you would like to discuss any of our comments in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Hodge", written in a cursive style.