Statement of Gerard LaRocca
Barclays Chief Administrative Officer, Americas

U.S. Senate
Permanent Subcommittee on Investigations
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I am Gerard LaRocca, and I serve as the Americas Chief Administrative Officer of Barclays Bank PLC. Along with my colleague, Marty Malloy, you have asked us to assist the Subcommittee in its review of certain issues related to the Colt transaction, entered into between Barclays and our customer, Renaissance.

As with all other complex transactions, from the outset of Colt, the Bank undertook a comprehensive transaction review and approvals process to ensure that the transaction was subject to proper scrutiny. This included review by the Bank's internal governance functions, including our regulatory, tax, risk and legal departments. In addition, the Bank conferred with and sought review from a prominent law firm with significant tax expertise, and that firm issued a tax opinion to both Renaissance and the Bank. This tax opinion was later reaffirmed by separate law firms for both the Bank and Renaissance. Further, with respect to questions related to the Bank itself, we obtained separate regulatory and tax opinions. Finally, Barclays disclosed its participation in the transaction to our auditors and our regulators, both here in the United States and in the UK.

As you can see, we did not take this matter lightly and were ultimately comfortable engaging in the transaction. Significantly, this was a transaction with a highly sophisticated and highly regarded counterparty. Renaissance's successful track record is well known.

As I understand it, the question raised by the Subcommittee concerning this transaction seems to be: "What is the proper tax rate to apply to profits earned by Renaissance through the exercise of its options?" Fundamentally, this is a matter to be handled between Renaissance, as a taxpayer, and the IRS. And as we sit here today, it is my understanding that the IRS has yet to answer that question.

While the IRS has not decided the appropriate tax treatment for these transactions, eighteen months ago Barclays elected—voluntarily and proactively—to change an element of the option contracts central to the tax analysis. Beginning in 2012, Barclays embarked on an extensive, bank-wide internal review known as TRANSFORM, on which I will provide more details in a moment. As a result of that review, early last year we informed Renaissance that any future option would only be for a period not to exceed eleven months. Historically, Colt options were for a period of three years, and Renaissance exercised those options at different times—some less than one year, some more than one year. By modifying the options to expire if not exercised within eleven months, Barclays eliminated any uncertainty that may have existed regarding the applicable tax rate. Since Barclays made this decision, Renaissance has entered into an option with this shorter term.

You have asked me to discuss the impact of a 2010 IRS advisory memorandum known to tax lawyers as a GLAM, including the Bank's decision last year to change the tenor of the options going forward. Before addressing these developments, I want to first state that all of this did not occur in a vacuum. Like other financial institutions, Barclays has faced numerous challenges in recent years. Our Bank has endeavored to meet these challenges head on, and at times resolving them has resulted in significant changes, both in process and in personnel at the Bank. Today, we have new leadership and feel strongly we are moving in the right direction, transforming the way we do business.

The Bank began its transformative process with a series of bank-wide reviews. First, Barclays launched Project Mango, an internal review of our investment banking operations. Next, Barclays commissioned Sir Anthony Salz, an outside consultant, to conduct an independent review of Barclays' business lines, culminating with the publication of the Salz Report. Finally, Barclays embarked on the TRANSFORM program, an internal review aimed at establishing the conditions necessary for the Bank's long-term success, including the implementation of the thirty-four point roadmap for change detailed in the Salz Report.

As part of TRANSFORM, the Bank adopted five overarching tax principles that now apply to all tax transactions. It is against this backdrop that we considered what impact, if any, the GLAM should have on our participation in the Colt transaction.

In December 2010, Renaissance made what had become a routine request to enter into a new option. In light of the GLAM's recent publication and prior to moving forward, we specifically consulted with Renaissance, their legal advisors and our own legal advisors regarding the impact of the GLAM on the transaction. After extensive internal consideration and consultation with external advisors, Barclays approved the issuance of a new option. In so doing, we agreed to continue to monitor relevant IRS announcements going forward, and to revisit the decision from time-to-time if Renaissance sought to put on new options.

In February 2013, the Bank issued its new tax principles and undertook a review of existing tax transactions, including Colt. Central to our discussion here, one of the principles provides that Barclays will not structure transactions of a type different than tax authorities would expect. The end result of our review was a decision that, going forward, we would limit the tenor of any new Colt options to a period of eleven months. Of course, the IRS had not made any final determination as to the appropriate tax treatment. In fact, it is my understanding that the GLAM does not set out official rules or positions of the IRS and may not be referenced as precedent. However, the Bank made a proactive and voluntary choice to shorten the terms of these options so as to ensure we met the tax authorities' expectations. This was a decision that, in our view, brought the transaction into conformity with our newly adopted tax principles. By doing this, the Bank committed not only to following specifically applicable laws, but also to refrain from engaging in any transactions that, while legal, might not meet the expectations of the relevant taxing authorities.

We understand that taking this stance may mean that, going forward, we will have to decline certain transactions that are both commercially attractive and legal, causing us to possibly lose out on business. But we believe cultivating exemplary culture at the Bank, and instilling the highest sense of Purpose, Value and Behavior, are fundamentally necessary to help us achieve our goal of becoming the "Go-To" Bank in the years to come.

Therefore, any questions the Subcommittee may have about these transactions do not relate to the Barclays of today, or the Barclays of the future. These are transactions from the past, about which we are still awaiting a decision by the IRS.

Thank you for the opportunity to provide this testimony. I am prepared to offer my assistance, but note that I was not personally involved in a number of the topics that you have raised; therefore, my knowledge may be limited, and my testimony here reflects not only my firsthand knowledge, but also what I have learned from my colleagues at the Bank. I look forward to answering the Subcommittee's questions.

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