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Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Mr. Feldman:

On behalf of Barclays, I thank you for the opportunity to comment on the proposed rule to implement section 165(i) of the Wall Street Reform and Consumer Protection Act (Dodd-Frank) regarding capital adequacy stress tests. Barclays has long supported robust forward-looking stress testing as an important regulatory and management tool as also discussed in our letter to the Agencies in response to the proposed stress testing guidance (copy attached)).

Barclays Bank Delaware (BBD) is a state chartered non-member bank headquartered in Wilmington, DE. Our primary product is consumer credit cards, mostly co-branded with various marketing partners.

BBD is owned by an intermediate holding company, Barclays Delaware Holdings LLC (BDHLLC) which is regulated by the Federal Reserve Board. BDHLLC is, in turn, owned by Barclays Bank PLC which is owned by the ultimate bank holding company Barclays PLC. Barclays PLC is headquartered in London England and regulated by the Financial Services Authority (FSA) in the United Kingdom, and the Federal Reserve in the United States. Because BBD is owned by an intermediate bank holding company and the ultimate bank holding company is primarily regulated by a foreign regulator, BBD offers a unique perspective on the proposed rule.

Barclays commends the FDIC and OCC for creating proposed rules regarding stress tests. We agree that capital stress tests will assist the Federal Deposit Insurance Corporation (FDIC or the Corporation) and the entire regulatory community by providing forward looking information to assess covered banks capital adequacy. However, because of the challenges faced by some banks with multiple regulators in multiple jurisdictions, stress testing assessments would be best served where there is coordination among regulators to ensure consistency in findings and valuable, useful information.

We are also pleased to respond to the Corporation's specific request for comments regarding the proposed timing and sequencing of the stress test and the time allotted under the proposed rule. As discussed below, Barclays proposes that the testing should occur from March to June utilizing the static balance sheet as of the calendar year end.

Common Stress Tests Across Regulators

Since BDHLLC is regulated by the Federal Reserve, but its primary asset is BBD, which is regulated by the FDIC, stress tests required for both should be the same both substantively and procedurally. The interest of Dodd-Frank to create transparency regarding the health of financial institutions is met by using the same test, and timing, for both the Bank and the intermediate holding company. Conversely, using different tests or different schedules will create burden on both entities and will disadvantage both vis-à-vis their competitors.

Use of a Static Balance Sheet

The starting point for running a stress test is the Bank's balance sheet. The Agencies would benefit from basing the stress tests on a static balance sheet, assuming that the institution maintains the same business mix and model throughout the time horizon together including any materially publicly announced changes[1].

The benefits of using a static balance sheet include:

(i) results will be comparable across the span of regulated entities, providing a level field and thus will provide a more meaningful indication of the health and resilience of each institution;

(ii) the results are not based on differing outlooks and planning philosophies across banks, and so would provide consistency amongst banks;

(iii) a static balance sheet mitigates the confidentiality concern because existing business plans are not factored into the test; moreover, it ensures that banks are able to plan transactions that are in the interests of their stakeholders without communicating this to the market prior to implementation, which could otherwise adversely affect their ability to implement such plans;

Commencement of Stress Test in March

The Proposed Rule mandates that testing occur in November and December of each year using the balance sheet data "as of" September 30. Our preference would be to use the

[1] A static balance sheet assumes zero growth for both the baseline and the adverse scenarios. Assets and liabilities that mature during the time span of the test are assumed to be replaced by like instruments (in terms of type, risk and maturity). Defaulted assets are not replaced thus the balance sheet reduces over the time horizon due to impairment. No work out of defaulted assets is assumed. Regulated entities with unannounced material changes would liaise with the FDIC to determine how to include such material changes in the stress test.

static balance sheet approach for reasons outlined above, based on data as at year end, and therefore to move the timing of the test to commence in March following the completion of the year end reporting cycle.

In the case that the FDIC elects not to use the static balance sheet approach for the stress test, the timing of the stress test should be determined by the timing of the Bank's planning cycle. Integrating the stress test as part of the Bank's planning process will provide a clear forward looking view of the health of the institution that can be used to influence business strategies. However, to ensure a detailed level of assessment in line with internal stress test processes, sufficient time should be provided to run the stress test taking into account that a Bank's planning cycle is typically one of the busiest periods of the business cycle for a bank.

Three Months to Complete the Stress Test

The proposed rule suggests that the testing would occur in an eight week period. This timeframe is suitable for capital adequacy stress tests with a limited level of complexity, i.e. a static balance sheet and reliance on common methodology. Our experience shows that a bottom up stress test process which is fully integrated in the financial planning process typically requires about a three month time horizon.. Generally the first week is consumed by analyzing the test scenarios and detailing the requirements for businesses to run the test. That is followed by approximately four to five weeks for businesses to prepare for and run the test, followed by a detailed review and challenge process. Thereafter, we expect interaction with the FDIC and, potentially, more analysis.

In summary, it is critical that the proposed rule anticipate coordination both substantively and procedurally for situations where multiple regulators will require stress tests of the bank and its intermediate holding company. Our preference is for the anticipated rule to provide a process that utilizes a static balance sheet based on year end numbers with testing being performed and reported between March and the beginning of June of each year.

We appreciate the Corporations consideration of the views set forth in this letter and welcome the opportunity to discuss any part of this letter in greater detail.

Sincerely

Lawrence Drexler
General Counsel
Barclays Bank Delaware

BARCLAYS

By electronic submission to www.regulations.gov

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

28th July, 2011

Re: Proposed Guidance on Stress Testing for Banking Organizations with more than $10 Billion in Total Consolidated Assets

Barclays appreciates the opportunity to respond to the proposed guidance issued by the Agencies regarding stress testing for US banking organizations with more than $10 billion in assets. We support the proposed guidelines, and believe that these are aligned with our own view that robust, forward-looking stress testing is an important contributor to well-informed risk management, including comprehensive assessments of capital and liquidity adequacy.

We have additional comments in three areas specifically related to the design and operation of banks' enterprise-wide stress tests.

1. Time horizon

To be most effective, it is important that banks estimate the impact of potential stress events over the time horizon required to assess projected business performance through a range of plausible adverse scenarios. Certain adverse scenarios are appropriately assessed under a shorter time horizon, while for other scenarios a two-year horizon may be insufficient to evaluate the full impact of projected stress events. This is particularly important for understanding the risks in "traditional" retail and commercial banking operations, where there may be significant time lags between the occurrence of adverse movements in the macroeconomic outlook, and consequent changes in business performance. This point is empirically demonstrated by the fact that banks in some jurisdictions experienced declines in their capital ratios for periods that exceed the 24-month horizon cited in the proposed guidance.

Moreover, for some longer maturity portfolios, management actions taken to address the effects of economic deterioration may take a significant period of time initially to affect the flow of new business, and then to affect materially the composition and asset quality of the overall portfolios. Extending the time horizon to a third year is therefore valuable in enabling banks and regulators to have an informed discussion of both the full impact of various scenarios, and banks' capacity to mitigate such scenarios by taking appropriate management actions.

Indeed, it would be possible to argue for extending the time horizon further to four, or even five, years. However, we believe that other trade-offs start to outweigh the benefits of stress testing results at that point. In particular, projecting over longer time horizons naturally brings greater forecasting error, reducing the reliability of the results. Additionally, over longer time horizons, it is increasingly likely that banks would be able to raise additional capital either by material asset sales or through additional capital issuance. Hence, as a test of capital adequacy, we believe that there is some natural limit to the time horizon over which it is necessary to project stressed performance.

2. Liquidity and capital

Barclays supports the proposed guidance that "an effective stress testing framework should explore the potential for capital and liquidity problems to arise at the same time or exacerbate one another". Our experience is that it is important that both capital and liquidity are considered within the strategic and business planning processes, under both base case and a range of adverse scenarios, and that the management body of the firm therefore has appropriate understanding of both the capital and liquidity risk associated with business plans.

Some aspects of this interaction are amenable to incorporation within a single set of stressed business performance and capital projections, such as: the increase in interest expense or lost interest income when liquidity buffers are deployed under stress; the costs of re-establishing the liquidity buffer and the higher costs of raising debt in an adverse scenario; and revenue impacts and corresponding regulatory capital reductions that would result from reducing balance sheet growth in a stress scenario.

However, capital adequacy is typically assessed over a multi-year adverse scenario, whereas liquidity adequacy is typically assessed over a much shorter horizon of a matter of weeks and months. While, this difference in time horizons means that capital and liquidity adequacy assessments do not lend themselves to being easily incorporated into a single set of projections, the interaction between capital and liquidity in certain stress events means that it is important that each is considered in the context of the other in certain circumstances.

The interaction between capital and liquidity, and its appropriate treatment within banks' stress testing frameworks, is one in which we believe banks' and regulators' views of appropriate practices may continue to evolve over the next few years, and we would welcome the opportunity to discuss this further.

3. Legal entities

In addition to consolidated capital supervision, many large banks have material subsidiaries that are also individually subject to local regulatory capital regimes. Banks in certain jurisdictions may also be subject to regimes, such as the UK FSA's Solus regime, in which certain sets of deposit-taking entities are subject to separate capital standards. Adequacy of capital resources within a consolidated banking group is therefore determined not just by the total amount of capital in the group, but also by the transferability of that capital between legal entity balance sheets within the group in a range of adverse scenarios. For banks with material subsidiaries, reflecting movements of capital between the material entities – such as capital injections and dividend flows between subsidiaries and parent companies – supports the overall assessment of the capital adequacy of a banking group.

One of the key considerations that legal entity stress testing can therefore enable large international banks and their regulators to address is whether, in a severe stress, the available capital held at the parent level is sufficient to meet the potential need for capital injections into the bank's subsidiaries. To address this consideration effectively, we believe that it is important that:

a) The overall assessment of capital adequacy is performed as part of a group-level stress test which also incorporates subsidiary views (rather than standalone stress tests on the subsidiary). In this case, banks should be able to demonstrate that the scenarios assessed in a group-level stress test appropriately stress the relevant subsidiaries

b) A bank's home regulator leads the assessment of capital adequacy, taking into consideration the mitigating effects of parental support to subsidiaries.

We appreciate the Agencies' consideration of the views set forth in this letter and welcome the opportunity to discuss any part of this letter in greater detail.

Yours sincerely,

Desmond McNamara
Group Head of Economic Capital
Barclays