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Dear M Flores

Response to EFRAG's Public Consultation – Is there a need for specific financial reporting for long-term investing activities business models?

Thank you for the opportunity to respond to the EFRAG's public consultation on long-term investing activities business models.

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking, and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia. The overall goal of our activities is to create and provide long-term sustainable value for our stakeholders.

Our long-term investing activities include longer term lending and investments in private equity. In addition we have significant holdings of high quality and liquid bonds to meet regulatory liquidity requirements.

The consultation explores whether long-term investing activities should receive a specific accounting treatment and whether the current accounting treatment under IAS 39 and that proposed under IFRS 9 is a barrier to companies making long term investments,

We support IFRS as a whole and do not consider it to be a barrier to long term investment. It is sufficiently flexible both as a body of guidance and within individual accounting standards to represent our holdings of investments and business models, and to provide decision useful financial information to investors about our short term performance and long term strategy.

Current regime, including IAS 39 Financial Instruments: Recognition and Measurement

For loans originated by our lending businesses, amortised cost appropriately reflects their nature and the business model in which they are held, namely for the generation of revenue in the form of interest, the management of credit risk and the collection of principal.

Where assets in our lending portfolio include features that are not related to earning interest returns or where we are managing the assets on a fair value basis, the current standard requires that we bifurcate and separately measure the different risk features of the loan. This results in embedded derivatives being reported at fair value and the financing element reported at amortised cost such that it does not contribute volatility in the profit and loss. An alternative treatment available is to record the loans at fair value, which enables us to reflect our performance in managing the assets in prevailing market conditions.

For holdings of equity and debt instruments including private equity, we believe that depending on the activities, reporting fair value changes in either profit and loss or directly in equity provides appropriate information about investing activities, regardless of whether the investment is long term or short term. Where private equity investments of between 25% and 50% are held, we may opt out of equity accounting and elect to carry them at fair value through profit and loss, where this provides the most appropriate performance measure to investors. Equity accounting whilst less volatile than fair value may not best reflect how we manage the assets, or run our business model.

An often suggested alternative accounting treatment to fair value is to hold assets at cost, or cost less impairment. The acquisition cost of an investment, potentially expended many years previously, no matter how objective and accurate a measure has very little information content on the performance of the investment or of the company's management in investing shareholders' funds. Thus it would not satisfy the basic requirements of financial reporting and may in fact obscure poor performance. We also do not believe that providing fair value disclosures as a corollary to a cost measurement basis is an acceptable alternative to fair value measurement through profit and loss.

Where we hold long- or mid-term investments that are not held for trading or a business that is measured on its growth in value, they may be carried on balance sheet at fair value with gains and losses deferred to equity. The deferral of market value gains and losses in equity rather than immediate recognition in profit and loss enables us to transparently depict the longer term nature of the investment, and the overall performance of the asset, while providing investors with the appropriate information content, i.e. what the assets were worth at the period end and how the value has changed since the previous reporting period.

Management certainly have the option of supplementing the performance statements with suitable disclosures regarding their investment strategy, the nature of the investments, the long term expected performance of investments and corresponding incentives to make long term investment decisions. The provision of fair value information enables shareholders to hold management to account over the actual performance of the investments.

IFRS 9 *Financial instruments,*

IFRS 9, the intended replacement for IAS 39 is based on the principle that an entity's reported performance should reflect its business model and the characteristics of individual financial instruments. We consider that the IASB has drawn the distinction between when fair value accounting is required versus amortised cost, in broadly the right place. However, we consider that the amortised cost classification should be clarified such that relatively minor deviations in the definition of principal and interest do not trigger an instrument to be held at fair value through profit or loss. The addition of the third business model which enables entities to include debt instruments at fair value through other comprehensive income (FVTOCI) is overall, an enhancement to IFRS 9.

Under IFRS 9 all equity investments may be held at FVTOCI, which we consider will allow entities to present useful information about long term investments, without the ability to recycle gains and losses on disposal to profit and loss, or being required to decide when to recognise impairment. We note that the IASB will give further consideration to the treatment of OCI in their review of The Conceptual Framework, which may change the accounting and permit recycling to profit and loss.

Amendments to IFRS 10 Consolidated Financial Statements

We believe that fair value provides the most decision-useful information about investments held for investment purposes and that this should be reflected in the consolidated financial statements, especially where these investments are managed on a fair value basis. This would represent a natural and appropriate extension of fair value accounting.

Barclays as a user of financial information

The financial information that we find most useful is that which clearly portrays our customers' and investees' businesses, financial strength and trading performance in a transparent and consistent manner, which IFRS provides. An expansion of historical cost accounting, we believe, would significantly reduce the information content of financial reporting. Above all, we are interested in transparency, relevance and reliability and a global financial language, meaning high quality accounting standards that are converged in our major markets which generally use IFRS or US GAAP. We believe that IFRS provides this with respect to long term investments and that no additional specific financial reporting is required in this area.

We trust that the EFRAG will find our responses useful. If you would like to discuss our response in more detail, then please contact David Bradbery (david.bradbery@barclays.com) or Ben Binnington (Ben.Binnington@Barclays.com) at 1 Churchill Place London E14 5HP.

Yours faithfully

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