

# First independent expert summary report

Barclays Capital Inc., Barclays Capital Asia Limited  
and Barclays Capital Securities Limited

18 May 2018

## LIMITATIONS

This Summary Report is prepared to provide a high level summary of our work carried out as the Independent Expert as defined within paragraphs 6.8(a) and 6.8(b) of the Enforceable Undertaking between Barclays Capital Inc., Barclays Capital Asia Limited and Barclays Capital Securities Limited (or, together, the Barclays Entities) and the Australian Securities and Investments Commission (ASIC) solely for the purpose set out in section 1.2 of this Summary Report.

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If there have been any changes in the systems, processes and controls since issuing our First Report these have not been considered in preparing this Summary Report.

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# 1. Summary Report

## 1.1 Introduction

Barclays Capital Inc. (BCI), Barclays Capital Asia Limited (BCAL) and Barclays Capital Securities Limited (BCSL) (or, together, the Barclays Entities) entered into an Enforceable Undertaking (EU) with the Australian Securities and Investments Commission (ASIC) on 22 March 2017. Under the EU, the Barclays Entities were required to appoint an Independent Expert to conduct two independent reviews.

EY was approved by ASIC and engaged by the Barclays Entities on 19 July 2017 as the Independent Expert. This Report details our results and recommendations from our First Review for the period 19 July to 17 November 2017.

Each of the Barclays Entities demonstrated tangible commitment to addressing the concerns raised by ASIC in paragraphs 4.1 to 4.3 of the EU. Significant investment, management focus and senior management oversight has gone into understanding the root causes that led to the original control weaknesses and the subsequent development of sustainable solutions aimed at providing demonstrable control.

Many of the arrangements relied upon by the Barclays Entities to comply with their Australian obligations are global in nature and have broader application across the broader Barclays Group.

Our testing found the policies, procedures, practices, training and monitoring arrangements put in place by the Barclays Entities have been sufficiently designed to ensure effective and enduring compliance with the Disclosure Requirement and for BCI, the Reporting Requirement as at the point in time at which our assessment was made. Future compliance will depend on the Barclays Entities maintaining these arrangements and ensuring they continue to be fit-for-purpose.

We also found evidence of a culture committed to ensuring that previous controls deficiencies are suitably addressed and sustainable.

## 1.2 Our scope

Our First Review is consistent with paragraph 6.8(a) of the EU, in particular our scope included:

- ▶ Assessing whether each Barclays Entity has complied with the Disclosure Requirement and for BCI, the Reporting Requirement, since the date of the EU
- ▶ Reviewing each Barclays Entity's policies, procedures, practices, training and monitoring for compliance with the Disclosure Requirement and for BCI, the Reporting Requirement

- ▶ Assessing whether each Barclays Entity's policies, procedures, practices, training and monitoring are designed to comply with the Disclosure Requirement and for BCI, the Reporting Requirement.

## 1.3 Our approach

In fulfilling our role as the Independent Expert, prior to commencing our First Review, we developed, and shared with ASIC, a work program and testing methodology setting out the nature, timing and extent of our activities. Our work included:

- ▶ Conducting interviews with Senior Management, business representatives (including senior banking staff), Operations staff, Legal & Compliance and Second Line Monitoring and Testing teams across Singapore, London and New York
- ▶ Testing all new Australian customer accounts opened from 22 March to 31 July 2017, including challenging and reviewing completeness testing of Australian customers performed by the Barclays Entities
- ▶ Testing a sample of regulatory investigations considered, notified and not-notified to ASIC by BCI
- ▶ Reviewing the design of key policy and procedure documentation against regulatory requirements and our understanding of sound risk management practices and regulatory expectations
- ▶ Observing and testing key process and control activities undertaken by the First and Second Line functions including: account opening quality checks, daily control reports, First Line control testing and Second Line monitoring and testing reports.

We delivered our First Report to the Barclays Entities and ASIC in-line with paragraph 6.8(b) of the EU.

## 1.4 Results and recommendations

The Barclays Entities response suggests, as it relates to the in-scope matters, a mature risk organisation with a clear tone from the top, clear accountabilities across the Three Lines of Defence and a level of control awareness we would expect within a global business of this nature, size and complexity.

We found no weaknesses (Deficiencies) or instances of non-compliance as it relates to the:

- ▶ Barclays Entities' compliance with the Disclosure Requirement and for BCI, the Reporting Requirement since the date of the EU
- ▶ Design of the policies, procedures, practices, training and monitoring arrangements put in place by the Barclays Entities.

#### 1.4.1 Improvement opportunities

Through our discussions, document reviews, process walkthroughs and testing, we identified two potential improvement opportunities to further enhance the Barclays Entities' control environment. We believe these are not reflective of compliance Deficiencies:

- ▶ Developing standardised text to include within emails sent to customers containing the disclosure letter
- ▶ Utilising existing systems in the Barclays Group to support the BCI monthly ASIC notification attestation process.

We acknowledge the cooperation of the Barclays Entities in undertaking this review.

#### 1.5 Summary of ASIC's concerns

ASIC's concerns of the Barclays Entities conduct is set out in Section 4 of the EU. ASIC considered:

- ▶ The breaches reported by the Barclays Entities to be significant as they affected a large number of wholesale clients over an extended period of time
- ▶ The breaches reported by the Barclays Entities exposed material and systemic weaknesses in the controls that the Barclays Entities had in place to ensure compliance with their regulatory reporting obligations under the relevant Class Order
- ▶ The failure by the Barclays Entities to notify ASIC within the required timeframe after they became aware (or should reasonably have become aware) of breaches of the Disclosure Requirement in late 2013, to be a material breach of their respective obligations and excluded the Barclays Entities from relying on the relevant Class Order.

Each Barclays Entity acknowledged in the EU that ASIC's concerns were reasonably held and the steps set out in the EU were appropriate to address the concerns and ensure future compliance with the Disclosure Requirement and, in the case of BCI, the Reporting Requirement.

## 2. Summary results and recommendations

We found no weaknesses (Deficiencies) or instances of non-compliance as it relates to the:

- ▶ Barclays Entities' compliance with the Disclosure Requirement and for BCI, the Reporting Requirement since the date of the EU
- ▶ Design of the policies, procedures, practices, training and monitoring arrangements put in place by the Barclays Entities.

We identified two potential improvement opportunities (recommendations) to further enhance the Barclays Entities' control environment in 2.1 and 2.2 below. We believe these are not reflective of compliance Deficiencies.

### Results and recommendations table

| Reference | Summary obligation   | Results  | Recommendations  |
|-----------|--|--|--|
| 2.1       | <p><b>Disclosure Requirement</b></p> <p>Before an eligible financial service is provided in Australia to a wholesale client, the Barclays Entity must give written disclosure to the wholesale client containing prominent statements to the following effects:</p> <ul style="list-style-type: none"> <li>▶ The Barclays Entity is exempt from the requirement to hold an Australian financial services licence under the Act in respect of the eligible financial services; and</li> <li>▶ The Barclays Entity is regulated by: <ul style="list-style-type: none"> <li>▶ BCI is regulated by the SEC under US laws</li> <li>▶ BCSL is authorised by the PRA and regulated by the FCA and PRA under UK laws</li> <li>▶ BCAL is regulated by the SFC under HK laws.</li> </ul> </li> </ul> <p>Which differ from Australian laws.</p> | <p>The Barclays Entities have a single disclosure letter addressing the Disclosure Requirements for BCI, BCAL and BCSL.</p> <p>We found the customer on-boarding processes and controls were consistent with documented procedures, across all Operational locations.</p> <p>All accounts tested contained evidence that the disclosure document was provided.</p> <p><b>Improvement opportunity</b></p> <p>We observed variability in the emails issued to customers containing the disclosure document. While this does not impact compliance with the Disclosure Requirement, it may inadvertently raise internal expectations.</p> | <p>We recommend, as part of the Barclays Entities continuous improvement arrangements, standardised wording / guidance be established when communicating the disclosure document to customers.</p>       |
| 2.2       | <p><b>Reporting Requirement</b></p> <p>BCI must notified ASIC, as soon as practicable and in any event within 15 business days after BCI became aware or should reasonably have become</p>   | <p>BCI have developed specific procedures detailing their approach to managing its Reporting Requirements.</p> <p>Training of these procedures was performed face-to-face.</p> <p>These procedures were subject to Second Line testing in 2017. The scope and approach of the testing was</p>  | <p>We recommend, as part of BCI's continuous improvement arrangements, BCI leverage existing technology platforms within the Barclays Group to support and automate the monthly attestation process.</p> |

| Reference | Summary obligation  | Results   | Recommendations     |
|-----------|---|---|---------------------|
|           | <p>aware, and in such a form (if any) as ASIC may from time to time specify in writing, of the details of:</p> <ul style="list-style-type: none"> <li>▶ Each action or investigation of the following kinds taken by the SEC or other overseas regulatory authority against BCI in a foreign jurisdiction in relation to financial services provided in the foreign jurisdiction: <ul style="list-style-type: none"> <li>▶ Significant enforcement action</li> <li>▶ Significant disciplinary action</li> </ul> </li> </ul> <p>Significant investigation (unless, after having taken reasonable steps to enable notification to be given to ASIC, BCI is prohibited by law from giving such notification but only to the extent of the prohibition)</p> | <p>consistent with our expectations for the nature, risk and complexity of the process and associated controls.</p> <p>These policies, procedures and practices, if implemented as designed, are consistent with our expectations</p> <p>All matters tested contained evidence to support the significance assessment and, where necessary, notification to ASIC within 15 days of being determined significant.</p> <p><b>Improvement opportunity</b></p> <p>We observed the monthly attestation process is initiated by the Compliance team. The attestation form is communicated to the necessary stakeholders and responses collated and reported to the Accountable Executive.</p> <p>Opportunity exists within the business to automate the attestation process, further increasing its demonstrability and reducing the reliance on individuals to initiate the process.</p> |                     |
| 2.3       | <p><b>Training</b></p> <p>Assess whether each Barclays Entity has developed and implemented an effective training program that provides relevant employees with the necessary knowledge and understanding of their obligations and the relevant systems, processes and controls to manage these obligations</p>   | <p><i>Communications</i></p> <p>The Barclays Entities issued a number of global communications and provided access to publicly available information relating to the matter and requirements when dealing with Australian customers.</p> <p><i>General awareness training</i></p> <p>The Barclays Entities developed an online general awareness training module.</p> <p>The training module contained information relating to the background and objectives, consequences of non-compliance, changes to Barclays business in Australia, details of the EU and the New Relief requirements (disclosure and reporting).</p> <p>At the time of our testing, all in-scope employees had completed the training.</p> <p><i>Operational training</i></p> <p>Operational training was provided to the global KYC Operations team.</p>   | No recommendations. |

| Reference | Summary obligation   | Results  | Recommendations     |
|-----------|--|--|---------------------|
|           |  | <p>At the time of our testing, records showed all KYC Operations – customer on-boarding employees had attended the training.</p> <p>The design of the above training and communication activities and controls are in line with our expectations.</p>  |                     |
| 2.4       | <p><b>Monitoring</b></p> <p>Assess whether each Barclays Entity has developed and implemented an effective monitoring program that provides relevant assurances over the systems, processes and controls to manage the Disclosure and Reporting requirements</p> | <p>Barclays global Risk Management Framework sets out the roles and responsibilities between the First, Second and Third lines of defence. Included within these arrangements is the requirement for each Line to implement and maintain a controls monitoring program.</p> <p>During our First Review Period the Barclays Entities' First and Second lines had performed control monitoring testing. Findings and recommendations resulting from this testing had been addressed by the Barclays Entities.</p> <p>These First and Second Line monitoring arrangements are consistent with our expectations.</p> | No recommendations. |

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