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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
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**BARCLAYS**

Dear Sir David

IAS 32/39 ROUNDTABLES

Barclays would like to participate in a Roundtable to Discuss IAS 32/39 that you propose to hold in the week beginning 10 March 2003. I would be available any day in that week.

We have participated fully in the submissions developed by many industry and professional bodies including the BBA, EBF, FEE, and the UK 100 Group and wholly support the points made in their submissions, particularly regarding the need to establish a principles-based approach to both hedge accounting and impairment of financial assets.

However, we have one specific very high priority issue that we would like to discuss. Paragraph 17 of IAS 32, which simply states that equity instruments held by subsidiaries are presented as minority interests, coupled with the deletion of the text in paragraph 22, cast uncertainty about whether economic compulsion is to be considered in determining whether an instrument is a liability or equity, resulting in uncertainty over the treatment of instruments in the consolidated accounts.

We are particularly concerned that the overall substance of a transaction at a group level is considered when determining whether a financial instrument issued by an entity in the group is debt or equity. We strongly concur with IFRIC's decision, reported in their July 2002 update, that where an instrument is issued by a subsidiary when additional terms (e.g. a guarantee) are agreed between the holders and the parent and/or a fellow subsidiary, any such additional terms should be considered in determining whether the consolidated group lacks discretion over distributions and/or redemptions and hence has a liability. In addition, we believe that it should be made clear in IAS 32, and not be left to IFRIC, that instruments with the same economic characteristics are treated in the same way for accounting purposes, whether they are directly issued by the parent or issued by a subsidiary or special purpose vehicle.

In our view, the preferable solution is to amend IAS 32 to make it clear and unambiguous that preferred shares, other directly issued instruments and instruments issued by subsidiaries or special purpose vehicles should be accounted for as liabilities where, in substance, there is economic compulsion. Alternatively, an acceptable solution would be for the standard to differentiate between liabilities and equity only by looking at the contractual terms of the instruments. However, any solution should ensure that different instruments are treated the same way when they have identical economics.

This has the important practical consequence, for groups which have issued both direct and indirect instruments both with the same underlying economic effects, which run the risk, under some interpretations, of being accounted for differently.

A further issue that the Roundtables could usefully address is the first-time application of IAS 39. While this is the subject of a different standard, it would be helpful for open discussions to be held on the practical solutions available to the difficulties of providing IAS 39 compliant comparatives in the year of transition. While these difficulties are exacerbated by prolonged uncertainty over the final shape of the standard, we are strongly of the view that it is more important to have a good, workable standard than to have a standard available "in good time". The points raised by several commentators, including the UK 100 Group and the BBA, that there is a compelling case to implement IAS 32 and IAS 39 solely on a prospective basis are further strengthened by the inclusion of the Roundtables in the timetable. Reducing the time pressure on both the Board and preparers in this way can only serve to help ensure a better standard and higher quality financial reporting.

In addition, we consider that the following issues are high priority: hedge accounting, derecognition of financial assets, impairment and income recognition.

Yours sincerely

