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Robert E. Diamond, Jr
President

April 14th, 2010

Mr. Bill Lockyer
Treasurer
State of California
915 Capital Mall, Room 110
Sacramento, California 98514

Dear Mr. Lockyer,

Thank you for sending us your March 29 letter. The matters covered in the letter are both timely and thoughtful. As you know, proper regulatory framework is critical to the financial markets and the broader economy. Barclays through its policies and actions has a responsibility to act in a manner that is supportive of its clients, shareholders and the economy. We take this responsibility extremely seriously. A constructive discussion of our business practices and objectives as well as the State's financial objectives, in light of the regulatory framework in which we each operate, would be mutually beneficial. For background information please note that Barclays Capital was not in the Municipal Finance business before its acquisition of the North American operations of Lehman Brothers in September, 2008.

Please see below for answers to the specific questions referenced in the letter:

- 1) ***Describe your firm's trading activity in municipal and State of California credit default swaps ("CDS"). In your answer, please provide detailed information about all of the following:***
 - ***Your firm's activity in making markets (i.e., providing, on a regular basis, firm one-way or two-way quotes to clients) in municipal and State of California CDS.***
 - ***Your firm's role as a broker, arranger or facilitator of State of California CDS trades.***
 - ***The categories of clients for whom you provide market-making services, or for whom you broker, arrange or facilitate trades, in municipal and State of California CDS. Examples of such clients include, but are not limited to, hedge funds, insurance companies, monoline insurers, banks and dealers***
 - ***Your firm's volume of State of California CDS trades from January 1, 2007 through the present. Please provide the total volume and the volume of each category of client***
 - ***Your firm's current outstanding gross and net notional amount of State of California CDS***

Barclays Capital currently does not make markets in Municipal CDS. As with other sectors in which Barclays participates we provide price information to both investor and issuer clients and will trade upon client request.

Prior to July 2009, Barclays Capital facilitated trades in State of California CDS for various clients. The primary clients for which Barclays has facilitated trades are hedge funds and banks. Facilitation of these trades was typically in response to reverse inquiry from clients. Generally, residual positions resulting from these trades reflected the market technicals (supply/demand,

liquidity, etc) at the time of the trade and not the views of Barclays Capital. Barclays Capital has traded approximately \$2.5 billion in absolute notional (buys and sells) of State of California CDS since January 2007.

The activity has been split fairly evenly between buys and sells.

State of California CDS Portfolio (\$mm)		State of California CDS Portfolio Client Breakdown - % of Trade Notional	
Notional of Buys	1,268.7	Banks	23%
Notional of Sells	1,269.7	Hedge Funds	77%
Total Notional Traded	2,538.4	Total	100%
Net Outstanding Position	1mm		

While the firm continues to respond to client inquiry, Barclays Capital has executed only three trades in State of California CDS trades in the last eight months. The net notional of such trades was \$1 million, and the gross notional was \$3 million.

2) Describe any credit analysis/marketing information you distribute to clients that contains information regarding municipal CDS in general, and California CDS specifically, from Jan 1, 2007 through the present

Barclays Capital has discussed the Municipal CDS market with various clients and provided clients with a primer or introductory presentation describing the market (most recent is attached in Appendix A). The presentation provides clients with a market overview, discusses municipal credit fundamentals and presents information on the current trading environment and trading opportunities.

The trading levels and fundamental credit quality of the State of California have been discussed in these presentations, given California's status as one of the largest issuers of municipal bonds (both tax-exempt bonds and Build America Bonds). Recently these presentations have included material on the extremely low default rates of municipal credits as well as information relating to certain issuers. More specifically, these presentations have included: information on the state's budget deficit, the State of California's spending priority (as outlined in the State's Constitution), California's budget cash flows (presented by the State Controller's Office), actions the State has taken to conserve cash during the spring of 2009 as well as the estimated impact of the American Recovery and Reinvestment Act on the State.

In some presentations, trading opportunities were outlined for existing clients (see Appendix B). Typically, any recommendation provided to investors in these trading strategies suggested they sell protection or go long credit risk given our belief in the relatively safe nature of municipal investments. In February 2010, our Research analyst published for external distribution a credit analysis titled, "California the Road Ahead". We believe the credit analysis is fair and balanced and is helpful in providing education on the credit and expanding your institutional client base; we have attached that as Appendix C.

Barclays Capital's trading desk provides existing clients with indicative market levels through internal pages on the Barclays Live web-site and Bloomberg. In the past, the desk has also provided commentary to clients with existing positions to update them on market developments.

3) Describe, in your view, how State of California CDS trading, in recent years, has affected the State, its bond sales and the borrowing costs paid by taxpayers.

Analysis of DTCC outstanding gross and net CDS notional on State of California shows that market to be very small relative to outstanding debt issuance. Therefore, we do not believe the Municipal CDS market has had a material impact on the State, its bond sales or the borrowing costs paid by taxpayers. Like the Corporate and Sovereign CDS market, Municipal CDS trades are electronically confirmed and reported in the DTCC TIW (Trade Information Warehouse). Transparent information on those trades is publicly available and can be found at <http://www.dtcc.com/products/derivserv/data/index.php>.

An active credit default swaps market should improve liquidity in the municipal bond market similar to the way in which monoline insurers improved liquidity in the tax-exempt market. As you may remember, at the height of the monoline insurers market over 60% of the municipal market was insured. Arguably, this insurance may not have been necessary for virtually all municipal bond buyers, however it allowed for broader retail and institutional participation. A liquid CDS market would provide institutional holders with an option to limit credit risk without selling bonds or passing on buying opportunities, thus potentially increasing the number of buyers and demand for municipal bonds. We believe buyers will be less likely to participate in the municipal CDS market until it is more fully developed and more liquid.

4) Provide your outlook for the municipal CDS market and, more specifically, the State of California CDS market, over the next two years. In your response, please include a discussion of your firm's views on: whether (and how) continued growth of the taxable Build America Bond market could increase the use of municipal CDS; and the circumstances under which growth in CDS trading could adversely affect the State and its debt issuance?

Barclays Capital believes that the future of the municipal CDS market and the State of California CDS market will depend on the developments in the Build America Bond (BAB) market as well as the outcome of the current ISDA working group in standardizing the municipal CDS market.

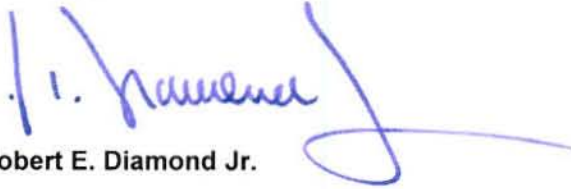
Continued growth in the BABs market may further increase the depth of the municipal debt buyer base. An expanded base of BABs investors should be more familiar with CDS and willing to look to utilize Municipal CDS to hedge current positions, gain exposure or enter into relative value trades. The extent to which this activity becomes prominent will depend largely on the ability of investors to enter into repurchase agreements (repo) with eligible BABs securities. As the outstanding par amount of California BABs increases and the BABs repo financing market improves, CDS spread pricing should more accurately reflect the credit spread of the State. This should lead to increased participation from both U.S. and foreign based customers. We believe this will have the impact of tightening California CDS spreads and in turn lowering BABs credit spreads and lower overall borrowing costs for the State, thereby benefiting California tax payers.

The Municipal CDS market did not adopt the Standard North American Contract (SNAC) conventions that were adopted by the corporate CDS market in March 2009. This lack of standardization creates concerns for both dealers and investors including: cheapest-to-deliver options, physical delivery, no fixed coupons, varied recovery assumptions, and no established determination committee. An ISDA working group was established in Fall of 2009 to begin addressing these issues and standardizing the market. Further growth and activity in the municipal CDS market will likely depend on this process.

An active and liquid Municipal CDS market could improve liquidity for both taxable and tax-exempt municipal bonds and likely aid the State of California in its debt issuance.

We appreciate the opportunity to respond to your request. Please contact me at 212-526-9182 with any additional requests or questions. Thank you.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "R. E. Diamond Jr.", with a large, stylized flourish extending to the right.

Robert E. Diamond Jr.