28 April 2011

Dear Sirs,


Barclays is a UK-based financial services group, with a large international presence in Europe, the USA, Africa and Asia that is engaged primarily in retail, commercial and investment banking. 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 151,000 employees.

We are pleased to submit our comments on the exposure draft “Offsetting Financial Assets and Financial Liabilities”. Our detailed comments are set out in appendix A. We would like to draw to your attention to our principal views on the exposure draft which are as follows:

- Offsetting (‘net presentation’) of financial assets and liabilities is the largest single quantitative difference between IFRS and US GAAP statements of financial position. As such, we welcome the efforts of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) to eliminate this difference. We encourage the boards to reconcile any diverging views that may emerge during re-deliberations of the proposals in order that the final IFRS and US GAAP requirements are the same.

- We generally support the principle that net presentation of financial assets and liabilities provides users with the most relevant information when an entity has a legal right of offset and the intention to net settle. However, we do not believe this principle provides the most useful information to our investors and other stakeholders in the case of derivatives. Contrary to the view put forward in the ED, the gross presentation of derivatives does not provide any additional information on gross cash flows since, at the unit of account level, most derivative assets and liabilities already provide a net presentation of future cash inflows and outflows.

We believe net presentation of derivatives provides the most useful information to our investors and other stakeholders if a legally enforceable right of set-off exists even where that is only in the event of default, bankruptcy or insolvency. This approach would not result in the loss of any potential cash flow information, would more accurately reflect liquidity and credit risks, and would be more consistent with how most entities manage these assets and liabilities.

- We disagree with the proposal in paragraphs 9 and C14 of the ED, namely that entities should always account for collateral and margin separately and that they should not be eligible for offset against related financial assets and liabilities. Whenever a financial asset and liability meet the proposed offset criteria, offset should be applied. This is commonly the case for many contracts margined and settled through exchanges and central clearing houses.
• We agree with the proposals to require disclosures that enable users to understand both an entity’s gross position and the amount of offsetting applied. However, the majority of the proposed disclosures relates to credit risk and overlaps with existing disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. As such, we believe that these disclosures should be incorporated within the existing guidance of IFRS 7 and be consistent with the level of disclosure required for other types of risk in that standard.

We trust that you will find our comments helpful. If you would like to discuss our response in more detail, then please contact either Gavin Francis (gavin.francis@barclays.com) at 1 Churchill Place London E14 5HP or Lee Bowell (Lee.Bowell@barclayscapital.com) at 10 South Colonnade London E14 4PU.

Yours faithfully,


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C G Lucas
Group Finance Director
Question 1 – Offsetting criteria: unconditional right and intention to settle net or simultaneously
The proposals would require an entity to offset a recognised financial asset and a recognised liability when the entity has an unconditional and legally enforceable right to set-off the financial asset and financial liability and intends either:
(a) to settle the financial asset and financial liability on a net basis or
(b) to realise the financial asset and settle the financial liability simultaneously.
Do you agree with this proposed requirement? If not, why? What criteria would you propose instead, and why?

Offsetting Principles and application to Derivative Balances

We are generally supportive of the principle that offsetting is only appropriate if an entity has a right to set-off and the intention to net settle. This is because gross presentation allows users to assess an entity’s financial position both in terms of liquidity and solvency, which would otherwise be obscured by a net presentation. However, we do not believe that this principle provides the most useful information to our investors and other stakeholders in the case of derivatives. Contrary to the view put forward in the ED, for derivatives, gross presentation does not provide information on gross cash flows since, at the unit of account level, most derivative assets and liabilities already provide a net presentation of future cash inflows and outflows. Therefore, we believe net presentation provides the most useful information even if a legally enforceable right of set-off exists only in an event of default, bankruptcy or insolvency, irrespective of whether there is an intention to settle net.

Paragraph 13 of the basis for conclusion summarises the information characteristics that should be considered in determining whether it is useful for users of financial statements in making decisions:

(a) To help assess the prospects for future net cash flows to an entity.

We do not believe that gross presentation of derivatives would allow users to more accurately assess the prospects for future cash flows for the following reasons:

i. Derivatives, as defined in IAS 39 Financial Instruments: Recognition and Measurement, already represent a net presentation of future cash inflows and outflows. For example, a cross currency swap will have many contractual payments and receipts that will be made on a gross basis during its term. As such, a ‘gross’ presentation when applied to derivatives will not result in the presentation of gross cash flow information, given that there is already net presentation at the unit of account level.

ii. Most entities with significant derivative balances will manage them as part of a trading strategy. Liquidity risk for such items is not managed on the basis of contractual maturity as a significant proportion of the cashflows occur throughout the life and they will frequently be settled at fair value before contractual maturity. Consistent with this, derivatives are typically disclosed within a single maturity category in IFRS 7 liquidity risk disclosures. Showing such balances gross will not provide users with additional information with respect to the expected timing or amount of future cash flows. As such, we do not agree with the assertion in paragraph BC21 that gross presentation provides better information in relation to liquidity or solvency risk in this instance.

We do, however, believe it is important that derivative balances are shown gross if there is no right of set-off upon an event of default. Showing such balances on a net basis would underestimate an entity’s exposure to credit risk.

(b) To provide information on the nature and amounts of a reporting entity’s economic resources and claims against the entity to identify the reporting entity’s financial strengths, weaknesses, liquidity and solvency and its needs for additional financing.

We do not believe that gross presentation of derivatives would provide users with better information about the nature and amounts of a reporting entity’s economic resources and claims for the following reasons:

i. Derivative assets and liabilities are typically managed together on a fair value basis and frequently settled at fair value before contractual maturity. Consistent with this, we do not believe that showing derivative balances gross on the balance sheet will provide users with additional information with respect to an entity’s economic resources, liquidity, solvency or need for additional financing. Setting aside the potential for a
counterparty to default (which we agree should be reflected in the criteria necessary for offset). Gross derivative balances do not generally provide relevant information when assessing liquidity, solvency or financing requirements.

ii. Under the approach proposed in the ED, as with current IFRS requirements, gross asset and liability balances would be extremely volatile for an entity with significant derivative balances. Since most entities require their derivative counterparties to post collateral against any net exposure under the Credit Support Annex of master netting arrangements, such volatility does not faithfully represent the volatility of the underlying risks and financial position of the entity. Neither a gross nor a net presentation of balance sheet information can provide users with relevant information on market risk. As a result, many IFRS reporting entities, including ourselves, have reluctantly found it necessary to provide alternative non-GAAP balance sheet and leverage measures that are of greater relevance and use to our investors. This approach arose from awareness that many users were already netting derivative balances when analysing financial institutions.

(c) To provide information about priorities and payment requirements of existing claims to predict how future cash flows will be distributed amongst those with a claim against the reporting entity.

We do not believe that gross presentation of derivatives provides users with more useful information to enable them to predict how future cash flows will be distributed amongst those with a claim in the event of insolvency, default or bankruptcy. The most relevant information in this regard is typically how cash flows would be distributed in an event of default or bankruptcy. We believe this would best be represented by showing net amounts where a right of offset exists in such circumstances, whilst showing gross fair values where no such right exists.

We also believe that net presentation provides the most useful information for derivatives if there is a right to set-off in the event of default (irrespective of intention to settle net during the ordinary course of business) for the following reasons:

- We believe net derivative presentation provides the most relevant information with respect to credit risk if a right of set-off exists even where that is only in the event of default, bankruptcy or insolvency. Whilst we note paragraph BC36 that the purpose of the statement of financial position is not an aggregation of credit risk, we believe credit risk to be important in assessing whether gross or net presentation provides users with the most relevant information – especially for derivatives transacted under a master netting arrangement with Credit Support Annex where the legally enforceable right of offset has been tested in the courts. Gross presentation for such transactions does not seem to provide any additional information on gross cash flows, priority of payments, or other information that might be of relevance to the user. In contrast, we believe that derivative balances should be presented gross if there is no right of set-off upon an event of default, since presenting such balances on a net basis would fail to provide useful information to investors and other stakeholders about credit risk.

- We do not agree with the statement in paragraph BC22 that gross presentation of derivatives ‘should help users both in making their own predictions and in confirming or correcting their earlier expectations’. A gross presentation does not provide incremental information to a net presentation in this regard. Management and the market will assess this, and related market risk, on a net basis (unless a lack of collateralisation and/or master netting agreement lends meaning to the gross fair value).

We have the following further comments on the offsetting requirements in the exposure draft:

- We agree with the analysis in the basis for conclusions that all derivative transactions under a single master netting agreement should not be considered a single instrument for accounting purposes. Derivative transactions are entered into, and closed-out or settled, on an individual basis and treating all derivative transactions under a single master netting agreement as a single instrument would not be a faithful representation of this activity and would create additional accounting and operational complexity.

- We agree with paragraph BC51 that net presentation of derivatives should not be dependent on instruments having the same or primary underlying risks. Neither a gross nor a net presentation of balance sheet information can provide users with relevant information on market risk.

**Collateral and Margin**

We disagree with paragraphs 9 and C14 that entities should always account for collateral and margin separately and that they should not be eligible for offset against other financial assets and liabilities. These paragraphs are exceptions from the
general offsetting principles and will give rise to a significant change in presentation to that currently applied by many entities under IFRS.

We believe that when the proposed offset criteria are met, offset should be required. We are not aware of any pervasive arguments for the creation of an exception for collateral and margin. In particular:

i. 'Margin accounts are assets or liabilities that are accounted for separately'; often the payment of margin will be legally treated as settlement of the derivative with no further cash flows required. In such circumstances, the proposed offsetting criteria will be satisfied and margin should be offset against the relevant derivative balance.

ii. 'An entity shall not offset in the statement of financial position recognised financial assets and financial liabilities with assets pledged as collateral or the right to reclaim collateral pledged or the obligation to return collateral sold'; again, there are instances in which collateral or the obligation to return collateral sold would meet the offsetting criteria included in the proposals and, as such, should be presented net.

Simultaneous Settlement and Clearing Houses

We believe that the proposed guidance on simultaneous settlement requires clarification. Many repurchase agreements, reverse repurchase agreements and securities lending arrangements involve a clearing house to facilitate settlement with the reporting entity paying or receiving a net amount, or equivalent amounts to a single net or simultaneous amounts, to or from the clearing house. The clearing house will bear any risk of default if the related cash payments or receipts between the clearing house and the entity's ultimate counterparty occur at different times within a narrowly defined time interval during the same day (the difference in timing only occurring due to processing constraints). We believe the principles of the proposals in line with current practices would support net presentation in such circumstances, since the entity has paid or received equivalent to a net amount, or simultaneous amounts, under the contracts and bears no settlement, credit or other risk. However, we are aware of some uncertainty and differing interpretations in the market in this regard.

Question 2 – Unconditional right of set-off must be enforceable in all circumstances

It is proposed that financial assets and financial liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of set-off. The proposals specify that an unconditional and legally enforceable right of set-off is enforceable in all circumstances (i.e. it is enforceable in the normal course of business and on the default, insolvency or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?

As stated in our response to question 1, we disagree with the requirement that there needs to be an unconditional right of set-off for derivatives, for the following reasons:

We are generally supportive of the principle that offsetting is only appropriate if an entity has a right to set-off and the intention to net settle. This is because gross presentation allows users to assess an entity's financial position both in terms of liquidity and solvency, which would otherwise be obscured by a net presentation. However, we do not believe that this principle provides the most useful information to our investors and other stakeholders in the case of derivatives. Contrary to the view put forward in the ED, for derivatives, gross presentation does not provide information on gross cash flows since, at the unit of account level, most derivative assets and liabilities already provide a net presentation of future cash inflows and outflows. Therefore, we believe net presentation provides the most useful information even if a right of set-off exists only in an event of default, bankruptcy or insolvency, irrespective of whether there is an intention to settle net.

Paragraph 13 of the basis for conclusion summarises the information characteristics that should be considered in determining whether it is useful for users of financial statements in making decisions:

(a) To help assess the prospects for future net cash flows to an entity.

We do not believe that gross presentation of derivatives would allow users to more accurately assess the prospects for future cash flows for the following reasons:

i. Derivatives, as defined in IAS 39 Financial Instruments: Recognition and Measurement, already represent a net presentation of future cash inflows and outflows. For example, a cross currency swap will have many contractual payments and receipts that will be made on a gross basis during its term. As such, a 'gross'
presentation when applied to derivatives will not result in the presentation of gross cash flow information, given that there is already net presentation at the unit of account level.

ii. Most entities with significant derivative balances will manage them as part of a trading strategy. Liquidity risk for such items is not managed on the basis of contractual maturity as a significant proportion of the cashflows occur throughout the life and they will frequently be settled at fair value before contractual maturity. Consistent with this, derivatives are typically disclosed within a single maturity category in IFRS 7 liquidity risk disclosures. Showing such balances gross will not provide users with additional information with respect to the expected timing or amount of future cash flows. As such, we do not agree with the assertion in paragraph BC21 that gross presentation provides better information in relation to liquidity or solvency risk in this instance.

We do, however, believe it is important that derivative balances are shown gross if there is no right of set-off upon an event of default. Showing such balances on a net basis would understate an entity’s exposure to credit risk.

(b) To provide information on the nature and amounts of a reporting entity’s economic resources and claims against the entity to identify the reporting entity’s financial strengths, weaknesses, liquidity and solvency and its needs for additional financing.

We do not believe that gross presentation of derivatives would provide users with better information about the nature and amounts of a reporting entity’s economic resources and claims for the following reasons:

i. Derivative assets and liabilities are typically managed together on a fair value basis and frequently settled at fair value before contractual maturity. Consistent with this, we do not believe that showing derivative balances gross on the balance sheet will provide users with additional information with respect to an entity’s economic resources, liquidity, solvency or need for additional financing. Setting aside the potential for a counterparty to default (which we agree should be reflected in the criteria necessary for offset), gross derivative balances do not generally provide relevant information when assessing liquidity, solvency or financing requirements.

ii. Under the approach proposed in the ED, as with current IFRS requirements, gross asset and liability balances would be extremely volatile for an entity with significant derivative balances. Since most entities require their derivative counterparties to post collateral against any net exposure under the Credit Support Annex of master netting arrangements, such volatility does not faithfully represent the volatility of the underlying risks and financial position of the entity. Neither a gross nor a net presentation of balance sheet information can provide users with relevant information on market risk. As a result, many IFRS reporting entities, including ourselves, have reluctantly found it necessary to provide alternative non-GAAP balance sheet and leverage measures that are of greater relevance and use to our investors. This approach arose from awareness that many users were already netting derivative balances when analysing financial institutions.

(c) To provide information about priorities and payment requirements of existing claims to predict how future cash flows will be distributed among those with a claim against the reporting entity.

We do not believe that gross presentation of derivatives provides users with more useful to enable them to predict how future cash flows will be distributed amongst those with a claim in the event of insolvency, default or bankruptcy. The most relevant information in this regard is typically how cash flows would be distributed in a default or bankruptcy. We believe this would best be represented by showing net amounts where a right of offset exists in such circumstances, whilst showing gross fair values where no such right exists.

We also believe that net presentation provides the most useful information for derivatives if there is a right to set-off in the event of default (irrespective of intention to settle net during the ordinary course of business) for the following reasons:

- We believe net derivative presentation provides the most relevant information with respect to credit risk if a right of set-off exists even where that is only in the event of default, bankruptcy or insolvency. Whilst we note paragraph BC36 that the purpose of the statement of financial position is not an aggregation of credit risk, we believe credit risk to be important in assessing whether gross or net presentation provides users with the most relevant information – especially for derivatives transacted under a master netting arrangement with Credit Support Annex where the legally enforceable right of offset has been tested in the courts. Gross presentation for such transactions does not seem to provide any additional information on gross cash flows, priority of payments, or other information that might be of relevance to the user. In contrast, we believe that derivative balances should be presented gross if there is no right of set-off upon an event of default, since presenting such balances on a net basis would fail to provide useful information to investors and other stakeholders about credit risk.
- We do not agree with the statement in paragraph BC22 that gross presentation of derivatives 'should help users both in making their own predictions and in confirming or correcting their earlier expectations'. A gross presentation does not provide incremental information to a net presentation in this regard. Management and the market will assess this, and related market risk, on a net basis (unless a lack of collateralisation and/or master netting agreement lends meaning to the gross fair value).

**Question 3 – Multilateral set-off arrangements**

The proposals would require offsetting for both bilateral and multilateral set-off arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements? If not, why? What would you propose instead, and why? What are some of the common situations in which a multilateral right of set-off may be present?

We agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements in accordance with the rationale set out in paragraph 61 of the Basis for Conclusions.

**Question 4 – Disclosures**

Do you agree with the proposed disclosure requirements in paragraph 11-15? If not, why? How would you propose to amend those requirements, and why?

We agree with the proposed disclosure requirements set out in paragraphs 12 (a) and (b), which will enable users to understand an entity's gross position and the amount of offsetting applied.

The proposed disclosures included in paragraphs 12 (c) – (g) and 13 in the ED relate to an entity's credit risk, rather than offsetting, and overlap with the disclosures already contained in IFRS 7 paragraphs 36 & 38. Therefore, we believe that these should be incorporated within the existing guidance and be consistent with the level of guidance for other types of risk in IFRS 7. This would allow an entity, depending on its circumstances and how it manages credit risk, to best determine how to communicate and disaggregate a coherent view of its credit risk. We also believe that paragraph 14 could be removed from any final requirements given that cross-referencing has not previously been explicitly required in other standards and that it just stipulates what is the generally accepted practice of cross-referencing notes.

As currently drafted, the proposed requirements include qualitative and quantitative disclosure for each type of conditional right to offset. This would capture all rights irrespective of the remoteness of conditionality or whether that right significantly reduces credit or liquidity risk to the entity. We do not believe that the cost or time to collate this information would be warranted given its apparent limited usefulness. Instead, we would propose that the disclosure for conditional rights to offset is limited to a description of the types of conditional rights of offset and a quantification of the extent to which they reduce credit risk.

**Question 5 – Effective date and transition**

(a) Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirement and why?

(b) Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements?

(a) We agree that the transition requirements should require retrospective application in order to enhance comparability.

(b) Given that offsetting is the largest quantitative difference between IFRS and US GAAP in statements of financial position, we encourage both boards to require an effective date as early as practically possible in order to facilitate global comparability. Realistically, the earliest such date is for annual periods beginning on or after 1st January 2012. However, if the Boards do require gross presentation of derivatives covered by a master netting agreement, this would represent a substantial change for US GAAP preparers. This could have economic implications for those preparers. For example credit ratings, bank levies and capital/leverage ratios could all be impacted. In such a situation, a significant lead time would be necessary.