

Mr Jonathan G Katz  
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USA

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54 Lombard Street  
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16th April 2004

**B**

Dear Mr Katz,

**[First-time Application of International Financial Reporting Standards – File No. S7-15-04](#)**

Barclays is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of market capitalisation, Barclays is one of the largest financial services groups in the UK. The Group also operates in many other countries and is a leading provider of global services to multinational corporations and financial institutions in the world's main financial centres.

We welcome that the SEC has considered the practical difficulties that would be faced by both issuers and users of financial statements with regard to providing and understanding comparatives following the conversion to IFRS. We strongly support the decision to permit issuers to file two rather than three years' financial information in the year of conversion and agree that a requirement to provide more complete reconciliations to US GAAP for the three years is practically possible and likely to meet users' needs. We note that 2004 comparatives will not be comparable to 2005 if IAS 32 and IAS 39 are not applied to 2004 in accordance with the options provided in IFRS 1. This lends strength to the need to require three years of consistent US GAAP numbers. We also agree that these permissions should apply to any first time conversion within the EU timetable for adoption of IFRS and not just for conversions in 2005. However, we have concerns with some of the more detailed requirements.

We can accept that the proposed accommodation is restricted to companies that adopt the complete set of international accounting standards. However, we believe that there could be serious practical problems with a requirement for companies to give an unreserved and explicit statement of compliance with IFRS. Under the EU Regulation requiring the application of IFRS, companies are only permitted to make such a statement if all the standards have been endorsed. Otherwise, they must make a statement of compliance with IFRS as approved by the EU. Guidance issued by the Commission on the application of the Regulation indicates that a company can use a standard that is not yet endorsed, provided that there is not a conflicting, endorsed standard on the same topic. While it may be expected that all existing standards applicable to 2005 will be endorsed or otherwise permitted to be used, in 2006 and 2007 it becomes more likely that standards that replace existing endorsed standards will be issued with insufficient time for endorsement. This would result in companies that are in compliance with IFRS, excluding a single newly revised standard, being unable to use the proposed accommodation. For example, if IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', a standard that replaces the endorsed IAS 35, is not endorsed in 2005, companies will not be able to make a full unreserved statement of compliance with IFRS even if they have no items that fall within the scope of the standards. We believe that this would be contrary to the SEC's intentions and urge that the eligibility requirements are reconsidered and reworded to avoid such a possibility.

While we appreciate that the SEC would like three years of financial information prepared under the same GAAP for interim periods in the transition year to support any registration statement or prospectus filed in the last quarter of 2005 and first quarter of 2006, we believe it is impractical for preparers and unhelpful to users to require interim information for 2005 to be produced under Previous GAAP. Companies making the transition may no longer be producing Previous GAAP. Users should not be making economic decisions based on interim information prepared under a GAAP that will not be used in the year-end reporting. It seems very likely that companies making the transition will avoid issuing a registration statement or prospectus in the relevant period. A better solution would be to give companies the option of preparing condensed US GAAP information for the interim periods. This would be consistent with the year-end reporting requirements and may be a useful option for companies that wish to raise debt in the transition year.

While we agree that conversion disclosures should explain what use has been made of options available in IFRS 1, we consider that the additional disclosure requirements proposed will not give rise to meaningful information to users and may be difficult to produce. The optional exemptions were developed by the IASB to reflect a balance between the benefits of information and the costs of providing it that may constrain the provision of relevant and reliable information. Where exemptions are applied, this will inevitably be on cost-benefit grounds, because the information is not available to restate without undue cost or effort. These constraints will make it difficult, if not impossible, to determine the significance of the exemption to the company's financial condition, the line items impacted and the impact on the company's financial condition of using any alternative method of restatement.

In our view, the Industry Guide 3 disclosures are generally extracted from and further analyse financial statement data. Where this financial statement data is changed by the conversion to IFRS, particularly by IAS 39, the comparative five-year information will not be comparable. For example, IAS 39 is replacing specific provisions with impairment allowances that are determined in accordance with the strict requirements of the standard. Depending on the jurisdiction, these requirements may be significantly different to Previous GAAP. Where IAS 39 is not being applied in 2004 comparatives, a table of bad debt allowances by industry will include four years of Previous GAAP data and one year of IFRS data. While this may not affect the provision of information by companies, it will make it more difficult for users to gain an understanding of the data and trends. It may be necessary to make appropriate caveats on the use of this information.

Our answers to the detailed questions are included in an appendix to this letter.

We would welcome the opportunity to discuss this further with you, or to answer any questions you may have. Please contact **Marlene Nicholson in Washington (telephone +1 (202) 721 4774)** or **Sondra Tarshis in London (telephone +44 20 7940 3296)** for further assistance.

Yours sincerely,

Mark Merson  
Group Financial Controller  
Group Finance

**Detailed questions**

- 1(a) **Will the conversion to IFRS for year 2005 make it difficult for issuers to recast year 2003 results accurately?**
- (b) **What specific issues will be encountered and how difficult will they be to address?**
- (c) **What additional information would first-time adopters need to provide IFRS financial statements for the third-year back that they would not already have in connection with their reconciliation to U.S. GAAP?**
- (d) **What other difficulties might the application of IFRS create for first-time adopters?**
- (e) **Will first-time adopters in earlier or later years face similar issues?**
- (f) **Are the proposed amendments appropriate to address those challenges? If not, what issues are not addressed by the proposed amendments? Should they be addressed, and, if so, how?**

A requirement for 2003 comparatives would result in IFRS 1 being applied to the 2003 restatement, which would be unduly onerous and not in keeping with the intentions of the standard. The requirements of IFRS are not identical to US GAAP and considerable effort would be required to determine the differences even if it were considered appropriate to rely on US GAAP reconciliation rather than preparing an opening 2003 IFRS balance sheet. Given the scale of systems and process change involved in the conversion, it seems very likely that third-year back comparatives would result in considerable extra burden in earlier or later years. We support the proposed accommodation.

- 2(a) **Will any first-time adopters be required by their home country to publish financial statements prepared in accordance with IFRS for the third year back? If so, should we require their inclusion in SEC filings? Why or why not?**
- (b) **If a company publishes IFRS financial statements for the third year back but is not required to do so, should we require inclusion of those financial statements in SEC filings?**

We are not aware of any home country introducing a general requirement for IFRS for the third year back. If there is a requirement for publication then we can see arguments for requiring inclusion in SEC filings. However, where information is provided on a voluntary basis in a particular jurisdiction, we do not believe it should be required in SEC filings.

- 3(a) **Is the proposed time frame, which provides the accommodation to companies that switch to IFRS for any financial year beginning no later than January 1, 2007, appropriate?**
- (b) **Would this date create eligibility concerns for issuers that have a 52-week financial year? If so, how should we address those concerns?**

The proposed timeframe appears appropriate. The EU Regulation must also accommodate 52-week financial years so we do not believe there should be eligibility concerns.

- 4(a) **Should the proposed accommodation be extended to apply in any other circumstances, such as for issuers that, either voluntarily or pursuant to a home country or other requirement, adopt IFRS for the first time for years after year 2007?**
- (b) **Should the accommodation apply for an indefinite period?**
- (c) **Are there other circumstances in which the proposed exception to the requirement to present three years of financial statements on a consistent basis should be considered? What are they?**

Given that IFRS 1 does not require a third-year, it may be appropriate for the proposed accommodation to apply for years after 2007, perhaps for an indefinite period. We are not aware of any other circumstances at present, but financial reporting is evolving rapidly and other exceptions may become apparent.

**5 Would extending the proposed accommodation to apply to issuers that adopt IFRS for the first time later than year 2007 encourage a broader use of IFRS? Why or why not?**

Since a requirement for a third-year is likely to discourage adoption of IFRS, extending the proposed accommodation seems likely to encourage broader use of IFRS.

**6(a) If first-time adopters of IFRS were not able to avail themselves of the proposed accommodation, would they be likely to continue to include in their SEC filings financial statements prepared in accordance with Previous GAAP rather than preparing financial statements prepared in accordance with IFRS for the third financial year?**

**(b) What are the advantages and disadvantages of each approach?**

If there were no accommodation, it seems likely that first-time adopters would have provided Previous GAAP third-year comparatives rather than adopting IFRS in 2003. This would be in accordance with the “bridge” approach suggested by CESR. However, such an approach may not be helpful to users since the information for the third-year is not comparable and may cause practical difficulties where there are differences in classification and account line items between Previous GAAP and IFRS.

**7 (a) Is the proposed amendment to permit two years of IFRS financial statements for foreign**

**private issuers adopting IFRS through year 2007, coupled with the permitted exclusion of**

**financial statements prepared on the basis of Previous GAAP, consistent with the best**

**interests of investors?**

**(b) Will investors receive adequate information on which to base investment decisions if two rather than three years of statements of income, changes in shareholders’ equity and cash flows are presented on a consistent basis?**

We believe that the accommodation is consistent with the best interests of investors. Investors will receive adequate information where the impact of the conversion is fully explained by companies. This is not dependent on three years’ information. In addition, including additional US GAAP information provides sufficient three years’ information.

**8 Are there other alternatives that should be considered to address the challenges presented by the mandated use of IFRS? What are they?**

No. We believe the proposed accommodation is sufficient.

**9(a) Would the presentation of three years of condensed U.S. GAAP financial information in a level of detail consistent with interim financial statements prepared under Article 10 of Regulation S-X create a significant burden to first-time adopters of IFRS?**

**(b) What would be the difficulties and costs of preparing that information? Would that level of information be useful to investors?**

**(c) What level of information would be useful to investors and not unduly burdensome to prepare?**

Where reconciliations have been prepared, it should be possible to provide three years of condensed US GAAP financial information at the proposed level of detail. However, this will not be without some difficulties, particularly with analysing Previous GAAP profit and loss account and balance sheet line items into US GAAP line items. The exercise will also involve additional costs.

**10 If a filing does not contain Previous GAAP financial statements or IFRS financial statements for the third year back, would the proposed requirement for three years of condensed U.S. GAAP information adequately address issues related to the different starting points and reconciling items used in the reconciliations from Previous GAAP to U.S. GAAP and from IFRS to U.S. GAAP?**

Where no information has been published for the third year back, there may be difficulties in establishing a proper starting point. Additional guidance may be needed.

**11 Do our proposals contain sufficient guidance on the form and content of the condensed U.S. GAAP financial information to be provided? Should we require financial information beyond income statements and balance sheets from companies that would be required to provide condensed U.S. GAAP information? If so, what further information? Should we require that they include notes to the financial information in addition to the required reconciliation?**

We consider that the current guidance is sufficient and no further information, such as notes to the financial statements, is necessary.

**12 Should foreign private issuers that do not use U.S. GAAP to prepare their primary financial statements in their initial registration statements filed with the SEC be required to present the additional condensed U.S. GAAP financial information in addition to the two-year reconciliation to U.S. GAAP? Why or why not? Would this be unduly burdensome?**

For consistency with existing issuers, we support such a requirement.

**13 Should issuers be prohibited from including Previous GAAP financial statements, financial information and textual discussions based thereon in a registration statement, prospectus or annual report prepared in accordance with Form 20-F?**

As a general rule, we do not believe issuers should be prohibited from making additional information available.

**14 If we were to prohibit issuers from including Previous GAAP financial statements and financial information in a document, should we require, permit or prohibit the issuer to make reference to other SEC filings or other documents that include such financial statements and information?**

Issuers should be permitted, but not required, to make such references.

**15(a) Is it appropriate to permit issuers to include, incorporate or refer to Previous GAAP financial information and, if so, for what periods and to what extent?**

- (b) If issuers elect to include or incorporate Previous GAAP financial information, should we require operating and financial review and prospects disclosure pursuant to Item 5 of Form 20-F related to that information?**

Issuers should be permitted to incorporate or refer to Previous GAAP financial information and should be required to make disclosures where relevant.

- 16(a) Would Previous GAAP financial statements be useful to investors and should issuers be required to provide them?**
- (b) Should inclusion in Previous annual reports filed with us on Form 20-F be sufficient in this regard?**
- (c) Would investors be likely to compare information based on IFRS with information based on Previous GAAP?**
- (d) If we require or permit financial statements and other information based on Previous GAAP, where should that information be located and how should it be formatted?**

Previous GAAP financial statements are more likely to be confusing, rather than useful to investors so we do not believe issuers should be required to provide them in any new filings. Previously filed annual reports will contain Previous GAAP and this should be sufficient. Where investors compare information based on IFRS with information based on Previous GAAP, this should be in the context of the disclosures required by IFRS 1 for first time adoption. It should not be necessary to specify the location or format of Previous GAAP information. However, there should be a requirement to state clearly that it is Previous GAAP and to set out the main differences between it and IFRS.

- 17(a) Is inclusion of Previous GAAP financial information likely to cause investor confusion regarding the basis of accounting used in preparing financial information?**
- (b) How could any confusion or comparison be minimized?**
- (c) Should we provide more specific guidance on the location or substance of disclosure stating that a filing contains financial information based on Previous GAAP that is not comparable to financial information based on IFRS?**

The inclusion of Previous GAAP may be confusing to investors and this confusion can be minimised by a requirement to state clearly that it is Previous GAAP and to set out the main differences between it and IFRS

- 18(a) Should Previous GAAP financial information be presented in a “side-by-side” format with IFRS financial information?**
- (b) What additional disclosure would be necessary, if any?**
- (c) Should it be accompanied by a legend stating that the information is not comparable to financial information based on IFRS? If so, where should the legend be located?**
- (d) Would a “side-by-side” format present difficulties relating to disclosure contained in audit reports relating to the different bases of GAAP used?**
- (e) Similarly, how would the notes to the financial statements be presented in a clear manner if different GAAPs were presented therein?**

Whether Previous GAAP information can be sensibly presented next to IFRS financial information will depend on the extent to which the formats are similar or whether the use of the same line names for differently measured items will be misleading. Where a side-by-side presentation is used, the Previous GAAP should be clearly labelled as such. While the label could include a legend that the information is not comparable, it should be sufficient warning to investors if the label merely stated that the information is under Previous GAAP. With clear

labelling of columns, the audit report should be able to differentiate between IFRS and Previous GAAP, but the clarity of the audit report may be one consideration in determining whether a side-by-side approach is sensible.

- 19(a) If issuers include, incorporate or refer to Previous GAAP financial statements or financial information in a disclosure document, should we require specific legends or other language?**
- (b) Should any Previous GAAP information included be presented in a separate section of the disclosure document?**

In any case where Previous GAAP is used it should be clearly labelled as such.

- 20 Should five years of selected financial data based on U.S. GAAP be required in a separate section of the document, rather than with the IFRS selected data?**

Provided the financial data is clearly labelled as based on US GAAP or based on IFRS, in accordance with IFRS 1, it need not be in a separate section.

- 21 Should we require selected financial data based on Previous GAAP? If so, where should it be located? Should we expressly prohibit a “side-by-side” disclosure format for selected financial data based on Previous GAAP and IFRS? Conversely, should we permit or require such a disclosure format? Would inclusion of Previous GAAP selected financial data, whether presented in a “side-by-side” format or otherwise, be likely to cause investor confusion regarding the basis of accounting used? If so, how could any confusion or the likelihood of comparison be minimized?**

Selected financial data under IFRS, which may include Previous GAAP in accordance with IFRS 1 should be disclosed in accordance with IFRS 1.

- 22 Is there additional information that would be useful to investors that should be included in the disclosure of operating and financial review and prospects? If so, what is it?**

Where companies consider that additional information on the process or impact of conversion would be helpful to investors, they should be encouraged to include it in the operating and financial review.

- 23 Should we require that disclosure of operating and financial review and prospects based on Previous GAAP financial information, if included, refer to the reconciliation to U.S. GAAP? If so, why? How is that information likely to benefit investors? Would requiring that information create undue burdens for issuers?**

There seems no reason why operating and financial review and prospects based on Previous GAAP should refer to US GAAP reconciliations.

- 24 To comply with these requirements, issuers may be required to maintain financial statements prepared in accordance with both Previous GAAP and IFRS for interim periods of the Transition Year. Would it be unduly burdensome to maintain books and records in accordance with both Previous GAAP and IFRS during this time? What costs and other burdens will this impose on issuers? Are companies that are mandated to switch to IFRS prohibited from continuing to publish financial statements**

**prepared in accordance with Previous GAAP during their Transition Year? If so, who or what prohibits it?**

Companies making the transition may have no current plans to continue with Previous GAAP in 2005. This makes it unduly burdensome to require Previous GAAP for interim periods of the transition year. The disclosure of Previous GAAP information in these circumstances is likely to be misleading to investors. The current requirements for interim reporting in the UK require policies that will be used in the year-end report to be used in interim reporting where they are different to policies used in the previous year. Therefore, UK companies would not be permitted to provide half-yearly information only on a Previous GAAP basis.

- 25 Will foreign issuers be likely to avoid registering securities under the Securities Act and the Exchange Act during the latter months of a Transition Year and early months of the year after in order to avoid being required to include interim financial statements in a disclosure document, and therefore be required to publish interim financial information in accordance with Previous GAAP? How can we reduce any impediment to foreign companies undertaking registered offerings during a Transition Year while ensuring that investors receive clear, sufficient, up-to-date information?**

Foreign issuers would be very likely to avoid registering securities in the latter months of the transition year and the early months of the following year. It may be helpful to give such companies the option of providing condensed US GAAP information for the interim periods on a consistent basis.

- 26 Are investors likely to be confused with the presentation of interim financial statements using two bases of accounting covering the same periods? If so, what steps could be taken to minimize this confusion?**

Investors are very likely to be confused by such a presentation. While clear labelling will help, we do not believe that investors should use Previous GAAP information to make economic decisions when the year-end financial information will be presented only on an IFRS basis.

- 27 As proposed, an issuer must include in its SEC filings both IFRS financial statements and Previous GAAP financial statements for current and prior year interim periods, when both are available. Should we provide issuers with a choice of whether to provide interim financial statements prepared under Previous GAAP or under IFRS, when both are available?**

We do not agree that an issuer should include both IFRS and Previous GAAP financial statements for current and prior interim periods as we consider that only IFRS information is relevant. Therefore, we would support a choice.

- 28 When the Transition Year is year 2004 or 2005, in lieu of requiring both Previous GAAP and available IFRS interim financial statements for two years, would it be preferable to require audited financial statements prepared in accordance with IFRS for the last full financial year, with unaudited IFRS financial statements for interim periods in both years? This approach would not be in technical compliance with IFRS 1, which requires that first-time adopters include one year of comparative information under IFRS. Should we permit audit reports that are qualified as to this provision of IFRS 1? Should we make similar accommodations when an issuer's Transition Year is later than year 2005? Why or why not?**



We do not consider that a requirement that is not in technical compliance with IFRS 1 is practical. We do not agree that such an approach should be pursued. A better solution would be to give companies the option of preparing condensed US GAAP information for the interim periods. This would be consistent with the year-end reporting requirements and may be a useful option for companies that wish to raise debt in the transition year.

- 29 When the Transition Year is year 2004 or 2005, would it be appropriate instead to require three years of audited financial statements prepared in accordance with Previous GAAP and unaudited financial statements prepared in accordance with IFRS for interim periods in two years with the same level of disclosure as in annual financial statements? Would issuers be likely to prepare full IFRS financial statements for interim periods? If not, why not? Should an issuer's first set of IFRS financial statements filed with the SEC be audited if they are for two years of interim periods? Why or why not? How would issuers assess and prepare disclosure of their operating and financial review and prospects? What other specific issues would companies face in presenting financial statements under both Previous GAAP and IFRS? How could those issues be addressed? Should we make similar accommodations when an issuer's Transition Year is later than year 2005?**

Issuers are very unlikely to prepare full IFRS financial statements for an interim period and such a requirement could have an impact on their reporting timetable. We do not consider that this approach is practical and do not agree it should be pursued. A better solution would be to give companies the option of preparing condensed US GAAP information for the interim periods. This would be consistent with the year-end reporting requirements and may be a useful option for companies that wish to raise debt in the transition year.

- 30 Should first-time adopters be required to provide the additional information proposed under Item 5 of Form 20-F? Will this information be useful for investors, and will it be unduly burdensome for issuers to provide? In either case, commenters should provide supporting information relating to the utility of the information (or lack thereof) and the costs and difficulties associated with disclosing this information.**

As set out in the covering letter, we do not agree that first-time adopters should be required to provide the additional information.

- 31 Should issuers be required to disclose more information with respect to the mandatory or elective exceptions? If so, what information would that be, what usefulness would this information have to investors, and what burdens would be imposed on issuers to disclose this information?**

We do not believe that the disclosure of any more information with respect to exemptions would be of use to investors or could be practically provided.

- 32 Have we given sufficient guidance with respect to the information to be disclosed under the proposed amendment to Item 5? Should there be greater specificity relating to the required information? Are the proposals regarding the information to be provided in Item 5 and in the notes to the primary financial statements about IFRS exceptions sufficiently clear so as to avoid duplicative disclosure? If not, what further clarification is necessary?**

We do not agree with this disclosure requirement and do not believe it would be possible to provide guidance that could make it practical or useful to investors.

- 33 Should we specify the form and content of the reconciliation from Previous GAAP to IFRS? For example, should we require that the information included in the reconciliation be similar in form and content to that in the example provided in IG63? Should we require a level of content different from that set out in IG63? If so, what level of information would be appropriate?**

We consider that it would be positively unhelpful for the form and content of the reconciliation to be specified. Companies will develop formats based on IG63 and developing practice that are suitable to their individual circumstances.

- 34 Would providing a reconciliation from Previous GAAP to IFRS that is substantially similar in form and content to the example set forth in IG63 as best practice be unduly burdensome to issuers? If so, what specific difficulties would issuers face in providing that level of information? How could they be addressed?**

We consider that companies will develop formats based on IG63 and developing practice that are suitable to their individual circumstances.

- 35 Would investors find the reconciliation information as proposed more useful in comparing different registrants than information required under IFRS alone? If not, why not? What additional information should be required, if any?**

It seems likely that investors will find the quality of the narrative explanation of more use than the format of the reconciliation itself. Additional information will depend on individual circumstances and developing practice and cannot be effectively determined in advance.