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Response will be made public

Consultation on Regulatory Technical Standards on Valuation

Barclays welcomes the opportunity to comment on the EBA's proposals for a Regulatory Technical Standard on Valuation, and is supportive of the guiding principle of the paper. Please find our overall comments and concerns outlined below, followed by our specific responses to the 11 consultation questions (Appendix 1).

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Overall comments

We have reviewed the Consultation Paper on valuation under Directive 2014/59/EU and provided comments to the specific questions included in section 6.3 of the document. Our response provides views on three main areas:

1. Transparency on the type of valuation required.

We acknowledge that different valuations are required for each distinct purpose of the process, but request that further clarity is provided on the type and principles of the valuation that is required at each stage of the resolution process. Some of the valuation definitions used in the document overlap in their nature and it is unclear in some instances what the different terminology used is looking to achieve. A diagram setting out the three stages and the types and principles of the valuations required at each stage, including their interrelation, would be very useful. In addition, clarification of the role of liquidity and funding adjustments in the valuations would be useful.

2. Responsibilities of the valuer.

We recommend that more detail is given on the responsibilities and direction for the valuer in independently reviewing management or accounting assumptions for valuation 1 and that more detailed guidance is given on the different methodologies required for valuation 2.

3. The use of buffers in valuation.

We would like clarity on the rationale of using a buffer where valuations are based on accounting standards. In particular, we have concern over the use of a "buffer" in valuation, in that it could encourage a degree of over-prudence on behalf of the valuer, who has already been asked to determine a valuation that is fair, prudent and reasonable.

Appendix 1: Barclays' response to the individual consultation questions.

ART. 36 PART I - General Provisions - Article 2 – Definitions

1. Would you suggest any change to the definitions of valuation approaches (listed below)? In particular, are there specific valuation methodologies which the definition of equity value should refer to?

Overall Comments

Further clarity should be provided on the type and principles of the valuation that is required at each stage of the resolution process. Some of the valuation definitions overlap in their nature and it is unclear in some instances what the different terminology used is looking to achieve. A diagram setting out the three stages and the types and principles of the valuations required at each stage, including their interrelation, would be useful. In addition, clarification of the role of liquidity and funding adjustments in the valuations should also be included.

Fair Value

This definition is in line with the fair value definition in IFRS 13 and is therefore useful and well understood.

Hold Value

It is anticipated that this would be a new valuation as no similar definition currently exists in IFRS. The principles of this valuation, more of an economic value, require further clarification otherwise there could be a wide range of outcomes. For example, guidance on an appropriate discount rate and the principle e.g. to derive today's economic value for the expected business strategies (e.g. hold or sell) that the entity will pursue post resolution. Further clarity on the business opportunities that might arise from the resolution actions and why they should be excluded if the economic hold value is required. We note that prudence is built into Art 36.5, however, clarity should be provided on how this is different from the accounting view of free from bias. Using a 'prudent' value double counts the firm's capital requirement, if that capital requirement includes a PVA deduction (though it may well be the case that 'hold value' assets are non-FV ones).

Exit Value

It is unclear what the difference is between fair value and exit value and why two definitions are required. IFRS 13 defines exit value as part of the definition

of fair value and it is not a separate valuation approach. IFRS 13 defines 'exit price' as 'the price that would be received to sell an asset or paid to transfer a liability'.

Franchise Value

It is unclear what the difference is between franchise value and equity value and why two definitions are required. From a corporate finance perspective, this would include using discounted cash flow / discounted dividend model techniques and reference to comparable multiples for traded peers or precedent acquisitions. If the intention is that these valuation techniques should be applied to a "going concern" business plan for the firm (or division of the firm) this should be made clear.

Equity Value

Please see comments under Franchise Value. We are not clear what the difference is between franchise value and equity value.

ART. 36 PART II - Criteria to determine whether conditions for the write-down or conversion of capital instruments or the conditions for resolution are met - Article 7 - Overarching principles.

2. Should specific types of information be required on deviations from management assumptions, for example on differences in expected cash flow and / or the discount rate?

Barclays supports the requirement for the valuer to highlight and clearly explain any material deviations from management assumptions that have been used. Given the difficulty in anticipating the precise circumstances leading to a deviation, it does not seem beneficial to be more prescriptive on how they should be explained at this stage.

It would be useful for the RTS to provide further guidance on the circumstances that might drive a deviation from management assumptions given IFRS valuations would be expected to be based on fair and realistic assumptions that are free from bias, for example, the difference in view that a particular valuation approach that management has adopted is truly congruent with IFRS.

ART. 36 PART II - Article 8 - Factors affecting the valuation

3. Would you add, amend, or remove any areas which are likely to be subject to significant valuation uncertainty?

Overall Comments

It is useful to highlight areas that are often subject to valuation uncertainty provided that they are suitably caveated to make clear they are examples and not an exhaustive list given that facts and circumstances will vary. We recommend the inclusion of other judgemental valuation areas such as; other provisions (e.g. onerous leases), pensions and taxation.

The role of the valuer should also be made clearer, for example, by specifying that:

- The balance sheet should be prepared in accordance with IFRS/applicable accounting standards at the valuation date.
- The valuer should conduct a review of this to ensure that areas of measurement uncertainty and judgement are faithfully represented by management and a non-exhaustive list of areas of more significant judgements are referenced.

Instruments measure at fair value

The reference to misapplication infers a misrepresentation of fair values. IFRS requires the faithful representation of financial information and, therefore, this terminology should be revised or better explained. We suggest referencing that the valuer pay particular attention to reviewing assets held at fair value given there can be uncertainty and significant estimation in determining such values especially when there are unobservable inputs.

ART. 36 PART II - Article 9 - Buffer for additional losses

4. Should the buffer instead be greater than zero? If yes, how should the buffer be determined?

Barclays has several concerns over the use of a “buffer” in that it could encourage a degree of over-prudence on behalf of the valuer, who has already been asked to determine a valuation that is fair, prudent and reasonable.

We feel the RTS would benefit from:

a) Stating that a buffer of zero is the expected outcome where measurement of losses on the appropriate basis has been reliably performed.
b) Making clear the circumstances that would lead to a buffer being necessary, in particular, the timeframe for any “additional losses” to crystallise.
c) Requiring the valuer to explicitly state the quantum and drivers of the buffer included in the valuation.

In particular, we feel the regulators, who will make the decision on whether the firm requires resolution, will find c) useful in ensuring there is no “double-

count" with other factors in the decision-making process, for instance, in capital requirements.

Art. 36 PART III - Criteria to inform the decision on the extent of the write-down or conversion of capital instruments, resolution actions by resolution authority and characteristics of those actions - Article 11 - Overarching principles

5. Do you agree that a valuation of post–conversion equity is necessary to inform decision on the terms of write-down or conversion?

Any write-down or conversion necessarily implies a valuation and thus we agree the RTS should specify clearly the basis for this.

6. Do you agree with the definition of equity value for this purpose (see Question 1)? If not, what changes should be made to the definition? Should the definition be more closely linked to the net asset value determined on the basis of the remainder of valuation 2 adjusted for goodwill/'badwill', and if so how should that adjustments be estimated?

Equity value may be an appropriate starting point but as noted above the standard would benefit from reconciling the definitions of franchise value and equity value. The reference to an assessed market price is understandable by reference to conventional valuation techniques for valuing equity, but could be problematic in scenarios where there is no immediate market for newly issued shares, or where peer group multiples are not an appropriate comparison at the relevant time.

ART. 74 PART I - General provisions – Article 1 - Subject matter and scope.

7. As an alternative, should the use of information that becomes available after the resolution date be more restricted, and in particular permitted only if it refers to facts and circumstances existing at the resolution data which could reasonably have been known at that date?

8. Should the use of information available after the resolution date be further limited, for example by requiring that such information is only used if it results in a significant change in the value of the entity's assets and liabilities?

The statement should align to accounting standards for post balance sheet date events with the ability to adjust for items that existed at the resolution date only. Significant items that concern conditions that did not exist at the resolution date could be referenced as a disclosure if needed.

The same terminology as used in IAS10, the IFRS accounting standard on 'Events after the reporting period' could be referenced in the statement given its application is widely understood.

Clarity, by use of a diagram, explaining when adjustments should be made could be included.

ART. 74 PART II - Criteria guiding the valuation exercise – Article 5 – determination of the treatment and creditors under normal insolvency proceedings.

9. Should these technical standards provide further detail on the characteristics of appropriate discount rates?

Further detail on the determination of appropriate discount rates to be used in the insolvency valuation would be useful for the valuer. Further consideration should be given to the 'no creditor worse off' test where insolvency law might conflict with the RTS valuation requirements on conversion of capital instruments. For example, if an insolvency regime does not require discounting but conversion has been based on discounting then a creditor class could potentially be worse off?

ART. 74 PART II - Article 6 - Determination of the actual treatment of shareholders and creditors in resolution.

10. Are there any changes you would suggest to the methodology for determining actual treatment of shareholders and creditors in resolution? In particular, should the methodology for valuing equity be further specified and, is so, what should be included in that specification (whether additional detail on the current approach, or a different approach, linked for example to net asset values adjusted for goodwill/badwill)?

We feel that the techniques that a valuer would use for valuing equity are relatively standard, such as discounted dividend models, comparable multiples, etc., and thus do not need to be prescribed in detail. However, it would be beneficial if the basis to which those techniques are applied, such as the nature of the business plan to be valued, were made clear. Whilst it is not possible to specify assumptions such as growth rates or margin trends in advance, it should be possible to outline if the valuers should assume a management team running the business as a going concern in ordinary market conditions and seeking business development opportunities, for example.

ART. 74 PART II - Article 7 - Difference in treatment

11. Should the valuer be required to accompany the comparison envisaged with additional relevant disclosures? If yes, what should those be (for example, documentation of any differences between valuation of actual treatment and the market price that would be observed for those same claims were they traded in an active market?

If reasonable alternative approaches exist, (for example, the eventuality detailed in Q11 where market price differs from actual treatment), then the valuer should outline the reasons for differing from those approaches and the impact of aligning with those alternate approaches.