Financial Services Authority

FSA®

Marcus Agius
Chairman
Barclays Bank PLC
One Churchill Place
London
E14 5HP

10 April 2012

Our Ref: CW

Dear Marcus

As promised, this letter follows up our recent meeting and sets out FSA concerns relating to aspects of Barclays' approach to regulatory and other issues.

Obviously where we have specific areas of concern which merit it, our Supervisory Team will directly make those concerns known at the appropriate level, and require any appropriate action in response. The purpose of my meeting with you was therefore not to focus on any one specific issue which requires remedial action. Rather I wished to bring to your attention our concerns about the cumulative impression created by a pattern of behaviour over the last few years, in which Barclays often seems to be seeking to gain advantage through the use of complex structures, or through arguing for regulatory approaches which are at the aggressive end of interpretation of the relevant rules and regulations. Andrew Bailey also expressed these concerns at your Board meeting on 9th February.

The specific examples which I mentioned at our meeting included two examples which I accept are 'old news', but also four relating to recent events.

Old news

I cited two examples.

- The development of the Protium structure in 2009 which, although not delivering Barclays any regulatory capital advantage, and while within accounting rules, was perceived by many external commentators as a convoluted attempt to portray a favourable accounting result.

- The approach to the valuation of monoline CVA positions which became apparent in FSA analysis in early 2009, and which showed Barclays choosing valuations clearly at the aggressive end of the acceptable spectrum.

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More recent events

Examples I cited were:

- Our concern that in the run up to the latest year-end, Barclays was not fully transparent with us about the RWA impacts of a proposed extension of model approaches (AIRB and IMM) applied in Barclays Capital Inc. Ultimately, we felt that the need for us to unpick the real impact of these proposed changes caused unnecessary friction and burdened our internal processes.

- [redacted]

- Protracted communication between ourselves and Barclays about your desire to move index hedges of own credit from the trading book to the banking book, with the impact of materially reducing RWAs. In this case, after the initial outcome was not resolved in Barclays' favour, our team felt that Barclays continued to argue for capital optimisation in a way which inefficiently used up our resource and goodwill.

- The confusing and potentially misleading impression created by Barclays' initial presentation of its position under the EBA stress tests, which appeared to be an attempt to leave FSA senior management with the impression that Barclays would be above the then intended 10% CT1 threshold, whereas at the relevant date of September 2011 it was actually at 9.8%. In fact given that the eventually chosen 'pass mark' was 9%, this did not turn out to be of crucial importance. But it nevertheless left our senior management with an impression that Barclays were seeking to 'spin' its messages in an unhelpful fashion.

I also mentioned at our meeting the recent publicity in relation to Barclays UK tax management. I recognise that since adequate provisioning had been put in place, this was not a regulatory issue per se. But as I know you recognise, and whatever the extent of advice which Barclays received in advance, the net impact has clearly been unfavourable to the degree of external trust in Barclays' approach to issues such as tax, regulation and accounting.

Clearly these examples vary in both currency and importance. And it is of course acceptable for a bank to argue for a favourable approach on any one specific issue, even if the regulator does not immediately agree. But the cumulative effect of the examples set out above has been to leave us with an impression that Barclays has a tendency continually to seek advantage from complex structures or favourable regulatory interpretations. These concerns are sufficiently great that I felt it was appropriate to communicate them directly to you, and to urge you and the Board to encourage a tone of full co-operation and transparency between all levels of your Executive and the FSA.

I know from our conversation that you take these issues seriously.

[redacted]

Yours sincerely, Adair

Adair Turner

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