

Lord Turner  
Chairman  
Financial Services Authority  
25 The North Colonnade  
London  
E14 5HS

18 April 2012



Thank you for your letter of 10 April, 2012.

It is a matter of regret for us that you have the concerns outlined in your letter. Barclays has invested significant effort and time in building and improving its relationship with the FSA. It is very important to us to have a strong, open, cooperative and transparent relationship with the FSA and with all of our regulators globally. The Board and I took note of Andrew Bailey's comments in our February meeting and, while he specifically excluded Bob Diamond and Chris Lucas from his comments, it was clear that "tone from the top" is one of the FSA's concerns. Our objective is and has always been to have a strong and mutually beneficial relationship with the FSA and you have my commitment that we will work harder in the future to procure this outcome.

Your letter notes six examples of areas of concern to the FSA and without wanting to prolong the debate on these, I do feel the need to make one or two comments in relation to these specific points.

- With regard to Protium, I believe this has been discussed exhaustively. As you know, we reconfirm that our objective at the time was to change the repayment profile and maximize shareholder value. As it turned out, this is exactly what occurred. As you note, this was done within accounting rules and with no regulatory capital advantage and with explicit FSA approval.
- The monoline CVA positions from 2009 represent a highly subjective area where we are and were aware of at least one other major European based bank which had valuations very similar to Barclays. As you note, these valuations were within the acceptable spectrum. Time and markets have proven these to be less aggressive than suggested.
- On the more recent experience of the run up to year-end, we recognise that we asked a lot of your team with regard to model approvals. These were waiver


requests which came about later than expected but they were necessary given the late changes to our capital guidance at year end via the FPC to FSA. A guideline of 10% was moved to 10.30% at the very end of the year and so the criticality of these model approvals was paramount for us. We greatly appreciate the time and effort contributed by your team to facilitate these reviews.



- The discussions surrounding the index hedges of own credit were protracted because we had very strongly held views. Of course, the FSA has the ability to set rules and we respect the outcome of those discussions.
- We believe the concern you mention regarding capital stress tests refers to two separate but parallel requests from last year to assess the effect of EBA capital definitions: 1) an FSA request to ascertain whether 10% CT1 could be achieved by mid-2012 using a constant balance sheet and Basel 2.5 for December 2011 and 2) an EBA stress test request to estimate CT1 for June 2011 assuming the early adoption of Basel 2.5. Although both requests were related, we thought we were clear where differences existed in our responses because of the slightly different requests. We did not intend to mislead in any way and we will ensure that we communicate more clearly in the future.

Finally with regard to the UK tax issue, we fully understand the potential damage to our reputation. On the other hand, as tested recently through a third party review, our tax procedures are robust and sound but no procedure can guard against retroactive tax law changes. We acknowledge that this is not a comfortable place for us to be. Despite our voluntary disclosure to HMRC of the transactions, they did not inform us of their intention to change the law.

I appreciate your taking the time to write. I can assure you that the points you have raised have my full attention as well as the Board's. We are committed to ensuring the full co-operation of all levels of our Executive when engaging with the FSA and we take these matters very seriously, particularly as they relate to the transparency and openness of our interactions.

*Yours sincerely,*  


Marcus Agius