

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2014042781801**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Barclays Capital, Inc., Respondent
Member Firm
CRD No. 19714

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Barclays Capital, Inc. ("Barclays" or the "Firm") submits this Letter of Acceptance, Waiver, and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Barclays alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Barclays hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Barclays has been registered with FINRA since 1987. The Firm is a large, full-service broker-dealer and investment bank with headquarters in New York, New York. It has approximately 3,200 registered representatives and 27 branch offices.

RELEVANT DISCIPLINARY HISTORY

In November 2011, without admitting or denying the findings, Barclays was censured and fined \$3,000,000 pursuant to an AWC finding that the Firm published inaccurate historical delinquency rates for three subprime securitizations on a website the Firm maintained pursuant to SEC Regulation AB from March 2007 through December 2010. The inaccurate delinquency rates were inadvertently published after the Firm reconfigured the website in March 2007 but failed to subsequently review the delinquency data.

As set forth in the November 2011 AWC, Barclays' publishing of inaccurate historical delinquency data violated NASD Rule 2110. The Firm also failed to establish a reasonable system to supervise the maintenance and updating of the website and did not act reasonably to prevent, identify, and correct inaccuracies in the historical delinquency data it published on the website in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010.

OVERVIEW

From November 2010 through February 20, 2014 (the "relevant period"), Barclays published the Pan Euro ABS Floating Rate Index¹ and its component indices (collectively, the "Index") with materially inaccurate coupon return information.

Barclays' Index, Portfolio, and Risk Solutions Group ("IPRS") management learned of these inaccuracies in May 2013 and, by July 2013, the Firm had determined that they would necessitate a restatement of the Index. Nonetheless, the Firm continued to publish the Index for eight months—without disclosing the inaccuracies to subscribers—while the Firm identified and fixed the underlying technical error that was causing the inaccuracies. On February 21, 2014, Barclays restated the Index and disclosed that it had cumulatively understated coupon returns by approximately 4.3%. By continuing to publish the inaccurate Index without appropriate disclosure to its subscribers from July 2013 through February 20, 2014, Barclays violated FINRA Rule 2010.

During the relevant period, Barclays also failed to establish, maintain, and enforce a supervisory system that was reasonably designed to prevent, identify, and correct material inaccuracies in the Index or to prevent the knowing dissemination of such inaccuracies to subscribers. As a result, Barclays violated NASD Rule 3010 and FINRA Rule 2010.

By publishing the materially inaccurate Index, Barclays also violated NASD Rule 2210 and FINRA Rules 2210 and 2010.²

¹ During the relevant period, the Pan Euro ABS Floating Rate Index was the parent index for a family of 42 separate GBP and EUR asset-backed security ("ABS") sub-indices.

² NASD Rule 2210 was superseded by FINRA Rule 2210 effective February 4, 2013. Accordingly, NASD Rule 2210 applies to Barclays' conduct from November 2010 to February 3, 2013. FINRA Rule 2210 applies to conduct on or after February 4, 2013.

FACTS AND VIOLATIVE CONDUCT

Facts

The Index

During the relevant period, Barclays marketed the Index as offering broad performance benchmarks for securitization market investors and as providing an accurate measurement of the credit and prepayment performance of the investment-grade European asset-backed securities market. As of January 2010, the Index consisted of 861 bonds with an aggregate market value of €279 billion. The Index reported performance at a top-level and for 42 separate sub-indices.

The Index, which was available to subscribers of Barclays' published indices, was followed by approximately 40 institutional investors in Europe. Those investors used the Index for three primary purposes: (1) as a price guide to the individual securities comprising the index; (2) to manage and analyze the performance of funds and investment portfolios; and (3) for benchmarking purposes, including creation of customized derivative benchmark indices.³

The Index was one of 98 major indices Barclays published during the relevant period. IPRS was responsible for calculating and publishing all Barclays' indices. IPRS consisted of approximately 120 employees in ten sub-units located primarily in New York and London. The sub-unit principally responsible for compiling the information published in the Index was located in New York and was comprised of Firm employees who were registered with FINRA.

The Error

In November 2010, Barclays made two significant changes to the Index. *First*, IPRS changed the method by which the coupon returns were calculated for the Index. This new methodology was unique and was not used by Barclays to calculate returns for any of its other indices as all of Barclays' other indices were generated using different technology platforms. *Second*, the Firm changed the provider of coupon return data for the Index's underlying securities from an outside vendor to a proprietary system that was widely used by multiple divisions within Barclays for securities pricing and valuation purposes.

At or about the same time that the new coupon return methodology was put into production, Barclays' information technology group in London changed the proprietary pricing and valuation system in an effort to improve analytics. This change was unrelated to the system's use in providing coupon data for the Index. However, due to those changes to the system, coupons paid on securities included in the Index inadvertently were not accurately reflected in the Index's coupon

³ A relatively small group of investors used the Index for benchmarking purposes. Barclays did not use the Index as a reference for any derivative contracts or investment products.

return calculation. Specifically, the system error caused data regarding coupon payments for certain of the component securities of the Index to be negative, an unlikely outcome.

Before putting the change in coupon return calculation methodology into production in November 2010, IPRS staff had back-tested the calculations with data supplied by the proprietary pricing and valuation system to ensure it was accurate. However, after putting the new calculation methodology into production, Barclays did not conduct additional testing or verification of the data. Likewise, while IPRS staff reviewed certain of the data inputs that were used to calculate the Index's return before publication, the coupon return inputs were not individually reviewed. IPRS staff did not regularly review the Index after it was published, sometimes displaying the negative coupon returns.

As a result, during some of the relevant period, Barclays published the Index and its component sub-indices with illogical negative coupon returns, which led the total returns for the Index to cumulatively be materially understated.⁴ From November 2010 through December 2013, Barclays published the top-level Index with negative coupon returns for nine out of the 38 months between November 2010 and December 2013. For 36 of those 38 months, one or more of the 42 sub-indices was published with a negative coupon return.

Barclays' Correction and Disclosure of the Error

Barclays was first alerted to potential inaccuracies in the Index in November 2012 when an Index subscriber, Subscriber A, noticed that some of the month-to-date coupon returns for particular sub-indices were negative and contacted members of a London-based IPRS sub-unit. The issue was not elevated to IPRS management until May 2013 when Subscriber A and another subscriber inquired again about the negative coupon returns.

Once the issue was elevated to IPRS management, the Firm promptly recognized that the error was not limited to a specific subset of securities within the Index, and likely affected the entire Index. By July 2013, Barclays understood that the inaccuracies were significant and that the Index would need to be publicly restated. Barclays also knew that, for an extended period of time, the error in the internal system causing the inaccuracies would not be fixed.

Barclays corrected the erroneous coupon return calculation in December 2013 on a going-forward basis. After making that correction, Barclays undertook a review to quantify the effect of the error and determined that the total coupon return for the Index remained understated by approximately 4.3%. Barclays publicly restated the Index on February 21, 2014.

⁴ While the cumulative return was significantly understated, the average amount of error on a monthly basis was approximately 0.11%.

Barclays reported the Index inaccuracies and the associated restatement to a European regulator in February 2014 and disclosed them in a Form 4530(b) with FINRA on September 26, 2014.

Violations

Just and Equitable Principles of Trade (FINRA Rule 2010)

FINRA Rule 2010 requires that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” The rule sets forth ethical requirements that go beyond explicit legal requirements and depend on general rules of fair dealing, the reasonable expectations of the parties, marketplace practices, and the relationship between the firm and the customer.

Subscribers to the Index had a reasonable expectation that Barclays would promptly inform them of significant inaccuracies. Therefore, once Barclays became aware of significant inaccuracies in the Index in July 2013, it had an obligation to inform subscribers pending correction of the errors. By continuing to publish the inaccurate Index from July 2013 to February 2014 without appropriate disclosure to subscribers, Barclays violated FINRA Rule 2010.

Supervision (NASD Rule 3010(a) and FINRA Rule 2010)

NASD Conduct Rule 3010(a) requires that each member “establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the Rules of this Association.” FINRA members are required to specifically tailor their supervisory systems to address each type of business that the member conducts. The standard of reasonableness required of a supervisory system is based upon the particular circumstances of each case.

After Barclays made significant changes to the methodology by which the Index return was calculated and changed the source of the coupon return data for the underlying securities in November 2010, the Firm failed to conduct any additional testing or verification of the operation of the methodology after it was implemented. Accordingly, Barclays failed to implement a supervisory system reasonably designed to oversee the publication of the Index and to ensure detection and timely correction of the error from November 2010 through December 2013. Therefore, Barclays violated NASD Rule 3010(a). By virtue of that violation, the Firm also violated FINRA Rule 2010.

Communications with the Public (NASD Rule 2210 and FINRA Rules 2210 and 2010)

FINRA Rule 2210(d)(1)(B) and its predecessor, NASD Rule 2210(d)(1)(B), provide that no member may publish, circulate, or distribute any communication with the public that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

From November 2010 through February 20, 2014, Barclays published the Index while knowing or having reason to know that it contained materially inaccurate information. By so doing, Barclays violated NASD Rule 2210(d)(1)(B) for the period from November 2010 to February 3, 2013, and violated FINRA Rule 2210(d)(1)(B) from February 4, 2013 through February 20, 2014. By virtue of those violations, Barclays also violated FINRA Rule 2010.

OTHER FACTORS

FINRA acknowledges that Barclays self-reported the issues described herein to a European regulator in February 2014, and undertook a comprehensive internal review of its production processes, supervisory policies, and systems relating to these issues, as well as to quantify the scope and impact of the error. Furthermore, the Firm has provided substantial assistance to FINRA during its investigation by, among other things, providing information obtained as a result of its internal investigation and making persons in Europe who are not registered with FINRA or subject to its jurisdiction available for interviews by FINRA staff. The sanctions below reflect these factors.

B. Respondent also consents to the imposition of the following sanctions:

1. Censure; and
2. A fine in the amount of \$1,000,000.

Barclays agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

Barclays specifically and voluntarily waives any right to claim that the Firm is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Barclays specifically and voluntarily waives the following **rights** granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Complaint and **have the opportunity to answer the allegations** in writing;
- C. To **defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued;** and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Barclays further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Barclays understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:

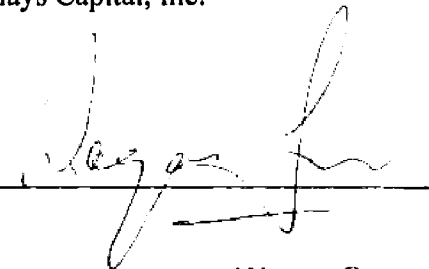
1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Barclays;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Barclays may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Barclays understand that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

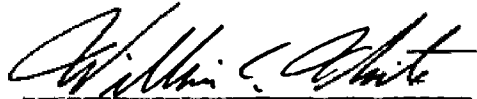
The undersigned, on behalf of Barclays, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

10/21/2015
Date (mm/dd/yyyy)

Respondent
Barclays Capital, Inc.

By: 
Waqas Samad
Managing Director

Reviewed by:

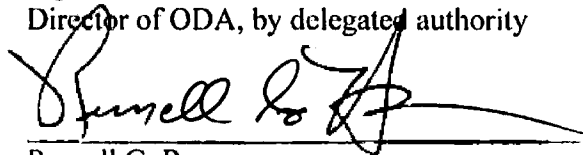
A handwritten signature in black ink, appearing to read "William E. White", written over a horizontal line.

William E. White
Counsel for Respondent
Allen & Overy
1101 New York Avenue, NW
Washington, DC 20005
(202) 683-3876

Accepted by FINRA:

11/19/2015
Date

Signed on behalf of the
Director of ODA, by delegated authority

A handwritten signature in black ink, appearing to read "Russell G. Ryan", written over a horizontal line.

Russell G. Ryan
Senior Vice President & Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
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