

# Barclays Capital Securities Limited

## Strategic Report

For the year ended 31 December 2019

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### Business review and principal activities

The principal activities of the Company include the provision of Equity Financing, Equity Derivatives, Cash Equities and Agency Execution Services.

### Business performance

The results of the Company show profit after tax of £109m (2018: £109m) and total income of £408m (2018: £437m). The Company has net assets of £1,125m (2018: £1,320m).

### Business environment

The economic conditions of 2019 continued to provide a challenging context for banking and financing activity. Features such as the low interest rate environment, the UK's withdrawal from the EU and global trade tensions combined to dampen and delay deal activity, particularly primary issuance. That meant the global Markets revenue pool shrank by 2%. The company remains vigilant to these risks and their potential impact on global trade and investment. The Company's activities are authorised and regulated by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

The evolving operating environment presents opportunities and risks which we continue to evaluate to ensure that we appropriately adapt our strategy and its delivery.

<sup>a</sup> Source: Coalition FY19 vs FY18 Preliminary Competitor Analysis of total industry revenue pool

### Strategy and future outlook

The Company operates within a complex group structure where streamlining activities and improving efficiencies across the Barclays Group is a key priority, for both the Company and the wider Group management, as regulatory change comes into effect. The Company will continue to review its strategy in line with the Barclays Group strategic objectives. The Company's overriding objective is to provide its clients with well-constructed and appropriate solutions to their requirements. The Company will continue to focus on geographies and products where it has competitive advantage. During the year, the Company surrendered its license and closed its representative office in Shanghai as it was not used.

### Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of Barclays Capital Securities Limited for the benefit of its member, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment; and
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders, including our regulators, the Government, and non-government organisations. You can find out more about who Barclays' key stakeholders are, how they've been engaged with, the key issues raised and actions taken on pages 16 to 17 of the Barclays PLC Annual Report 2019 which is incorporated by reference into this statement.

Considering this broad range of interests is an important part of the way the Board makes decisions, although in balancing those different perspectives it will not always be possible to deliver everyone's desired outcome.

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#### **How does the Board engage with stakeholders?**

The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of the Company means that stakeholder engagement often takes place at an operational level.

In addition, to ensure a more efficient and effective approach, certain stakeholder engagement is led at Barclays Group level, in particular where matters are of group-wide significance or have the potential to impact the reputation of the Barclays Group.

The Board considers and discusses information from across the organisation to help it understand the impact of the Company's operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

The following is an example of how the Directors have had regard to the matters set out in sections 172 (1)(f) when discharging their section 172 duties and the effect of that on certain of the decisions taken by them.

#### **Engagement in action**

##### **Mitigating Customer Impact**

In reviewing Barclays' plans for the Barclays Group in the context of the planned UK withdrawal from the European Union, the Board received regular updates on the business transfers into Barclays Bank Ireland PLC and considered how to minimise the resultant impacts on a range of stakeholders including customers and clients, colleagues and suppliers. The Board's decision to use a banking business transfer scheme (under part VII of the Financial Services and Markets Act 2000) gave the Directors the flexibility to oversee key decision points in line with developments in the political environment in order to minimise unnecessary disruption to customers and clients.

##### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are exposed to a number of risks. These risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

##### **Material existing and emerging risks potentially impacting more than one Principal Risk**

###### **Business conditions, general economy and geopolitical issues**

The Company's operations are subject to potentially unfavourable global and local economic and market conditions, as well as geopolitical developments, which may have a material effect on the Company's business, results of operations, financial condition and prospects.

A deterioration in global or local economic and market conditions may lead to (amongst other things): (i) deteriorating business, consumer or investor confidence, which in turn may lead to lower client activity; (ii) subdued asset prices including the value of any collateral held by the Company; and (iii) mark-to-market losses in trading portfolios resulting from changes in factors such as credit ratings, share prices and solvency of counterparties.

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Geopolitical events may lead to further financial instability and affect economic growth. In particular:

- The decision of the UK to leave the EU may give rise to further economic and political consequences, including for investment and market confidence in the UK and the remainder of the EU.
- Global GDP growth weakened in 2019, as elevated policy uncertainty weighed on manufacturing activity and investment. As a result, a number of central banks, most notably the Federal Reserve and the European Central Bank (ECB), pursued monetary easing. Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries or affect the Company's business operations and services it receives from the Barclays Group. In addition, an escalation in geopolitical tensions, increased use of protectionist measures or a disorderly withdrawal by the UK from the EU may also negatively impact the Company's business in affected regions.

#### Material existing and emerging risks impacting individual Principal Risks

- **Market risk**

Market risk is the risk of loss arising from potential adverse changes in the value of the Company's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, equity prices, dividend expectation, credit spread, implied volatilities and asset correlations. The Company incurs market risk via trading activities with clients and via the liquid assets that the Company holds. The Company manages the risk through a range of complementary approaches to identify and evaluate market risk. These are measured, limited and monitored by market risk specialists.

- **Credit risk**

Credit risk is the risk of loss to the Company from the failure of clients, customers or counterparties including sovereigns, to fully honour their obligations to the Company including the whole and timely payment of principal, interest, collateral and other receivables. Credit risk also arises through downgrading of counterparties whose credit instruments the Company may be holding, causing the value of those assets to fall. The Company employs a range of risk measurement techniques and methodologies to mitigate credit risk.

- **Liquidity risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. The Company maintains a mixture of long term and short term committed facilities including financial support from its parent, Barclays Bank Plc, that are designed to ensure the Company has sufficient available funds for operations.

The Company is part of a Domestic Liquidity Sub-Group (DoLSub) for Liquidity Management requirements under the European Capital Requirements Directive (CRDIV) and the European Capital Requirements Regulation (CRR). The DoLSub arrangement constitutes Barclays Bank Plc and Barclays Capital Securities Limited. Barclays has obtained an extension until 30 June 2021 to the waiver from the PRA to supervise both entities as a single Liquidity Sub-Group on the back of a Liquidity Credit Support agreement that allows the free movement of funds between the two entities, enabling them to meet their individual and joint obligations as they become due. As a result of the DoLSub arrangement, any risks to the liquidity position of Barclays Bank PLC are also a direct risk to the Company. This agreement gives rise to potential contingent liabilities albeit not quantifiable and hence not disclosed separately.

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- **Operational risk**

Operational risk is the risk of loss to the Company from inadequate or failed processes or systems, human factors or due to external events (e.g. fraud or cyber risk) where the root cause is not due to credit or market risk. The company's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. The Company has outsourced operational activities within the Company to other Barclays Group entities including the Group Service Company. These outsourced activities are managed through various intra-group service agreements between Barclays Bank Plc and the Group Service Company, in which the Company is a service beneficiary. The Company continues to be accountable for the risk arising from the actions of the outsourced activities. Failure to adequately manage outsourcing risk through control environments which remain robust to ever changing threats and challenges could result in increased losses, inability to perform critical economic functions, client detriment, potential regulatory censure and penalty, legal liability and reputational damage. The Company assesses its risk and control environment across its functions with a view to maintaining an acceptable level of residual risk.

- **Capital and Regulatory risk**

Capital risk is the risk that the Company has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions. Rules dictating the measurement of capital may be tightened which would constrain the Company's planned activities and contribute to adverse impacts on the Company's earnings.

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

To meet regulatory provisions by the PRA affecting capital adequacy and large exposures reporting, the Company has the following in place as at 31 December 2019:

- A contractual guarantee of £1bn from Barclays Bank Plc to cover credit exposures arising from Counterparty Credit risk. The guarantee covers large exposures which are in excess of 23% of the company's eligible capital relevant for limits to large exposures. This guarantee will remain in effect until terminated by either of the parties to the guarantee by providing 30 business days' notice in writing to the other party.
- A contractual guarantee from Barclays Bank Plc to cover credit exposures arising from Counterparty Credit risk ranked by risk weighted amount. The guarantee limit is set to £1 and can be amended from time to time with agreement between both parties. This guarantee will remain in effect until terminated by either of the parties to the guarantee by providing 30 business days' notice in writing to the other party. The guarantee limit had been increased to £500m on 3 March 2020 and subsequently to £1.5bn and £2.0bn on 17 March 2020 and 31 March 2020 respectively.
- A contractual guarantee from Barclays Bank Plc to cover secured financing transactions to non-core internal large exposures which are in excess of the company's eligible capital relevant for limits to large exposures. The main exposures to which this guarantee relates to are Barclays Capital Inc, Barclays Securities Japan Limited and Barclays Bank Ireland Plc. The guarantee limit is set to £1 and can be amended from time to time with agreement from both parties. Barclays Bank Plc may terminate this guarantee at any time by providing 30 business days' notice in writing.
- A contractual guarantee of £1.5bn from Barclays Bank Plc to cover exposure with Barclays Capital Luxembourg Sarl for stock loan transactions. Barclays Bank Plc may terminate this guarantee at any time by providing 30 business days' notice in writing.

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- Floating rate perpetual subordinated write down securities (AT1 securities) issued for £200m on 22 August 2019, which are included within additional Tier 1 capital;
- A subordinated loan agreement with Barclays Bank Plc comprising debt of €17m and US\$24.5m, which are included within Tier 2 capital;
- Subordinated callable notes of £150m issued on 22 August 2019 and £150m issued on 19 December 2019, which are included within Tier 2 capital.

The Company's capital management strategy is to continue to maximise shareholder value by prudently optimising both the level and composition of its capital resources.

The Company's capital management objectives are to:

- Maintain sufficient capital resources to support the Company's risk appetite.
- Maintain sufficient capital resources to meet the PRA's minimum regulatory capital ratios.

#### External Regulatory Capital Requirements

The Company is subject to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) implementation of Basel 3 within the EU (collectively known as CRD IV) on 1 January 2014. The rules are supplemented by the Regulatory Technical Standards and the PRA's rulebook, including the implementation of the transitional rules. Rules and guidance are still subject to change as certain aspects of CRD IV are dependent on final technical standards and clarifications to be issued by the European Banking Authority (EBA) and adopted by the European Commission and the PRA. All capital and risk weighted assets (RWAs) calculations reflect the Company's interpretation of the current rules.

The Company has been granted approval by the PRA to adopt advanced approaches for computing credit, market and operational risk capital requirements. The Company uses 'The Standardised Approach' (TSA) for operational risk regulatory capital purpose with effect from 1 April 2018, based on PRA approval. Pillar 1 capital requirements are generated using the Company's risk models together with standardised calculations.

In December 2017, the Basel Committee on Banking Supervision (BCBS) finalised Basel 3 eliminating the model based approaches for certain categories of RWAs (for example, operational risk RWAs, CVA volatility and credit risk RWAs for equity exposures), revised the standardised approach's risk weights for a number of exposure categories, replaced the four existing approaches for operational risk (including the advanced measurement approach) with a single standardised measurement approach and established 72.5% of standardised approach RWAs for exposure categories as a floor for RWAs calculated under the advanced approaches (referred to as the "output floor").

The majority of the final Basel 3 changes are expected to be implemented commencing 1 January 2022, with a five-year phase-in period for the output floor and with a single Standardised Measurement Approach.

#### CRD IV Capital ratios

The current regulatory requirement is to meet a fully loaded CRD IV CET1 ratio comprising the required 4.5% minimum CET1 ratio and Capital Conservation Buffer (CCB) of 2.5%.

Also forming part of the Buffer requirement is the Counter-Cyclical Capital Buffer (CCyB) and the Systemic Risk Buffer (SRB). The Company's CCyB is based on the buffer rate applicable for each jurisdiction in which the Company has exposures. On 28 November 2018, the Financial Policy Committee (FPC) set the CCyB rate for UK exposures at 1%. The buffer rates set by other national authorities for non-UK exposures are currently not material. Overall, this results in a 0.29% CCyB for the Company as at 31 December 2019. On 11 March 2020, the FPC reduced the CCyB for UK exposures to 0% with immediate effect and this has the effect of reducing the CCyB requirement from 0.29% to 0.11% based on 31 December 2019 position. No SRB has been set to date.

The Company's Pillar 2A requirement for 2019, based on a point in time assessment, was equal to 3.84% of which

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56% needs to be met with CET1 capital, equating to approximately 2.2% of the RWAs. The Company's 2019 Pillar 2A add-on was reduced from 4.5% to 3.8% effective 31 October 2019 with 2.2% of RWAs needing to be met in CET1 form. All capital and RWA calculations reflect the Company's interpretations of the current rules.

As at 31 December 2019, the Company's CET1 ratio was 15.8% (2018: 13.4%) which exceeds the 2019 minimum requirement of 9.45% including the minimum 4.5% of CET1 requirement, 2.16% of Pillar 2A requirement, a 2.5% CCB buffer and a 0.29% CCyB buffer.

The table below provides details of the Company's CRD IV transitional capital ratios, capital resources and RWAs at 31 December 2019 and 2018.

	2019	2018
Risk weighted assets (in £'000)	5,409,563	7,610,066
Common Equity Tier 1 capital ratio	15.8%	13.4%
Tier 1 capital ratio	19.5%	14.1%
Total capital ratio	25.2%	16.9%

The Company's Total capital ratio increased to 25.2% (2018: 16.9%), as a result of a 29% decrease in RWAs to £5,410m and 6% increase in total capital primarily due to AT1 and subordinated debt capital issued during 2019.

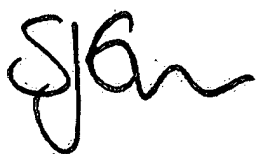
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**Key performance indicators**

The Board of Directors monitors progress on the overall strategy by reference to profit after tax as a key performance indicator. The financial performance metrics are aimed at generating long term sustainable returns. Total income decreased by 6% to £408m from 2018. Total operating expenses decreased by 6% to £220m from 2018. Profit after tax remained stable at £109m (2018: £109m).

FOR AND ON BEHALF OF THE BOARD



Steven Ewart  
Director

23 April 2020  
Company Number 1929333