BARCLAYS

Chris Lucas
Group Finance Director

1 Churchill Place
London
E14 5HP

Tel +44 (0)20 7116 1200 (Direct)
Fax +44 (0)20 7116 7386
chris.lucas@barclays.com

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

20 October 2011

Dear Hans,

Exposure Draft ED/2011/3 – Mandatory Effective Date of IFRS 9

Barclays is a UK-based financial services group, with a large international presence in Europe, the USA, Africa and Asia. It is engaged primarily in banking, investment banking and investment management. In terms of market capitalisation, Barclays is one of the largest financial services companies in the world. Barclays has been involved in banking for over 300 years and operates in over 50 countries with more than 150,000 employees.

We are pleased to have an opportunity to comment on the Exposure Draft *ED/2011/3 Mandatory Effective Date of IFRS 9* (ED). Our general comments on the proposals are set out below and our responses to the detailed questions posed are set out as an Appendix. Please note that Barclays IFRS 9 implementation project on classification and measurement is well-advanced and our comments incorporate the experience gained from it.

We would welcome the deferral of the mandatory effective date of IFRS 9. However, we consider that even the proposed date of 1 January 2015 may need to be revisited in the next 9-12 months as it is dependent on the completion of the remaining phases of the IAS 39 replacement project, the new insurance standard and by the Board's commitment to expose any proposals on financial instruments from the US Financial Accounting Standards Board (FASB). Hence we urge the Board to consider changing the transition requirements of IFRS 9 to ease implementation of the standard sufficiently to avoid having to further postpone the effective date, as well as to provide more meaningful information to investors as discussed below.

The current IFRS 9 transition requirements do not result in useful comparative information for investors. The many exceptions to retrospective application that are needed for practical reasons and to avoid the use of hindsight (such as applying the business model and designation decisions at the initial date of application to comparative periods) result in information that is not representative of the entity's business activities in those periods. Further, the retention of IAS 39 classifications and measurements for items derecognised prior to the initial application date results in a non-comparable mixture of IAS 39 and IFRS 9 information. Users are likely to find this confusing and of little value.

We believe that the Board should adopt a modified retrospective transition approach whereby the opening balance sheet for the current period would be restated on the date of initial application as if IFRS 9 had always been applied, with transition adjustments being recognised against the opening balance of retained earnings. Under this approach, however, comparatives would not be restated – although additional transition disclosures might be considered. This would avoid the need to run parallel reporting systems during comparative periods (which, for Foreign Private Issuers (FPIs) filing with the US Securities and Exchange Commission (SEC), would start from January 2013 for the financial statements and 2011 for 5 year selected financial data, assuming an effective date of 2015) and may help the Board retain the effective date proposed. This approach would also be consistent with that used in 2005 for IAS 39 and other related standards – an approach we believe worked well for investors and preparers.

If the Board believes that comparative information is required to be disclosed, then we recommend that this be restricted to an adjusted opening balance sheet as at the start of the comparative period, with one year of comparatives, but not require the re-instatement of the IAS 39 classification and measurements for derecognised items or the restatement of earlier comparative periods. This would improve the usefulness of comparative information compared to the existing transition requirements, and also address some of the operational complexity, especially for FPIs required to present 2 years of comparative data and 5 years selected financial data under the current IFRS 9 transition requirements.

We continue to support IFRS 9 classification and measurement of financial assets and liabilities as considerable improvements over IAS 39, and we urge the Board to complete the Standard as soon as possible. However, given the proposed 2015 implementation date (and possible future delays) the Board should also consider amending IAS 39 – in particular, reflecting movements in the fair value arising from changes in own credit for non-derivative financial liabilities through Other Comprehensive Income, rather than profit or loss. Such amendments could be easily executed, would improve the financial reporting for financial instruments quickly, and could allow the Board more time to complete IFRS 9 in an orderly manner.

We trust that the Board will find our comments useful. If you would like to discuss our response in more detail, then please contact Gavin Francis (Gavin.Francis@Barclays.com) at 1 Churchill Place London E14 5HP.

Yours sincerely,

C. G. Lucas
Group Finance Director

Our responses to the detailed questions set out on page 5 of the ED are as follows:

Question 1

The Board proposes to amend IFRS 9 (2009) and IFRS 9 (2010) so that entities would be required to apply them for annual periods beginning on or after 1 January 2015. Do you agree? Why or why not? If not, what alternative do you propose?

We welcome the proposed deferral of the effective date of IFRS 9 (2009) and IFRS 9 (2010), and the retention of the ability to early adopt.

However, we are concerned that an effective date of 1 January 2015 may need to be revisited (possibly in the next 9-12 months) depending on the:

- completion of the impairment and hedge accounting phases (including macro hedging) of IFRS 9;
- completion of the insurance project; and
- issuance of any FASB proposals on classification and measurement of financial instruments, and any resulting changes to IFRS 9.

In accordance with the Memorandum of Understanding with the FASB, the IASB has committed itself to expose any FASB proposals with regards to classification and measurement of financial instruments. Currently there is no public indication if, or when, the FASB plans to issue any further proposals. This results in significant uncertainty about potential changes to classification and measurement requirements of IFRS 9. We therefore urge the Board to commit to a time frame within which the FASB proposals will be published, following which the classification and measurement requirements of IFRS 9 should not be subject to change for the sake of convergence.

For European companies, implementation of IFRS 9 will further depend on endorsement by the European Commission prior to the mandatory effective date. Failure to do so will result in European companies that are also Foreign Private Issuers (FPIs) in the United States having onerous dual reporting requirements (either filing a reconciliation to US GAAP or financial statements in accordance with IFRSs as issued by the IASB, as well as financial statements in accordance with IFRSs endorsed by the European Commission).

Notwithstanding the above, the requirements of IFRS 9 and a new insurance standard will require significant lead time to implement. Any future decision to further delay the mandatory effective date of IFRS 9 should be made well in advance of 2015 given the costs and effort involved in obtaining and restating comparative information through parallel reporting systems and changes/impacts on business and management decisions. We believe that the Board should change the transition requirements for IFRS 9 to reduce the risk of having to revisit the effective date, as well as for other reasons detailed in our response to question 2.

We continue to support IFRS 9 as a considerable improvement over IAS 39 and we urge the Board to finalise the Standard as soon as possible. However, given the 2015 date (and possible future delays), we recommend the Board should also consider amending IAS 39 - for example, on own credit for non-derivative financial liabilities measured at fair value. Such amendments could be easily executed, would improve the financial reporting for financial instruments quickly, and would allow the Board more time to complete IFRS 9.

Question 2

The Board proposes not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Do you agree? Why or why not? If not, what alternative do you propose?

We do not agree with the Board's proposal.

Why the requirement for comparative information should be reconsidered

As noted above, one of the reasons for the Board to reconsider the transition requirements of IFRS 9 is to avoid having to revisit the effective date within the next 9-12 months. However, there are other compelling arguments as well.

The transition requirements of IFRS 9 include many exceptions to retrospective application, which are necessary for practical reasons. However, the exceptions undermine the usefulness of any comparative information presented and do not result in meaningful information for investors.

For example, IFRS 9 requires an entity to make business model assessments based on facts and circumstances that exist at a specific point in time (date of initial adoption) and produce comparative information for those facts and circumstances as if they have always existed. Of course, that may not be the case. A similar situation arises with the designation and de-designation of financial assets and liabilities to be measured at fair value through profit of loss to eliminate an accounting mismatch. For example, an accounting mismatch that has not existed in prior periods may arise upon initial adoption of IFRS 9 due to the reclassification of particular financial instruments. Financial instruments previously managed on an amortised cost basis will subsequent to designation be managed on a fair value basis. Producing comparative information for such designations, as if the financial instrument has always been managed on a fair value basis, may not reflect business decisions and the strategy actually applied in prior periods.

Likewise, the current requirements to re-instate the IAS 39 classification and measurements for derecognised items results in comparative information that mixes IAS 39 and IFRS 9 information. Furthermore, it is also operationally complex to implement.

It is also important to consider the effect of the likely transition approaches of other phases of the project to replace IAS 39, i.e. hedge accounting and impairment. Due to hindsight and the nature of economic and management decisions, as well as for operational reasons, we believe it is clear that any final requirements for hedge accounting and impairment will have to be implemented prospectively. This means that comparative periods for IFRS 9 might consist of a mixture of transition approaches, which will further undermine any benefits to investors.

We also note that, as well as the restatement of the comparatives for the preceding financial year required by IAS 1 *Presentation of Financial Statements*, the SEC filing requirements will result in FPIs having to restate comparatives, including the re-instatement of IAS 39 classification and measurements for derecognised items, for up to four prior annual reporting periods. This significantly increases the complexity and cost of implementation, and (given the lead time this requires) will increase the possibility that the Board will have to revisit the effective date of IFRS 9 in the near-term.

In summary, we believe that the comparative information resulting from the transition requirements of IFRS 9 does not result in meaningful comparative information to our investors, and that the cost of producing that information far outweighs the benefits (if any) to investors.

Alternative transition approaches the Board should consider

We believe that the Board should consider a modified retrospective transition approach whereby the opening balance sheet on the date of initial application includes the balances that would have resulted as if IFRS 9 had always been applied, with transition adjustments being recognised against the opening balance of retained earnings. Under such an approach comparatives are not restated.

Such an approach would include the following benefits:

- Business decisions and models will be faithfully represented in the financial statements;
- Information provided to investors will be meaningful for decision-making purposes, and would be more consistent across the different IFRS 9 phases;
- Implementation costs and complexity will be significantly reduced, as compared to the existing transition requirements; and
- It should provide the Board with sufficient time to complete the impairment and hedge accounting phases, and the insurance project, hence reducing the risk that the Board will need to reconsider the effective date within the next 9 - 12 months (see previous comments on effective date). It should also provide sufficient time for the exposure of any FASB proposals and any resulting changes to IFRS 9.

Under such an approach, the Board could also consider requiring additional transition disclosures. In addition to the disclosures required by IFRS 7 *Financial Instruments: Disclosures* upon initial adoption, the following qualitative and quantitative disclosures could be required:

- a description of the significant differences between IAS 39 and IFRS 9
- a reconciliation, per line item in the financial statements, of the difference between the original and new measurement categories, analysing the difference between (i) the reclassification of balances to the appropriate IFRS 9 line items; and (ii) remeasurements arising from changes in the measurement basis; and
- an analysis of the remeasurement column in the balance sheet by nature of the remeasurement.

On the initial adoption of IAS 39, IAS 32 *Financial Instruments: Disclosure and Presentation*, and IFRS 4 *Insurance Contracts* in 2005 Barclays did not produce comparative information. Instead, we provided a detailed transition report to investors analysing the transition adjustments arising from the move to IFRS reporting. This approach was welcomed by an overwhelming number of our investors, who did not believe that comparative information was meaningful given the significance of the changes to the accounting requirements. In addition, we believe that this approach ensured the integrity of our financial reporting processes. If helpful, we would be happy to further discuss our experience of, and the reaction of our investors to, this transition approach with the Board and staff.

If the Board believes that some comparative information is required by IFRS, then an alternative transition approach could be to require an adjusted opening balance sheet for the start of the comparative period, with one year of comparative financial statements, but not require the re-instatement of the IAS 39 classification and measurements for derecognised items or the restatement of earlier comparative periods. This approach would be operationally more complex than the approach described above. However, eliminating the current requirement to re-instate the IAS 39 classification and measurements for derecognised items will improve the usefulness of information to investors, and a clear statement that comparatives should not be restated earlier than the beginning of the comparative period required by IAS 1 *Presentation of Financial Statements* will avoid the cost and complexity associated with the restatement of earlier periods due to SEC requirements.