United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Norm Coleman, Ranking Minority Member

EXHIBIT LIST

Hearing On

DIVIDEND TAX ABUSE: HOW OFFSHORE ENTITIES DODGE TAXES

September 11, 2008

1. *How Offshore Entities Dodge Taxes on U.S. Stock Dividends: Swaps*.

DOCUMENTS RELATING TO MAVERICK CAPITAL, LTD.

2. UBS email, dated November 2004, re: *Dividend Enhancement Flow.* (Attaching *Dividend Enhancement.doc).*
3. *Dividend Enhancement Transactions*, *DRAFT - AS OF 4/26/99*, prepared by Maverick Capital.
4. *Description of Dividend Enhancement Transactions*, dated December 12, 2006, prepared by Maverick Capital.
5. *Maverick Capital, Dividend Enhancement Transactions Memo*, dated June 2005.
6. Maverick Capital emails, dated November 2004, re: *Microsoft strategy on capturing the $3.00 dividend for non-US holders only. (Jim has been working on this for the last 2 months and he got UBS to match the more aggressive offers we were getting from the Street. For LDC only - we lent the stock out and will get 97% of the dividend.).*
7. Maverick Capital emails, dated June 2007, re: *FIN 48 Tax Positions - DRAFT memos.*
8. Maverick Capital/Ernst & Young emails, dated February 2007, re: *AMTD Dividend.*
9. *Domestic Dividend Enhancements*, undated document prepared by Maverick Capital.
10. Excerpts from UBS Documents, regarding UBS Cayman Ltd. (UBSCL).

DOCUMENTS RELATING TO HIGHBRIDGE CAPITAL MANAGEMENT, LLC

11. Lehman email, dated November 2004, re: *Highbridge Utility Fund - Electronic Execution into CFD. (...also in discussions with them around yield enhancement on their long positions by using a CFD. This service involves tax risk for the firm which would be reduced if we can route their electronic trades direct to CFD instead of their PB account.).*
12. Lehman email, dated November 2004, re: *Highbridge LPS Basket. (...I would like to move the positions back to their PB account.... Would hate to do this and find out down the road that HB owe withholding tax on the dividends.).*

DOCUMENTS RELATING TO ANGELO, GORDON & CO.

13. Angelo Gordon email, dated August 2004, re: *CFDs. (a cfd is used to circumvent the tax.).*
14. Angelo Gordon email, dated July 2006, re: *Notes from last meeting with Anthony Harpel. (Contracts for Difference – used mostly in offshore fund – so we don't have dividend withholding CFD is probably about 20% of portfolio).*
15. Lehman email, dated December 2004, re: *Bloomberg internal message sent from PATRICK RYAN. (...it turns out the majority have partial withholding so need to stay in CFD. TYPICAL!).*

16. Lehman emails, dated May 2002, re: *SWAPS FOR ANGELO GORDON. (rich, I agree.....if the positions are for longer term we can pay 100%. * * * I think we have to do this to keep AG's business)*.

DOCUMENTS RELATING TO LEHMAN BROTHERS INC.

17. *Equity Finance Yield Enhancement*, presentation document prepared by Lehman Brothers Inc.
18. Lehman Brothers/Highbridge Capital email, dated July 2004, re: *CFD Presentation*. *(The CFD is usually used for yield enhancement purposes....*).
19. *EFG US Dividend Exposures, February 2005, Lehman Brothers* presentation.
20. Lehman Brothers email, dated September 2005, re: *MCIP*. *(HB looking for Yield Enhancement on a large position.)*.
21. Lehman Brothers emails, dated October 2004, re: *Trade Confirm. (fyi, the only reason for HB to SWap is for yield enhancement.)*.
22. Lehman Brothers letter to Maverick Capital, dated April 24, 2001, (*Dividend Enhancement Solutions - We have a variety of solutions using swap and securities lending vehicles for achieving yield enhancement.)*.
23. Lehman Brothers emails, dated January/February 2004, re: *Long Transfers*. *(...tell them about doing long swap/cfd business around record date items so that they get enhanced div treatment on us stocks....)*.
24. Lehman Brothers emails, dated June 2003, re: *US Cayman 70% trade*.
25. Lehman Brothers emails, dated January 2005, re: *Conclusions of US div meeting. (Are all the major competitors in the yield enhancement game? * * * Borrow via Cayman is considered by Tax dept to be lower risk than CFD in LBIE.)*.

DOCUMENTS RELATING TO MORGAN STANLEY & CO.

26. Morgan Stanley email, dated July 2004, re: *MSFT Total Return Swaps. (Here are the main points regarding total return equity swaps on MSFT: (...Morgan Stanley can enhance the dividend payout from 70% or 100% through a total return equity swap*.).
27. Morgan Stanley email, dated August 2004, re: *CRM (MOORE CAPITAL) - Microsoft total return equity swap/Moore Capital.*
28. Morgan Stanley email, dated July 2004, re: *MSFT div timing.*
29. *MSDW Equity Finance Services (Cayman) Limited ("Cayco"), Outline operating procedures*, undated Morgan Stanley document.

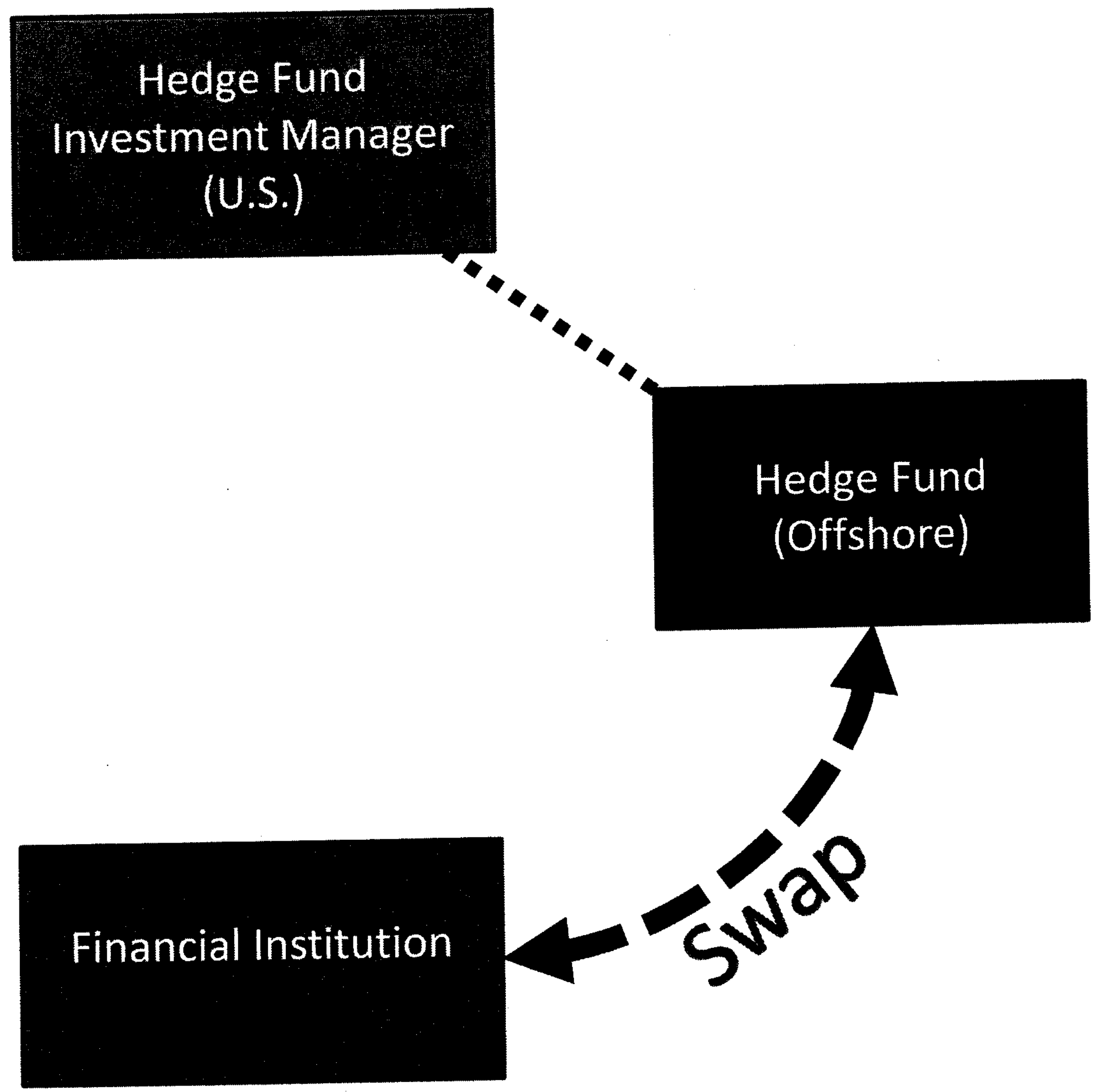
DOCUMENTS RELATING TO DEUTSCHE BANK AG

30. Deutsche Bank email, dated October 2004, *(...looking for a way to maintain exposure to MSFT but avoid the dividend payment.)*.
31. Deutsche Bank emails, dated September 2004, re: *Extraordinary Dividend Rules and Microsoft One-Time Dividend*.
32. *PROJECT: DBIL Rehypothecation,* February 2007 Deutsche Bank document.
33. *New Product Application,* dated January 2005*, Deutsche Bank International Limited ("DBIL") Equity Finance alternative structure.*
34. *New Product Application,* dated December 2003*, Deutsche Bank International Limited, Jersey ("DBIL") Securities Borrowing and Lending - NPA Support document*.

✧ ✧ ✧

Senator Carl Levin

How Offshore Entities Dodge Taxes on U.S. Stock Dividends: Swaps



Permanent Subcommittee on Investigations
EXHIBIT #1

From:	veronica.wilthew@ubs.com
Sent:	Monday, November 01, 2004 12:41 PM
To:	Michael.Madaio@ubs.com; Mark.Niesen@ubs.com
Subject:	FW: Dividend Enhancement Flow
Importance:	High
Attachments:	Dividend Enhancement.doc

Dividend
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Dividend Enhancement
For US securities paying dividends, the IRS requires a 30% withholding tax be levied against offshore entities. This means that a Cayman entity such as Maverick Fund LDC would only receive 70% value on their US dividends. UBS offers a product known as "Dividend Enhancement", whereby Maverick LDC is able to realize a greater portion of their dividends, and pay an amount less than 100% of a dividend, if they are short a security. It works on the basis that UBS can get more favorable treatment than an offshore entity and thus can put the following arrangement in place, whereby UBS passes an enhanced amount back to the client. The OSLA executed between Maverick LDC and UBS Cayman Ltd governs the lending and borrowing of securities between the 2 Cayman entities, and allows the lender to be freed from paying additional withholding. The steps are as follows:

Process

1) UBS Cayman borrows the US stock from Maverick Fund LDC.
2) UBS Cayman executes a total return swap with UBS AG, whereby Cayman are 'long' the returns.
3) UBS Cayman sell the stock to UBS AG London in order for UBS AG London to hedge the swap.
4) UBS AG London creates a long basket trade (in swap form), including the security that it received from UBS Cayman.
5) UBS AG London sell the physical stock to the swap counterpart, as the other side of the swap transaction UBS AG London then receive returns on the swap, including 100% of the dividends value (as a part of the swap transaction), on the stock received from UBS Cayman.
6) UBS AG London returns 90% of the value of the dividend to UBS Cayman, this is done by way of a commission, to reflect 90% value of such dividend.
7) UBS Cayman passes the 90% dividend payment onto Maverick Fund LDC.

NOTE: The rationale for a Cayman registered entity to lend the applicable securities to UBS Cayman is due to IRS Note 97-66, which states that where lending is conducted between two entities in the same jurisdiction, the (foreign to foreign) payment of the 'sub dividend' will not be subject to US withholding tax. If a Cayman entity simply lent the stock to UBS London, for instance, that sub dividend, due back t the Cayman entity, would be subject to US withholding tax. The sub dividend in this instance is the dividend that gets passed to the lender, as opposed to the true dividend that is paid to the holder of record. This note was issued by the IRS in 1997, and Paine Webber received an opinion, from external counsel, Cahill Gordon, that no US withholding would be applicable, hence the introduction of the Paine Webber Cayman branch, and Dividend Enhancement as a product.

At the expiration of the transaction UBS AG London purchases the stock, in the market, in the name of UBS Cayman. The stock is then returned to Maverick Fund LDC, and the transaction is closed.

The trade is executed ex-dividend date, and the loan stays open for a minimum of 30 days, and a maximum of 45 days. Generally however these transactions have 30-day maturities. The stock borrow is done at 100%, i.e. there is no margining or haircutting of the cash or securities, and UBS Cayman gives 100% of the cash value to Maverick as collateral on these trades.

Mark to Market & Thresholds
The Client Integration Team monitor the value of the securities borrowed against the loan, and may call or pay collateral on the basis of a $5.5 million collateral threshold. This limit was approved at the inception of this business, by CRC within UBS Financial Services, formerly PaineWebber. All stock loan exposures are reported on and monitored within the Credit Engine system.

The UBS Swaps both between UBS AG London and UBS Cayman as well as the one between UBS AG London and the street counterpart, are booked in WISDOM, which feeds GERONIMO. It should be noted that the swap parts of this transaction are not exposure to Maverick, and thus are not seen within the credit systems. Rather they are UBS internal and external transactions enabling us to facilitate Maverick's requirements.

UBS Group – Approvals
This product was approved by the UBSW Executive Committee in March 2002 and Group Tax in May 2002.

An Overseas Securities Lending Agreement ('OSLA') needs to be executed for this product, between Maverick LDC and UBS Cayman Ltd. Also, tax approval is required for this product when it is first approved for any given client. However all trades thereafter are subject to a blanket approval.

The majority of dividend enhancement transactions are done with Maverick LDC, while occasionally a trade will be done with Maverick II. Limits and exposures are monitored in the PaineWebber Cayman module of the Credit Engine. For LDC, Volume exposure amounts to CHF 758 mio while risk exposure is CHF 95 mio as of Apr 22, 2004. These transactions take place over dividend payment period, which is quarterly in the US, and typically last for one month and a few days. The tenor of the trades is short, and exposure usually drops significantly after the first month. Below sec lending risk and volume limits are recommended to cover the dividend enhancement trades.

Alternative Transactions
It could be argued that a swap provides the same benefit in that the returns, to a client, will include the dividend value; therefore what would the rationale be for entering into the aforementioned convoluted structure? A Total Return Swap can often be used, and indeed is. However if a fund has underlying investors that may suffer capital gains ('CGT') consequences, if the underlying stock is sold, a Total Return Swap cannot be used. To execute the Swap, the stock needs to be sold as a hedge, thus the sale may attract CGT, possibly negating the dividend withholding gain. For this reason, many Cayman based funds use the Dividend Enhancement trades, versus Swaps, to achieve theses benefits.

April 22, 1999

DRAFT – AS OF 4/26/99

To: Maverick Fund, LDC File
Maverick Fund II, Ltd. File

From: Keith Hennington

Dividend Enhancement Transactions

Maverick is the advisor for several offshore funds that are having taxes withheld on dividends received from United States companies. Morgan Stanley has approached us about entering into stock loan agreements that would minimize the adverse effects of U.S. withholding.

Stock Loan

Our Cayman Islands funds would enter into a stock loan on each U.S. security that is scheduled to pay a dividend. We would loan the security to a Cayman Morgan Stanley entity. They would pay us an amount equal to 70% of the dividend paid on that security (dividend entitlement). They would also pay us a stock loan fee equal to 13% of the dividend. This stock loan fee is negotiable. The end result would be that we would receive 83% of the dividend instead of the normal 70%. Morgan will then enter into a swap with a U.S. counterparty. They are taking the position that all payments under the swap are not subject to withholding. This removes the dividend from the U.S. without subjecting it to any withholding.

U.S. withholding taxes on dividend entitlement

Morgan is relying on Notice 97-66 to avoid withholding on the dividend entitlement. The premise of this Notice is that withholding is required on substitute dividend payments between foreign entities only if the foreign payor's U.S. withholding tax rate is lower than the payee's U.S. withholding tax rate. Since both the payor and payee in our transaction are Cayman entities subject to the same rate, there is presumably no withholding on the payment. This notice is designed to ensure that the appropriate U.S. tax is withheld but that it is only withheld once.

Notice 97-66 addresses a situation where all links in a chain of transactions are securities loans. It does not address a situation where one of the links is a swap. As mentioned above, this Notice assumes there is withholding at some point in the chain. It specifically states that "to the extent a foreign-to-foreign securities loan or sale-repurchase transaction would reduce U.S. withholding tax, an incremental amount of U.S. withholding tax is imposed on the substitute payment." When compared to a direct loan to a U.S. entity, this transaction reduces the U.S. withholding tax. However, we could argue that the swap does not reduce the U.S. withholding because there would be no withholding if we had done the swap directly with a U.S. counterparty. Assuming the swap is not subject to withholding, the Service has not been harmed by the additional step of a foreign-to-foreign securities loan. The Notice appears to disregard the foreign-to-foreign loan when determining if U.S. withholding has been reduced because it states that "no withholding tax is required in situations where transactions are entered into between residents of the same country." It is the swap and not the loan that reduces the U.S. withholding so the exposure lies with that transaction, not the foreign to foreign loan.

Under this analysis, the foreign lender of the securities appears to have very little U.S. tax exposure. Even if there were exposure, the Service would look to the U.S. withholding agent for the payment of the withholding instead of the foreign lender. The withholding structure was set up to provide a means of collecting U.S. tax without involving the foreign entity ultimately liable for the tax. I am more worried about limiting Morgan's ability to come to us for reimbursement of the tax if the Service later rules that withholding should have taken place at some point in the chain. Their right to reimbursement is part of our contractual arrangement with them and should be clearly addressed in any written agreement with them. I think the attorneys should review any agreements we enter into on this transaction. I doubt the standard loan documentation will address the tax issues related to this transaction. Side letters may be required.

U.S. withholding on stock loan fee

The stock loan fee will be paid from one foreign entity to another. This fee should not be U.S. source income unless it is somehow classified as a substitute dividend payment. Once again, if the analysis above is correct, the stock loan should not create substitute dividends

Source of income

The dividend entitlement will be U.S. source since the security is a U.S. security. The stock loan fee should be a foreign source income since both the payor and payee are foreign.

Total Return Swaps

I will get several quotes on the cost of entering into swaps. I have talked to Paine Webber and Deutsche Bank. They are estimating that we would receive approximately 93% of dividends after expenses of the swap. They are sending us more detailed information. It sounded like the swaps would be much more difficult to manage and we would lose some of the flexibility we would have with the stock loan transaction. I plan to focus on the stock loan transaction unless we feel there is too much tax exposure. The additional 10% enhancement is probably not worth the additional administrative burden at this point.

December 12, 2006

Description of Dividend Enhancement Transactions

Maverick is the advisor for several offshore funds that currently participate in stock lending transactions. One of the benefits of these transactions is that U.S. and Foreign tax withholding may be reduced. The details of a typical U.S. dividend enhancement transaction are described below.

(1) Cayman Islands hedge fund ("Fund") lends U.S. security to a Cayman Islands prime broker ("PB") pursuant to a conventional securities lending agreement. The loan occurs prior to the dividend record date.
(2) PB posts equity collateral in exchange for the security. The term of the loan is flexible but historically has been greater than 30 days for domestic enhancements. Beginning in 2006, Fund began using a different PB for domestic enhancements and, consequently, the majority of its new securities loans have had a term less than 30 days. The security may be recalled at any time for regular settlement. Early recall may result in a fee payable by Fund.
(3) PB typically enters into an equity swap with a U.S. counterparty, but has no contractual obligation with Fund to do so. PB takes the position that all payments received in connection with the swap are not subject to U.S. tax withholding.
(4) At the end of the term, PB pays a fee to Fund equal to a percentage of the dividend. The fee is negotiable and has historically been in the neighborhood of 85% to 97% of the dividend.

Maverick began using the dividend enhancement transaction in 1999. During that time, Maverick has done this transaction with Morgan Stanley, UBS, Lehman, Merrill Lynch, and ING.

U.S. Tax Implications of Enhancement Transactions

Maverick and its PB's currently rely on IRS Notice 97-66 to avoid withholding on its dividend enhancement transactions. The premise of the notice is that withholding is required on substitute dividend payments between foreign entities only if the foreign payor's U.S. withholding tax rate is lower than the payee's U.S. withholding tax rate. Since both the payor and the payee in our transaction are Cayman entities subject to the same withholding rate, there is presumably no withholding on the payment from PB to Fund. This notice is designed to ensure that the appropriate U.S. tax is withheld but that it is only withheld once.

It should be noted that Notice 97-66 addresses a situation where all links in a chain of transactions are securities loans. It does not address a situation where one of the links is a swap. As mentioned above, Notice 97-66 assumes there is withholding at some point in the chain. It specifically states that "to the extent a foreign-to-foreign securities loan or sale-repurchase transaction would reduce U.S. withholding tax, an incremental amount of U.S. withholding tax is imposed on the substitute payment." When compared to a direct loan to a U.S. entity, this transaction reduces the U.S. withholding tax. However, Fund could choose to enter into a swap with a U.S. counterparty and avoid U.S. tax withholding. Under Regulation section §1.863-7(b)(1), "the source of notional principal contract income shall be determined by reference to the

Permanent Subcommittee on Investigations

EXHIBIT #4

residence of the taxpayer" who is the direct recipient of the income. Therefore, periodic or non-periodic payments received by a foreign person are not subject to U.S. withholding tax as long as the foreign person is not otherwise engaged in a U.S. trade or business. Consequently, Fund's use of a securities loan transaction does not reduce the U.S. tax withholding in this situation because there would have been no withholding if Maverick had entered into the swap directly with a U.S. counterparty. Assuming the swap income is not subject to U.S. withholding tax, the Service has not been harmed by the additional step of a foreign-to-foreign securities loan.

Notice 97-66 appears to disregard the foreign-to-foreign loan when determining if U.S. withholding has been reduced because it states that "no withholding tax is required in situations where transactions are entered into between residents of the same country." It is the swap transaction and not the loan that reduces the U.S. withholding tax so the exposure lies with that transaction, not the foreign-to-foreign loan. In fact, Maverick's research indicates that the Service has considered whether the scope of the proposed regulations should apply to dividend equivalent payments made in connection with notional principal contracts, such as an equity index swap structured to replicate the cash flows that would arise from an installment purchase of one or more equity securities. Perhaps one reason the Service has not acted on this matter is because notional principal contracts typically settle on a net basis and, consequently, there would be a possibility that any applicable withholding tax (calculated on a gross income basis) could exceed the net economic benefit that the transaction would ultimately yield.

Since PB is a foreign party, the stock loan fee received from PB will not be U.S. source income. If the analysis above is correct, the stock loan should not create substitute dividends.

Foreign Tax Implications of Enhancement Transactions

Maverick has also entered into transactions similar to that described above to enhance foreign dividends. Foreign enhancements have not historically been as large as those on the domestic side. Tax laws in each applicable foreign jurisdiction can warrant slight adjustments to the transaction described above but the same general structure is utilized. The obvious difference between a U.S. and Foreign enhancement is that the PB would not need to be a Cayman entity. Also, depending on the jurisdiction, the PB could opt to use a back-to-back stock loan rather than the swap transaction to achieve the desired tax result in that jurisdiction.

Maverick has worked with outside counsel to determine that its dividend enhancement procedures would more likely than not be upheld in the various foreign jurisdictions in which Maverick held securities.

Conclusion

Maverick has concluded that the position described above has a greater than 50% chance of being sustained were it to be reviewed by the Service. There could be some business risk associated with the transaction if it is ever determined that there should have been U.S. tax withholding on the swap transaction presumably entered into by PB. If that were to occur, the PB might be able to seek reimbursement from the funds pursuant to the contractual agreement in place with them at that time.

Maverick Capital
Dividend Enhancement Transactions Memo
6/30/05

Domestic Securities - Long

This memo is being written to document our understanding of the dividend enhancement transactions that Maverick Fund II, Ltd. and Maverick Fund LDC (the funds) participate in with Paine Webber-London (PW).

Purpose

Dividend enhancement on long securities is designed to gross up the funds' dividends received from U.S. based companies by transferring the shares owned in the funds to PW, a U.S. based entity, therefore causing there to be no dividend withholding taxes.

Transaction

When a U.S. based company, in which the funds own shares, declares a dividend the funds lend their shares to PW in exchange for collateral, which is defined by the agreement to be cash, U.S. treasuries, or a letter of credit in an amount equal to at least 100% of the market value of the securities lent.

A loan is initiated approximately 3 days before the ex-dividend date, allowing time for the transaction to settle and the shares to be registered to PW before the dividend ex-date, and is terminated approximately 30 days after the payment of the dividend. Upon termination of the loan agreement, the shares and the dividend are returned to the funds and the funds return the collateral to PW.

It is also noted that at anytime during this loan period Maverick may still sell the position that is on loan, the only consequence of this sell would be that PW would charge a larger percentage of the dividend for the facilitation of this transaction.

Example of a dividend enhancement transaction and applicable entries:

January 1, 2005 the funds purchase 10,000 shares of IBM at $100/share with 50% of the purchase on margin at 5% interest. January 6, 2005 IBM declares a $1/share cash dividend with an ex-dividend date of January 15, 2005.

Purchase date entry:

DR. Investment in IBM	$1,000,000	
CR. Cash		$500,000
CR. Margin Debt		$500,000

Transfer Date, January 10, 2005:

- Client does not make an entry on their books to account for the transfer of shares to PW; however the client surrenders the 10,000 shares to PW and PW remits to the client $1,000,000.

Permanent Subcommittee on Investigations
EXHIBIT #5

- *Note that Maverick still has a $500,000 margin loan from PW at this time and therefore is still accruing interest expense.*

- *Note that Maverick still has control of the investment and can sell the investment before the return of the shares but would incur a larger charge from PW.*

Date of return of shares, February 15, 2005:

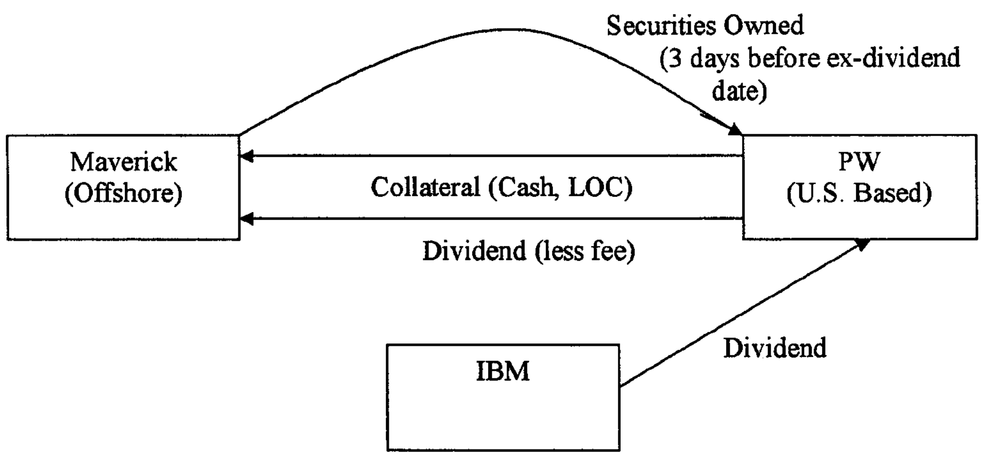
- Client does not make an entry on their books for the return of the shares, but makes the following entry for revenues from dividend:

DR. Cash	$9,000	
CR. Dividend revenue		$7,000
CR. Int. Income – Stock loan		$2,000

- *Note that this entry is to achieve the recognition of income from both the dividend declared by the U.S. company and the interest income on the stock loan netted against an approximate 10% transaction charge by PW.*

Accounting Treatment

Currently, Maverick is including the shares exchanged with PW related to these transactions in their share register causing the applicable cash held to be classified as securities.



<u>Domestic Securities – Short</u>

Dividend enhancement on short securities held in Fund II and LDC is designed to decrease the amount of dividends paid on short domestic securities from 100% to 97%. Maverick transfers cash to PW, a U.S. based entity, to cover its short position, which results in a dividend enhancement receivable balance during the enhancement period. As is the case for long securities enhanced, Maverick makes no changes to its cash or position balances during the enhancement period. Rather, a receivable is booked at month end.

Upon completion of the enhancement period (generally 2 –4 weeks), PW returns the cash collateral to Maverick and the short position to Maverick's brokerage account.

Foreign Securities
Dividend enhancements on foreign securities are handled by Lehman Brothers (LB). When a foreign security is enhanced, Maverick lends the security to LB and receives cash collateral equal to the market value of the security. Upon completion of the enhancement period, the % of dividend paid to Maverick depends upon the circumstances surrounding the transaction such as demand for the security. LB returns the securities to Maverick and Maverick pays the cash collateral to LB. LB then pays Maverick the dividend less fees.

CN=Keith Hennington/O=Maverick

From: CN=Keith Hennington/O=Maverick
Sent: 11/11/2004 11:37:00 AM
To: CN=Shari Robertson/O=Maverick@maverickcap
Subject: Re: Fw: Microsoft strategy on capturing the $3.00 dividend for non-US holders only.

agree - Joe, Jim, and I looked at alternatives on this a couple of weeks ago. Joe and Jim found the best deal through stock loan. We also thought any special transactions on large dividends might stand out and the IRS might start looking at any transactions in MSFT. Stock loan seemed like the more conservative approach.

Shari Robertson/Maverick
11/11/2004 10:01 AM

To
Keith Hennington/Maverick@maverickcap
cc

Subject
Fw: Microsoft strategy on capturing the $3.00 dividend for non-US holders only.

----- Forwarded by Shari Robertson/Maverick on 11/11/2004 10:01 AM -----

Joseph Manogue/Maverick
11/11/2004 10:00 AM

To
Shari Robertson/Maverick@maverickcap
cc
Jim Chen/Maverick@maverickcap
Subject
Fw: Microsoft strategy on capturing the $3.00 dividend for non-US holders only.

Permanent Subcommittee on Investigations
EXHIBIT #6

The strategy forwarded to you requires we sell our stock and buy call options and get 93% of the dividend.

Jim has been working on this for the last 2 months and he got UBS to match the more aggressive offers we were getting from the Street. For LDC only - we lent the stock out and will get 97% of the dividend.
----- Forwarded by Joseph Manogue/Maverick on 11/11/2004 09:56 AM -----

Shari Robertson/Maverick
11/11/2004 09:49 AM

To
Joseph Manogue/Maverick@maverickcap
cc

Subject
Fw: Microsoft strategy on capturing the $3.00 dividend for non-US holders only.

----- Forwarded by Shari Robertson/Maverick on 11/11/2004 09:49 AM -----

mboucher@CandW.ky
11/11/2004 09:11 AM

To
shari.robertson@maverickcap.com
cc

Subject
Fw: Microsoft strategy on capturing the $3.00 dividend for non-US holders only.

just passing this along.....let me know if the attachments make it, if not
I'll resend it later when I get back in the office

"Blair Gauld" <bgauld@queensgate.com.ky> wrote:

> Hi Michelle,
>
> Nick Walker contacted me this morning after he had noted that Maverick holds
a
> significant amount of Microsoft shares and that Microsoft had just declared
a
> large dividend. He has a strategy that he has used in the past to avoid a
> large part of the withholding tax associated with US dividends. He asked me
to

> forward the attached memo to you which describes the strategy and hopes that
> you can forward it to the appropriate person at Maverick. Below is an
e-mail
> from Alberto Muro, from York Stockbrokers, and attached is a short memo from
> Nick describing the strategy. Alberto's e-mail address is below if anyone
is
> interested in discussing the strategy with him or Nick.
>
> Regards,
>
> Blair
>
>
> -----Original Message-----
> From: Alberto Muro [mailto:muro@lotusconsult.com]
> Sent: 04/11/2004 11:59 AM
> To: Blair Gauld
> Subject: Microsoft strategy on capturing the $3.00 dividend for non-US
holders
> only.
>
>
> Hi Blair,
>
> Please find attached a strategy developed by us for non-US clients to avoid
> withholding on the big dividend payout that Microsoft is paying soon.
> If you have any Offshore Fund that you know , please show to them and if
they
> can do the trade thru us will be appreciated.
> Best Rdgs,
> Alberto.
>

This mail sent using CandW.ky Webmail - http://webmail.candw.ky
<MSFT .doc was removed>

CN=Chad Chisolm/O=Maverick

From: CN=Chad Chisolm/O=Maverick
Sent: 6/1/2007 4:31:59 PM
To: CN=Jeffrey Liggitt/O=Maverick@maverickcap
Subject: Fw: FIN 48 Tax Positions - DRAFT memos

fyi

----- Forwarded by Chad Chisolm/Maverick on 06/01/2007 03:31 PM -----

debra.taylor@ey.com
06/01/2007 03:27 PM

To
Chad.Chisolm@maverickcap.com
cc
joseph.bianco@ey.com
Subject
Re: Fw: FIN 48 Tax Positions - DRAFT memos

Chad,

We'll look into this and get back to you at the beginning of the week.

Debra F. Taylor
International Tax Consulting
NY Financial Services Office
212-773-2978 Phone
866-244-5265 Fax
debra.taylor@ey.com

Chad.Chisolm@maverickcap.com
06/01/2007 03:57 PM

To
joseph.bianco@ey.com
cc
debra.taylor@ey.com
Subject
Re: Fw: FIN 48 Tax Positions - DRAFT memos

Permanent Subcommittee on Investigations
EXHIBIT #7

Joe,

Now that 6/15 is approaching, we are considering whether we need to go ahead and remit the 2006 income tax withholding that we accrued for FIN 48 purposes in connection with the stock loan fee income earned during 2006. Recall that Goldman withholds U.S. taxes on these transactions but our other brokers typically do not. We determined in December that we should probably accrue these taxes even though nothing is actually withheld by our other brokers. We will need to address whether or not to pay these taxes for pre-2006 years whenever we file protective returns for those years. As for the 2006 tax year, we will likely be filing a return for each of our foreign funds (extension due 6/15) that is treated as a corporation for U.S. tax purposes. My question to you is how/if we should remit these taxes given that the brokers did not deem these as subject to withholding and thus did not provide a 1042S to these entities.

We need to know what to do very soon as the 6/15 deadline is approaching.

Thanks.

joseph.bianco@ey.com

joseph.bianco@ey.com
12/22/2006 01:35 PM

To

keith.hennington@maverickcap.com

cc

Chad_Chisolm@maverickcap.com, keith_hennington@maverickcap.com, michelle.perrin@maverickcap.com, steven.menna@ey.com, Suzanne.Guthrie@maverickcap.com, Vahan.Zerounian@ey.com

Subject

Re: Fw: FIN 48 Tax Positions - DRAFT memos

I think that with that we should be good for 2006 - no need to talk further if interest, penalties, foreign issue turn out immaterial as you believe. Can follow up re 2007 after New Year. If we need to discuss next week - try me on (

Redacted by the Permanent
Subcommittee on Investigations

Happy holidays to everyone.

Regards,
Joe

Joseph Bianco
212-773-3807 - direct
212-773-7142 - fax
866-241-8999 - efax
joseph.bianco@ey.com - email
keith.hennington@maverickcap.com
12/22/2006 02:21 PM

To
joseph.bianco@ey.com
cc
Chad_Chisolm@maverickcap.com, keith_hennington@maverickcap.com,
steven.menna@ey.com, Vahan.Zerounian@ey.com, michelle.perrin@maverickcap.com,
Suzanne.Guthrie@maverickcap.com
Subject
Re: Fw: FIN 48 Tax Positions - DRAFT memos

Joe,

My main concern is that we have a firm agreement by the end of next week on how to treat these transactions in the 2006 financials. As Steve will tell you we like to have these things nailed down before the actual audit takes place. To the extent that we need to have a call to discuss I am available at any time next week. Here is where I think we are at this point.

Borrow fee - I agree with Matt's points and will do the following:

For 2006 - We will also compute interest and penalties on the amount we have accrued. I doubt it will be material but if it is then we should add to the liability. We will compute this by Wednesday of next week.

For 2007 - We should analyze the possibility of paying the liability that we have already accrued and withholding on future payments.

Stock loan transaction

For 2006 - It appears that we are in agreement that we have met the 50% threshold (at least for US securities). I don't want to assume too much so can you confirm that EY is in agreement with that conclusion.

I believe that the foreign transactions are immaterial but we can quantify the amount next week as well.

For 2007 - I would be interested to hear how Matt's analysis differs from ours.

We might also incorporate his views into our documentation. We will also file protective returns so that the statute begins.

Thanks,

Keith
joseph.bianco@ey.com

joseph.bianco@ey.com
12/22/2006 08:31 AM

To

steven.menna@ey.com, keith_hennington@maverickcap.com, Chad_Chisolm@maverickcap.com

cc

Vahan.Zerounian@ey.com

Subject

Fw: FIN 48 Tax Positions - DRAFT memos

Please see below for comments - let me know if you would like to discuss further.
Regards,
Joe

Joseph Bianco
212-773-3807 - direct
212-773-7142 - fax
866-241-8999 - efax
joseph.bianco@ey.com - email
----- Forwarded by Joseph Bianco/NewYork/TAX/EYLLP/US on 12/22/2006 09:34 AM

Matthew Blum/NATL/TAX/EYLLP/US

12/22/2006 07:10 AM

To
Joseph Bianco/NewYork/TAX/EYLLP/US@EY-NAmerica
cc

Debra F. Taylor/NewYork/TAX/EYLLP/US@EY-NAmerica, Howard Leventhal/Cons/TAX/EYLLP/US@EY-NAmerica, David A. Golden/National/TAX/EYLLP/US@EY-NAmerica
Subject
Re: Fw: FIN 48 Tax Positions - DRAFT memosLink

Joe,

As to the borrow fee issue, keep in mind that there are two sets of liabilities: (a) prime broker has to withhold tax (Section 1442), and (b) Maverick has to pay tax (section 881). Maverick can credit withholding done by the prime broker against Maverick's own tax liability. If the prime broker doesn't withhold, and the IRS catches the prime broker, then PERHAPS the prime broker can go after Maverick for contribution or indemnification -- complex point if the contract is silent. But if the IRS figures out what is going on, the IRS can bypass the prime broker and go straight after Maverick for failure to pay tax imposed under Section 881. The only limit is that the IRS may not collect the tax twice.
Has Maverick considered filing for the back years to enhance chances of getting any penalties abated and put the issue to rest? Also, don't we have to think about interest/penalty accruals for amounts that were not withheld upon, since if the prime broker didn't withhold, Maverick should have paid?
In other words, Maverick has duly noted the ferocity of the dog, but has not acknowledged the need to beware of the owner as well.
As to the dividend planning issue, my analysis doesn't work quite the same way, but I think I come out to the same place on the U.S. side -- I can accept the client's assertion that > 50% chance of succeeding if transaction properly structured. We definitely should talk about what we want to see; not being an auditor, this is rather novel territory to me. As to transactions like this using foreign securities, I would think, in my naïve, non-auditor mindset, that the first order of business is to determine whether amounts at stake are material, and, if so, consult foreign colleagues.
Glad to discuss further, although I will leave on vacation tomorrow and not return until Wednesday, January 10.
Best regards.

Matt Blum
Ernst & Young/International Tax Services
Boston
Phone: (617) 859-6040
Cell: (617) 642-7955
Fax: (866) 211-4729 (U.S. only), (516) 213-8845 (worldwide)
EYCONN: 2636040
Email: matt.blum@ey.com
Administrative assistant: Roslyn Guy (617) 570-8485
Joseph Bianco/NewYork/TAX/EYLLP/US

12/21/2006 07:08 PM

To
Debra F. Taylor/NewYork/TAX/EYLLP/US@EY-NAmerica
cc
Howard Leventhal/Cons/TAX/EYLLP/US@EY-NAmerica, Matthew

Blum/NATL/TAX/EYLLP/US@EY-NAmerica
Subject
Fw: FIN 48 Tax Positions - DRAFT memos

Deb:

This is what I have discussed with Maverick re FIN 48 - see attached for their write-ups. Would love to get your quick toughts - they are looking for general agreement as soon as possible. I think generally we should be ok getting to more likely than not on these - please let me know asap if you have any strong concerns.
Thanks,
Joe

Howard/Matt - curious your general comments as well and wanted to share one clients documentation around FIN 48 for your thoughts as well.

Joe

Joseph Bianco
212-773-3807 - direct
212-773-7142 - fax
866-241-8999 - efax
joseph.bianco@ey.com - email
----- Forwarded by Joseph Bianco/NewYork/TAX/EYLLP/US on 12/21/2006 06:55 PM

Chad.Chisolm@maverickcap.com

12/13/2006 12:13 PM

To
joseph.bianco@ey.com, steven.menna@ey.com
cc
joseph.tepfer@ey.com, Vahan.Zerounian@ey.com, keith.hennington@maverickcap.com, michelle.perrin@maverickcap.com, Jeffrey.Liggitt@Maverickcap.com
Subject
FIN 48 Tax Positions - DRAFT memos

Hello.

We have completed draft FIN 48 memorandums summarizing our historical and prospective positions on the dividend enhancement transaction and the stock loan fee withholding issue for our offshore funds. Please review at your earliest convenience as we would like to complete this analysis before the holidays.

Thanks.

(See attached file: Description of Dividend Enhancement Transactions - for EY.doc)(See attached file: Stock Loan Fee - TEFRA Accrual (for FIN 48) - for EY.doc)

C. Chad Chisolm
Maverick Capital
Tax Manager
E-mail: chad_chisolm@maverickcap.com
Phone: 214-880-4064
Fax: 214-880-4159

<Description of Dividend Enhancement Transactions - for EY.doc was removed>
<Stock Loan Fee - TEFRA Accrual (for FIN 48) - for EY.doc was removed>

Any U.S. tax advice contained in the body of this e-mail was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

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---

CN=Jeffrey Liggitt/O=Maverick

From: CN=Jeffrey Liggitt/O=Maverick
Sent: 2/21/2007 5:01:49 PM
To: Steve.Bokiess@ey.com
Cc: Chad.Chisolm@maverickcap.com; "Shaheda Patel" <Shaheda.Patel@ey.com>
Subject: Re: AMTD Dividend

No, it is from an arrangement with a broker where they hold our shares in their name when the dividend is paid so they do not have to withhold tax due to Levered's foreign ownership.

Steve.Bokiess@ey.com
02/21/2007 03:52 PM

To
Jeffrey.Liggitt@Maverickcap.com
cc
Chad.Chisolm@maverickcap.com, "Shaheda Patel" <Shaheda.Patel@ey.com>, Steve.Bokiess@ey.com
Subject
Re: AMTD Dividend

Are you receiving the "dividend" as a swap payment?

Steven J. Bokiess
Ernst & Young, LLP
Sears Tower
233 South Wacker Drive
Chicago, IL 60606-6301
Phone: 312-879-6560
Fax: 866-751-4482
E-Mail: steve.bokiess@ey.com

Jeffrey.Liggitt@Maverickcap.com
02/21/2007 12:02 PM

To
"Steve Bokiess" <steve.bokiess@ey.com>
cc
"Shaheda Patel" <Shaheda.Patel@ey.com>, Chad.Chisolm@maverickcap.com
Subject
AMTD Dividend

Permanent Subcommittee on Investigations
EXHIBIT #8

Hello -

We have an issue we wanted to run by you regarding a dividend received in Maverick Fund II, Ltd. (Levered).

In 2006, Levered received a $6 payment from AMTD which was classified as 50% dividend and 50% return of capital based on AMTD's calculations. Levered enhanced this dividend so all it was treated as substitute dividend. We were wondering if you know of any way that we could treat some of the enhanced dividend as return of capital instead of ordinary income (since it was a sub dividend). We have not found anything that would suggest such treatment but it could be quite beneficial from a tax perspective if we could justify a return of capital treatment.

Any thoughts?

Jeffrey Liggitt
Maverick Capital, Ltd.
300 Crescent Court, 18th Floor
Dallas, TX 75201
Phone: (214) 880-4025
Fax: (214) 880-4159

Domestic Dividend Enhancements

1. **General**

Current domestic dividend enhancements are done at UBS PaineWebber. Stocks are borrowed from our account a few days before the ex-date of the dividend. UBS does a swap on their side with a third party to be held for 30 days. Maverick is able to freely sell the stock during this 30-day period, but any sale made reduces the stock loan interest from 90% of gross dividends to 85%. The 5% reduction is used to cover costs associated with UBS borrowing other shares to cover our sale. **Cost for sales are now the borrow costs of the securities sold (Market value * 40bps * # of days until swap termination / 360).**

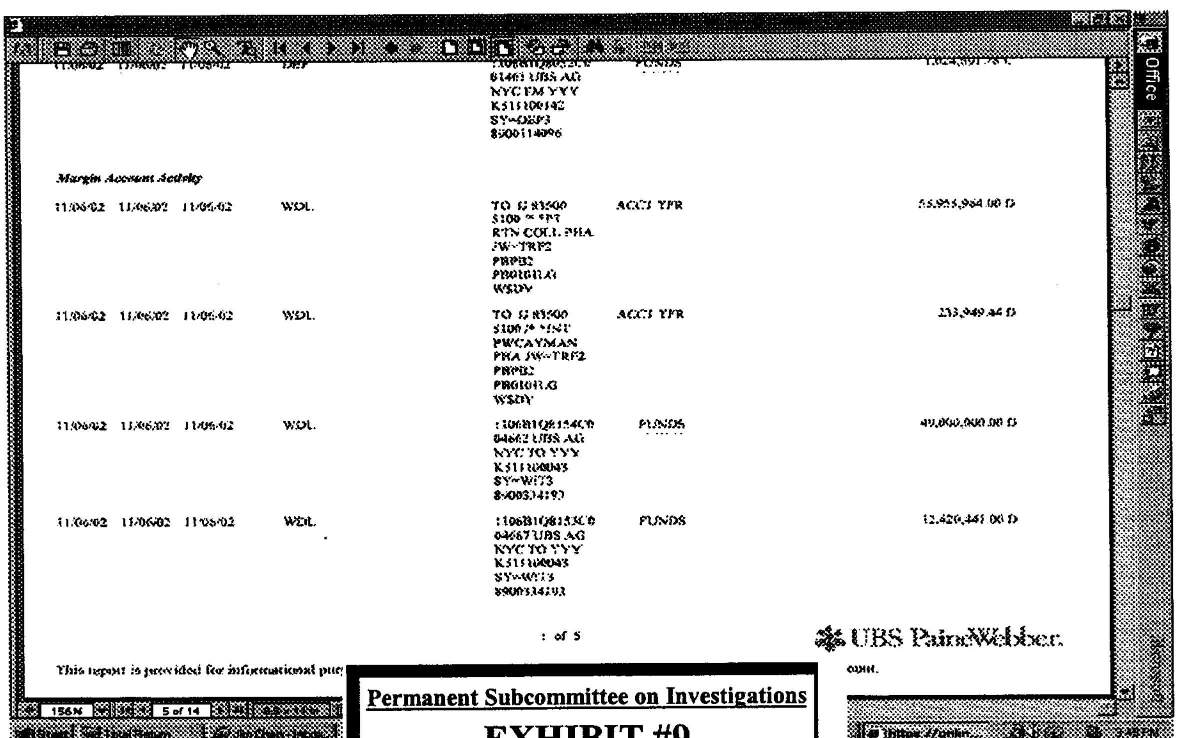
2. **Financing**

When UBS borrows stocks set for enhancement, they replace them with cash collateral that is equivalent to the market value of the stocks. A separate spreadsheet is prepared by Leon Garry (212-713-7863) to track the cash collateral per stock per fund. This spreadsheet is also used to calculate the margin interest expense associated with the cash collateral loan.

Leon will need instructions on where to send the collateral funds. **The funds must be sent to an offshore primebroker account to keep this an offshore transaction.** Currently, the options are UBS London (16USD1), Goldman London (17USD1), Lehman Brothers (18USD1), or Barclays Bank (20USD1 – not the Bank of New York instructions). Where to send the collateral depends on actual debit balances versus debit balance goals set on the daily PB report. Some juggling may be needed to keep everyone in a debit balance.

Book the collateral wires as cash transfers from UBS PaineWebber New York even though no cash is sent from there (This creates a rec. item on the cash rec.) The wires are actually sent from UBS Cayman, but since it's a short-term loan and not our money, we just treat it as a rec. item.

The sale of an enhancement stock or a mark to market on the value of the outstanding borrows are the two ways current collateral can change. They are booked on the UBS report as either a partial return (PT RTN COLL PHA) or a mark to market (Mark to MKT C) as shown below. Adjust current dividend rec. items by adding the collateral returned for partial returns, adding the collateral returned for negative marks to market, or by subtracting the additional collateral for positive marks to market. Make sure to adjust the specific rec. line that includes the stock. For instance: "PT RTN COLL PHA" would create an adjustment of positive $55,955,964 to the line rec. item which includes PHA. It would be titled "Dividend enhancements PHA, MO" or something similar. **Make sure to adjust the amount, not type over it.**



				01461 UBS AG NYC FM YYY K511100142 SY~DEP3 8500114096		
Margin Account Activity						
11/06/02	11/06/02	11/06/02	WDL.	TO U 83500 5100 * PT RTN COLL PHA JW~TRF2 PBPB2 PB0101LG WSDY	ACCT TFR	55,955,964.00 D
11/06/02	11/06/02	11/06/02	WDL.	TO U 83500 5100 /* INT PWCAYMAN PHA JW~TRF2 PBPB2 PB0101LG WSDY	ACCT TFR	233,949.44 D
11/06/02	11/06/02	11/06/02	WDL.	:106B1Q8154C0 04662 UBS AG NYC TO YYY K511100043 SY~WIT3 8900334193	FUNDS	49,000,000.00 D
11/06/02	11/06/02	11/05/02	WDL.	:106B1Q8153C0 04667 UBS AG NYC TO YYY K511100043 SY~WIT3 8900334193	FUNDS	12,420,441.00 D

: of 5

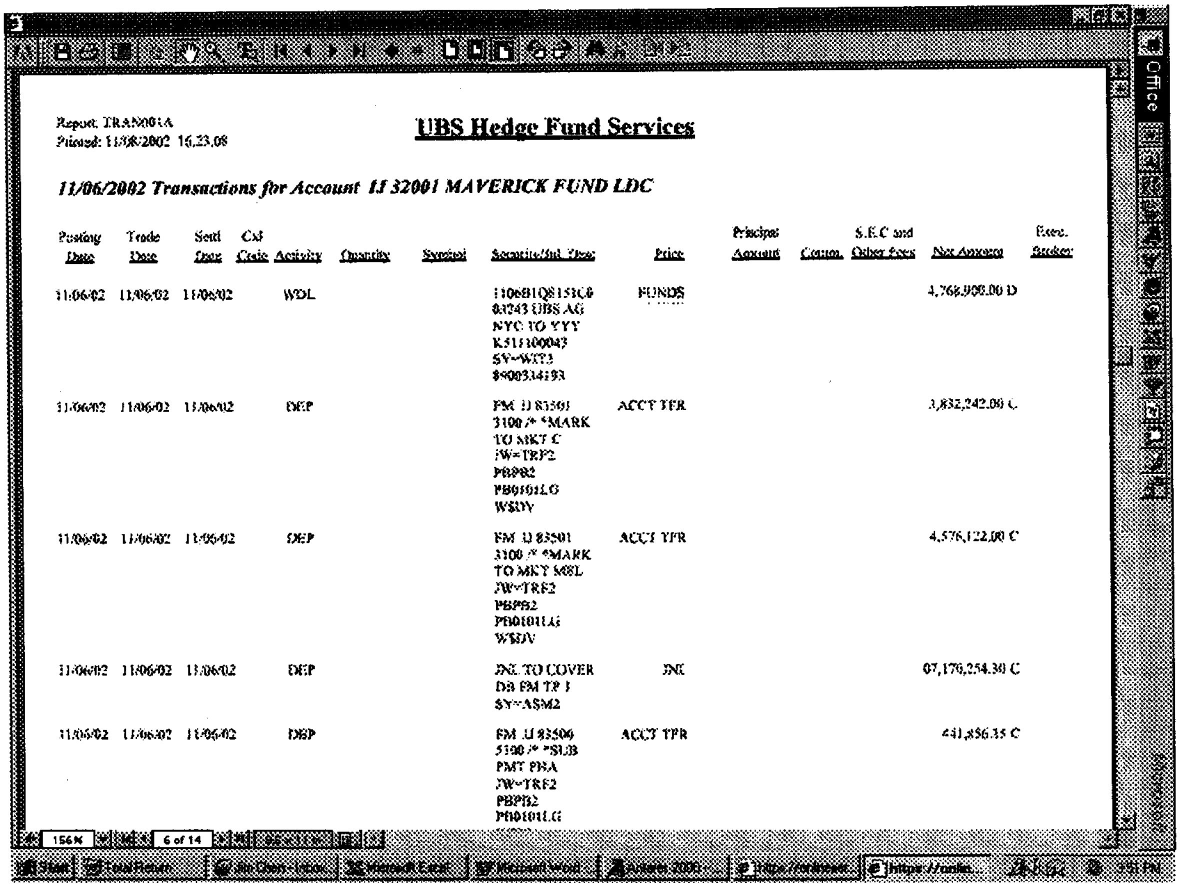
UBS PaineWebber

This report is provided for informational pu[...] com.

156% 5 of 14

Permanent Subcommittee on Investigations

EXHIBIT #9



Report: TRAN001A
Printed: 11/08/2002 16.23.08

UBS Hedge Fund Services

11/06/2002 Transactions for Account IJ 32001 MAVERICK FUND LDC

Posting Date	Trade Date	Settl Date	Cxl Code	Activity	Quantity	Symbol	Security/Ind. Desc	Price	Principal Amount	Comm.	S.E.C and Other Fees	Net Amount	Exec. Broker
11/06/02	11/06/02	11/06/02		WDL			1106B1Q8151C6 03243 UBS AG NYC TO YYY K511100043 SY=WIT3 $900334193	FUNDS				4,768,900.00 D	
11/06/02	11/06/02	11/06/02		DEP			FM IJ 83501 3100 /* *MARK TO MKT C JW=TRF2 PBPB2 PB0101LG WSDV	ACCT TFR				3,832,242.00 C	
11/06/02	11/06/02	11/06/02		DEP			FM IJ 83501 3100 /* *MARK TO MKT MSL JW=TRF2 PBPB2 PB0101LG WSDV	ACCT TFR				4,576,122.00 C	
11/06/02	11/06/02	11/06/02		DEP			JNL TO COVER DB FM TP I SY=ASM2	JNL				07,170,254.30 C	
11/06/02	11/06/02	11/06/02		DEP			FM IJ 83506 5100 /* *SUB PMT PHA JW=TRF2 PBPB2 PB0101LG	ACCT TFR				441,856.35 C	

156% 6 of 14

3. **Month-end margin interest accruals.**

At each month-end, there is an accrual booked for the cumulated margin interest expense derived from the collateral loan. Leon will email the accruals upon request. Make sure the fed funds open rates used are correct. Add the cumulated margin interest for all outstanding dividend enhancements. Book the amounts in the following entry in Total return: IM2.20 IMO

700042 Margin interest expense	XXXX	
310110 Margin interest payable		XXXX

Ref: Margin interest-dvd enhance

Put all the support in the month-end UBS folder.

4. **Booking dividends.**

UBS books two entries when dividends are paid. The first entry is the margin interest expense labeled "INT PWCAYMAN PHA" in the printout above. This amount is the total margin interest due for the collateral loan of PHA during the entire holding period. Leon will send an email for the calculation support. Remember that part of the interest has already been recorded, so only the portion of new interest should be booked against margin interest expense. The entry in Total Return includes three parts…the additional margin interest expense, the reversal of the interest payable, and the credit to UBS cash. The reversal of interest payable will be the amount accrued in the previous month-end. The amount will be on the interest sheet in the previous month-end UBS cash folder.

> **Example**: IM2.20 IMO – PHA is enhanced and shares are borrowed on 10/15. From 10/15 to 10/31 interest accrued amounts to $30,000. On 10/31, $30,000 would be booked in Total Return as a credit to 310110 (margin interest payable) and $30,000 would be booked as a debit to 700042 (margin interest

expense). Then on 11/15, the shares and loan are returned and UBS charges us the total margin interest amount of $50,000. $50,000 would be a credit to UBS cash, $30,000 would be a debit to margin interest payable, and $20,000 would be a debit to margin interest expense.

700042 Margin interest expense	20,000 (additional interest expense not accrued)
310110 Margin interest payable	30,000 (amount accrued previous month-end)
13USD UBS Cash	50,000 (total interest expense)

Ref: PHA mrgn int exp

The second entry UBS books is labeled "SUB PMT PHA." This amount will either be equal to 90% or 85% of the total gross dividend. 70% of the gross dividend will be booked as a regular dividend ("gross" with zero withholding - no tax was actually withheld) in Total Return. The other transaction in Total Return will be interest on stock loan (600021). The amount booked will either be 15% or 20% of the gross dividend depending if there was a stock sale or not. The two Total Return transactions should add up to the amount UBS pays.

Example: On 10/15, PHA is enhanced with 1,000,000 shares with a gross dividend rate of .10. No shares were sold during the enhancement period. On 11/15, shares are returned and UBS credits our account with $90,000. $70,000 (70% of gross $100,000) would be booked as a regular dividend with no withholding tax. $20,000 (20% of gross $100,000) would be booked as interest on stock loan.

Sometimes not all the shares we hold get enhanced, so there could be a dividend paid outside the enhancement along with the dividend enhancement. In these cases, interest on stock loan is not affected, but the regular dividend entry is modified.

Example: On 10/15, PHA is enhanced with 1,000,000 shares with a gross dividend rate of .10. 100,000 shares were outside of the enhancement on the night before ex-date. On the pay date of the dividend, UBS credits our account $10,000 for the gross dividend and debits our account $3,000 for the tax withholding (assuming LDC, Fund II will have a withholding rate of about 22%.) On 11/15, shares are returned and UBS credits our account with $90,000 (no shares were sold). This time, the regular dividend entry will be different. $80,000 (70% of gross $100,000 plus 100% of gross $10,000) would be booked as a regular dividend with $3,000 withholding tax. The interest on stock loan entry would stay the same...no additional shares were enhanced.

Permanent Subcommittee on Investigations

EXHIBIT #10

EXCERPTS FROM UBS DOCUMENTS

"UBS Cayman Ltd. Was formed in 1999 to facilitate long dividend enhancement for the firm's hedge fund clients, and in 2001 added short dividend enhancement services."

UBS Cayman Ltd Capital Request – Request for Circular GEB Approval
1/23/2004, UBS 000521

"In particular, UBSCL is not licensed, registered or regulated (e.g., by reason of capital adequacy requirements) as a broker/dealer or similar entity in any jurisdiction, cannot access the capital markets except though a broker/dealer, and does not hold itself out as a broker/dealer. UBSCL is not, and does not hold itself out as being, capable of servicing customers (e.g., it does not possess adequate systems or personnel), UBSCL's counterparties do not view themselves as UBSCL's customers, and UBSCL does not have any fiduciary duties to its counterparties. UBSCL does not make markets, possess inventory, or have an established place of business. UBSCL does not hold itself out as a merchant or as willing to enter into either side of securities or derivative trades."

Footnote 4 at page 4 of "technical analysis" prepared, at UBS's request, by Sullivan & Cromwell LLP and provided to the Internal Revenue Service
[No Date Provided] UBS 000474

From:	Ryan, Patrick D [pryan@lehman.com].	Sent:11/1/2004 3:03 PM.
To: [-]	Tong, Cindy [cindy.tong@lehman.com].	
Cc: [-]	.	
Bcc: [-]	.	
Subject:	Highbridge Utility Fund - Electronic Execution into CFD.	

When: Tuesday, November 02, 2004 1:30 PM-2:00 PM (GMT-05:00) Eastern Time (US & Canada).
Where: PB Conference Room (by PB desk in SE corner of 2nd)

~~*~*~*~*~*~*~*~*

Thought it would be useful to get us in a room for 20 mins to discuss the following;

I know there are numerous discussions and work underway with Highbridge around using Lehman Links for execution on their Utilities Fund.
Since they PB with us, we are also in discussions with them around yield enhancement on their long positions by using a CFD. This service involves tax risk for the firm which would be reduced if we can route their electronic trades direct to CFD instead of their PB account. Think we should get on the same page as to our separate goals here and see if we can solve for both our issues. Thanks.

Permanent Subcommittee on Investigations
EXHIBIT #11

From: Ryan, Patrick D [pryan@lehman.com] Sent: 11/29/2004 11:45 AM
To: [-] Maynard, Ian [imaynard@lehman.com]
Cc: [-] Ryan, Patrick D [pryan@lehman.com]
Bcc: [-] .
Subject: FW: Highbridge LPS Basket

Hi Ian
According to the email below, the 4 US securities below pay cash divs but are not subject to withholding since they are classified as hybrid securities (for tax purposes). That would mean a Cayman holder would not suffer 30% withholding and would have no incentive to hold the positions in a synthetic structure. Right now we are holding all of these securities in an LPS for Highbridge (and they are on Net B/S). Based on this information I would like to move the positions back to their PB account but wanted to run it by you to see if I am missing something. Would hate to do this and find out down the road that HB owe withholding tax on the dividends.
Would appreciate your thoughts on whether to proceed.
Thx
Paddy

> -----Original Message-----
> From: Murray, Karen
> Sent: Friday, November 26, 2004 9:48 AM
> To: Black, Elizabeth; Baldassano, Matt; Ryan, Patrick D; Taxops
> Subject: RE: Highbridge LPS Basket
>
> Anthony,
>
> The two remaining securities are tax exempt also
>
> Thanks
> Karen
>
> -----Original Message-----
> From: Murray, Karen
> Sent: Thursday, November 25, 2004 5:56 PM
> To: Black, Elizabeth; Baldassano, Matt; Ryan, Patrick D; Taxops
> Subject: RE: Highbridge LPS Basket
>
> Anthony,
>
> 816851208 SEMPRA ENERGY-8.5% PFD this
> pays a cash dividend, but is gross paying so the client will receive
> 100%
> 156700403 CENTURYTEL INC-6.875% PFD
> this pays a cash dividend, we don't see this as gross paying, but I
> will check
> 302571203 FPL GROUP INC FPL GROUP INC CORP UNITS this
> pays a cash dividend, but is gross paying so the client will receive
> 100%

Permanent Subcommittee on Investigations
EXHIBIT #12

> 370442717 GENERAL MOTORS CORP-6.25% PF this
> pays a cash dividend, we don't see this as gross paying, but I will
> check
> 156700AH9 CENTURYTEL INC CTL 4 3/4 08/01/32
> this is a bond - it pays interest. The client will receive 100%
>
> I'll advise on the two outstanding tomorrow as I need to check this
> with someone in NY
>
> Thanks
> Karen
>
> -----Original Message-----
> From: Black, Elizabeth
> Sent: Thursday, November 25, 2004 3:35 PM
> To: Baldassano, Matt; Ryan, Patrick D; Taxops
> Subject: FW: Highbridge LPS Basket
>
>
> Antony
>
> I have sent this mail to London who will check the cusips and tell you
> if they are seen as interest payments or dividend payments
>
> If dividend payments then their USWT rate on real dividend income
> received is 30%
> If interest paymentes then their USWT rate on real interest income
> received is 0%
>
> Thanks
>
> Liz
>
> -----Original Message-----
> From: Demonte, Anthony V
> Sent: Monday, November 22, 2004 8:30 AM
> To: Black, Elizabeth
> Cc: Ryan, Patrick D; Baldassano, Matt
> Subject: Highbridge LPS Basket
>
> << File: Book1.xls >>
>
> Liz-
> The spreadsheet contains long positions for HB, which we currently buy
> into a swap to enhance their yield for dividends. Can you have a look
> at the top 5 to see if there is any withholding for a Cayman domiciled
> account. We are trying to identify trades where it makes sense to
> leave long positions in their LBIE PB account. Without reducing their
> yield.
> Thanks,
> AD

Verna Ramirez

From: Donna Howe [DHowe@angelogordon.com]
Sent: Wednesday, August 11, 2004 8:34 AM
To: George Fink
Cc: Joseph Wekselblatt
Subject: Re: CFDs

Hi George

I understand that they settle in cash. However it does not appear that they are booked correctly, nor are they documented correctly. I've got a call into Lehman. We may need to change the way we deal with them.

I'll keep you posted.

Donna

>>> George Fink 8/11/2004 6:33:42 AM >>>
donna;
all cfds' settle in cash. a cfd is used to circumvent the tax.

>>> Donna Howe 08/10/04 04:53PM >>>
All,

I see a sycode SLRPRS CFD with Lehman that is booked in TPM as "PS" preferred stock. Obviously this gets booked as a cash instrument. How does it get confirmed? How do we notify Lehman in the trade upload process that this is a CFD rather than a security. I don't see any legal agreements for this. Do they margin us?

Two examples of SLRPRS CFD trades are TRXNUM A4063713 on April 1, 2004 and A4069046 on April 13, 2004 in CVPF

Thanks

Donna

From: Sarah Robertson <SRobertson@angelogordon.com>
Sent: Tuesday, July 18, 2006 8:12 PM (GMT)
To: Michael Swotes <MSwotes@angelogordon.com>
Subject: Notes from last meeting with Anthony Harpel.

Meeting - February 28, 2006

update mtg with Swotes and Harpel
- team - working well together -- can cover more ground - - ability to go deeper and cover more names --
-event driven/special situations -
less positions -more conviction - evolving more into a stock pickers model

Can look overseas -- UK, Germany , Hong Kong ---

-Contracts for Difference -- used mostly in offshore fund -- so we don't have dividend withholding
CFD is probably about 20% of portfolio

Redacted
by
Permanent Subcommittee
on Investigations

From: PATRICK RYAN [pryan@lehman.com]. Sent:12/30/2004 9:12 AM.
To: [-] STEVE TROMMER [strommer@lehman.com].
Cc: [-] .
Bcc: [-] .
Subject: - Bloomberg internal message sent from PATRICK RYAN <pryan@lehman.com>.

DO U KNOW WHEN PACEY IS GOING TO SPEAK TO A.G. ABOUT UNWINDING THE CFD'S INTO PB?
Reply:
i did some more digging, challenged the tax group on their first answer and it turns out the majority have partial withholding so need to stay in CFD. TYPICAL !
Reply:
I GUESS THE BIGGER QUESTION IS THEN.. IS PACEY GOING TO TELL GARY WOLF WE CAN'T PAY 100%
Reply:
dont think he has the nerve to!

Permanent Subcommittee on Investigations
EXHIBIT #15

From:	Trommer, Steven [LONDON] [STrommer@lehman.com].	Sent:2/4/2005 6:09 AM
To: [-]	Baldassano, Matt [Matt.Baldassano@lehman.com].	
Cc: [-]	.	
Bcc: [-]	.	
Subject:	FW: SWAPS FOR ANGELO GORDON.	

> -----Original Message-----
> From: Okay, Bevin J
> Sent: Wednesday, May 08, 2002 1:37 PM
> To: Ryan, Patrick D; Story, Richard G
> Cc: Trommer, Steve; Pace, Alan; Dorman, Jeffrey S
> Subject: RE: SWAPS FOR ANGELO GORDON
>
> rich, I agree.....if the positions are for longer term we can pay
> 100%.
> I'd also like to take the short in CFD (if possible) to keep a hedged
> synthetic strategy.
> Going forward, please keep me in the dialog up front as it doesn't
> look good that we offered 92.5% and then
> changed pricing. We will generally pay 100% on synthetics if there is
> a term financing element. Multiple
> dividend % for US stocks confuses the picture as swaps/CFD's are not
> subject to withholding unless the sole purpose of the trade
> is for dividend.
> thanks
> -----Original Message-----
> From: Pace, Alan
> Sent: Wednesday, May 08, 2002 7:18 AM
> To: Okay, Bevin J; Trommer, Steve
> Subject: FW: SWAPS FOR ANGELO GORDON
>
> fyi
>
> -----Original Message-----
> From: Story, Richard G
> Sent: Tuesday, May 07, 2002 10:14 AM
> To: Pace, Alan; Dorman, Jeffrey S
> Subject: RE: SWAPS FOR ANGELO GORDON
>
> I think we have to do this to keep AG's business
> (if the prefs are long-term posns to be held > 3mths , but not for
> short-term trades over RD).
>
> Db have given CQS 100% divs + 55bp financing sprd (so we know that AG
> could get this price also).
> Since AG is today 60bp sprd (L+40, 20bp GC s.loan), its just a case of
> structuring the swaps/CFD's
>
> -----Original Message-----
> From: Pace, Alan

Permanent Subcommittee on Investigations
EXHIBIT #16

> Sent: 07 May 2002 13:51
> To: Story, Richard G; Dorman, Jeffrey S
> Subject: FW: SWAPS FOR ANGELO GORDON
>
> what do you want to do?
>
> -----Original Message-----
> From: Trommer, Steve
> Sent: Monday, May 06, 2002 3:06 PM
> To: Pace, Alan; Ryan, Patrick D
> Subject: SWAPS FOR ANGELO GORDON
>
> Gary Wolf called regarding the swaps that was discussed on his
> pref's.
>
> He said he is being quoted by other brokers on the street 100%
> dividend doing it via a total return swap as opposed to the 92.5% we
> offered
> via CFD..
>
> He said he would be looking to do this on his more long term
> positions as opposed to one's that he knows they will be getting out
> of.
>
> He wants a call back tomorrow either way so he knows how and
> with who to proceed
>
> Steve

Equity Finance Yield Enhancement

[auto date]

Yield Enhancement

- The following products are either in the pipeline or in progress:
  - CayCo.
  - LuxCo.
  - DivCo.
  - Basket Transaction

Each item is described below.

[auto date]

Yield Enhancement-Cayco.

- CayCo.-an offshore vehicle organized in the Cayman Islands. This entity borrows shares from residents of 70% and 85% countries. These shares are then loaned, sold vs. swap, or sold outright.
- Approval was sought and received during FY03 for a $25million risk limit. This translated into $12million of P&L.
- Risk limit was increased to $50million in FY04. Anticipated P&L is $25million. Due to implementing suggested structural changes we believe overall risk is lower notwithstanding increased risk limit.
- Supplemental CayCo. Business
  - Final approval received this week to have Cayco. loan borrowed shares to 70% countries or sell vs. swap to 85% countries.
  - These transactions have little or no risk. Annual P&L anticipated to be $5-10 million.

From: Ryan, Patrick D [pryan@lehman.com].	Sent:7/20/2004 10:08 AM.
To: [-] james.thalacker@hcmny.com [james.thalacker@hcmny.com].	
Cc: [-] .	
Bcc: [-] .	
Subject: CFD Presentation.	

James
Here is the CFD (Contract for Difference) presentation I was speaking about.

The Lehman CFD is a unique and simplified version of a Total Return Equity Swap that gives you all the economic upside/downside (price movement, dividends and corporate actions) of a security without you having a physical position in that security. What happens is that Lehman will buy or short the security on its own books and pass the economics to you through the CFD, which is booked into your Prime Broker account along with your physical positions.

The CFD is usually used for yield enhancement purposes (in this case we hold the physical in a US entity and receive 100% of the dividend which we pass to you through the CFD, whereas you would only receive 70% if you physically owned the stock in the Highbridge offshore fund). The CFD is also used to enable clients to trade UK securities without incurring the 50bp stamp tax charge (Lehman London does not pay stamp tax since we are market makers and therefore exempt).

Hope the presentation helps. Let me know if you have any further questions.

Best regards
Patrick

<<CFD's presentation June 2003.ppt>>

Patrick Ryan
Executive Director
Hedge Fund Services
> LEHMAN BROTHERS
* 212 526 7142
Mob: 917 856 0503
* pryan@lehman.com

Permanent Subcommittee on Investigations
EXHIBIT #18

Confidential

EFG US Dividend Exposures

February 2005

LEHMAN BROTHERS

US Dividend Related Businesses

Relevant Structures

- Yield Enhancement Flow (Basket Swaps)
- Yield Enhancement Prop (Basket Swaps)
- Hedge Fund Facing CFD Product (Single Stock)
- Hedge Fund Facing LPS Product (Basket Swaps)

2004 Exposures

Trade Type	Client Base	Lehman Entities	100% Dividends in 2004	WHT @ Risk In 2004	Pricing of Risk	Notes
US Single Stock CFDs	Offshore Hedge Funds	LBIE – CFD LBSF - Hedge	$80mn	$24mn	Pay 100 cents on dollar	Net Balance Sheet $2.5BN
US Basket LPS	Offshore Hedge Funds	LBIE – LPS LBSF - Hedge	$50mn	$15mn	Pay 100 cents on dollar	Net Balance Sheet $3.5BN
US Single Stock Swaps	On/Offshore Banks	LBSF	$5mn	$1mn	Pay 100 cents on dollar	Business halted in 2004
YE Basket Swaps; Flow	Offshore Banks	LB Cayman	$150mn	zero	Pay 66 cents on dollar	Off Balance Sheet: Bond borrows
YE Basket Swaps: Prop	Internal	LB Cayman LBF - Swap LBSF – Hedge	$100mn	$30mn	Pay 66 cents on dollar: 90%	Off Balance Sheet: Bond Borrows

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2005 Exposures Extrapolated

Trade Type	100% DVD December 2004	100% DVD January 2005	Extrapolated Full Year 2005	WHT @ Risk	Projected DVD Spread Revenues
US Single Stock CFDs	$7.5mn	$11mn	$110mn	$33mn	$0mn
US Basket LPS	$5.5mn	$2.8mn	$50mn	$15mn	$0mn
YE Basket Swaps; Flow	$19mn	$19mn	$230mn	zero	$18mn
YE Basket Swaps: Prop	$5mn	$3mn	$48mn	$12mn	$4.5mn

Note: Gross Paying Dividends have been stripped out of the above risk analysis

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2005 Individual Client Exposures

Client	2 Month 100% DVD	WHT Risk Thereon	WHT Risk Extrapolated	Global 2004 LB Revenue
Angelo Gordon	$4.8mn	$1.5mn	$9mn	$12mn
Highbridge	$5.95mn	$1.8mn	$10.8mn	$20mn
CFM Ventus	$0.5mn	$0.15mn	$0.9mn	$12mn
Tykhe	$2mn	$0.6mn	$3.6mn	$2mn
CQS	$1.2mn	$0.4mn	$2.4mn	$14mn
KBC	$1.9mn	$0.5mn	$3mn	$11mn
PHZ Capital	$1.2mn	$0.4mn	$2.4mn	$1mn
JMG Triton	$8.5mn	$2.5mn	$15.3mn	$0 (2005 Account)
Total Selected	$26.05mn	$7.85mn	$47mn	

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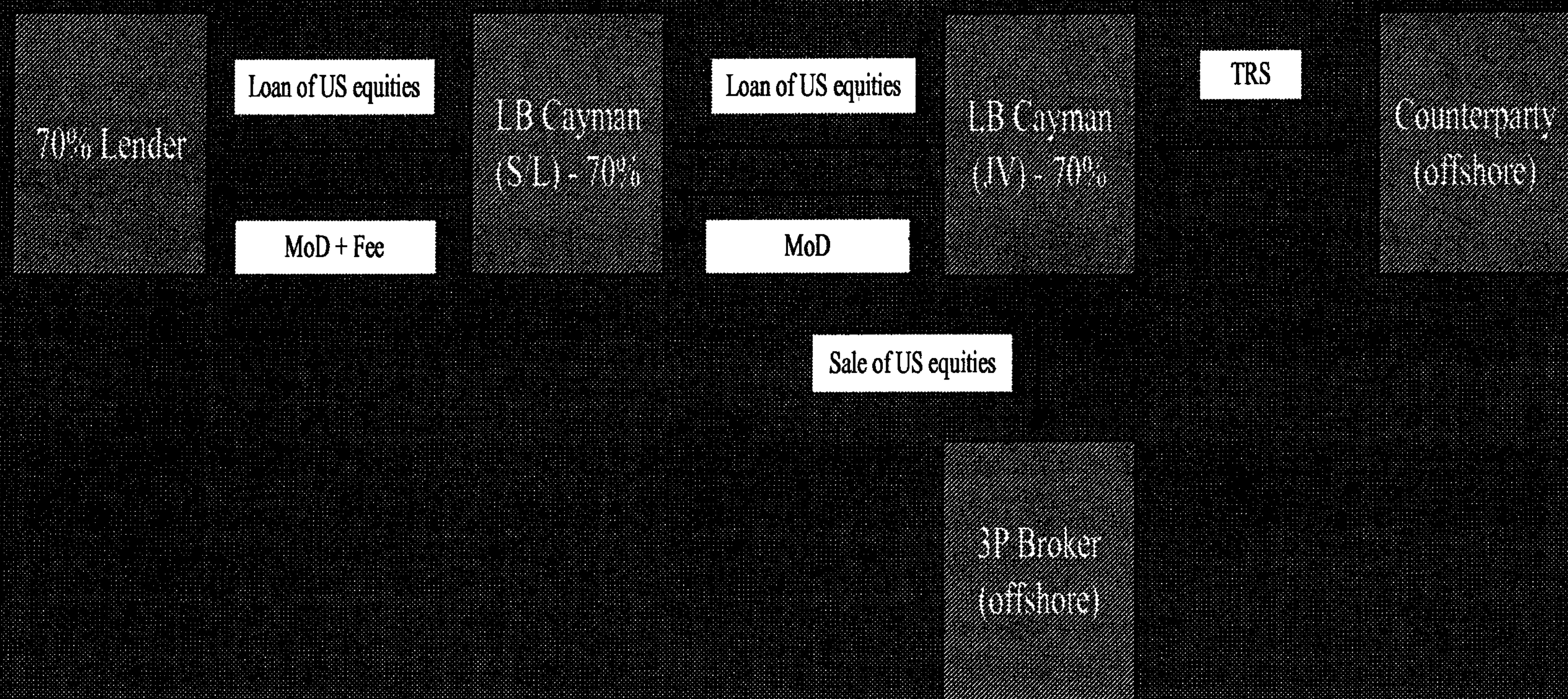
Yield Enhancement US Business

- Capacity Restrictions set by US tax at $50mn
- Business projections are significantly below that limit for 2005 ($12mn projected)
- Box only utilised for small notional and low yield. Significant shift away from Proprieatry risk commenced mid 2004. 2005 projections highlight extent of shift achieved.
- Proprietary trades are 3 month plus in duration
- Reserve maintained at 10% of WHT exposure on boxed positions
- Focus on monetised flow
- 4 Counterparties signed with Cayman: Nomura London Branch, ING London Branch ABN London Branch Cater Allen London Branch In process of completing with Societe Generale London Branchand Hypovereinsbank London Branch.
- LBAL (Hong Kong parent of LB Cayman)staff transact all aspects of trades with client base.
- Stock sourced from offshore funds either directly or through agent lenders
- Risk of Re-categorisation
- QI restrictions
- Triparty agents appointed by LB Cayman to handle collateral movements

Yield Enhancement Flow Diagram (US Offshore Flow)



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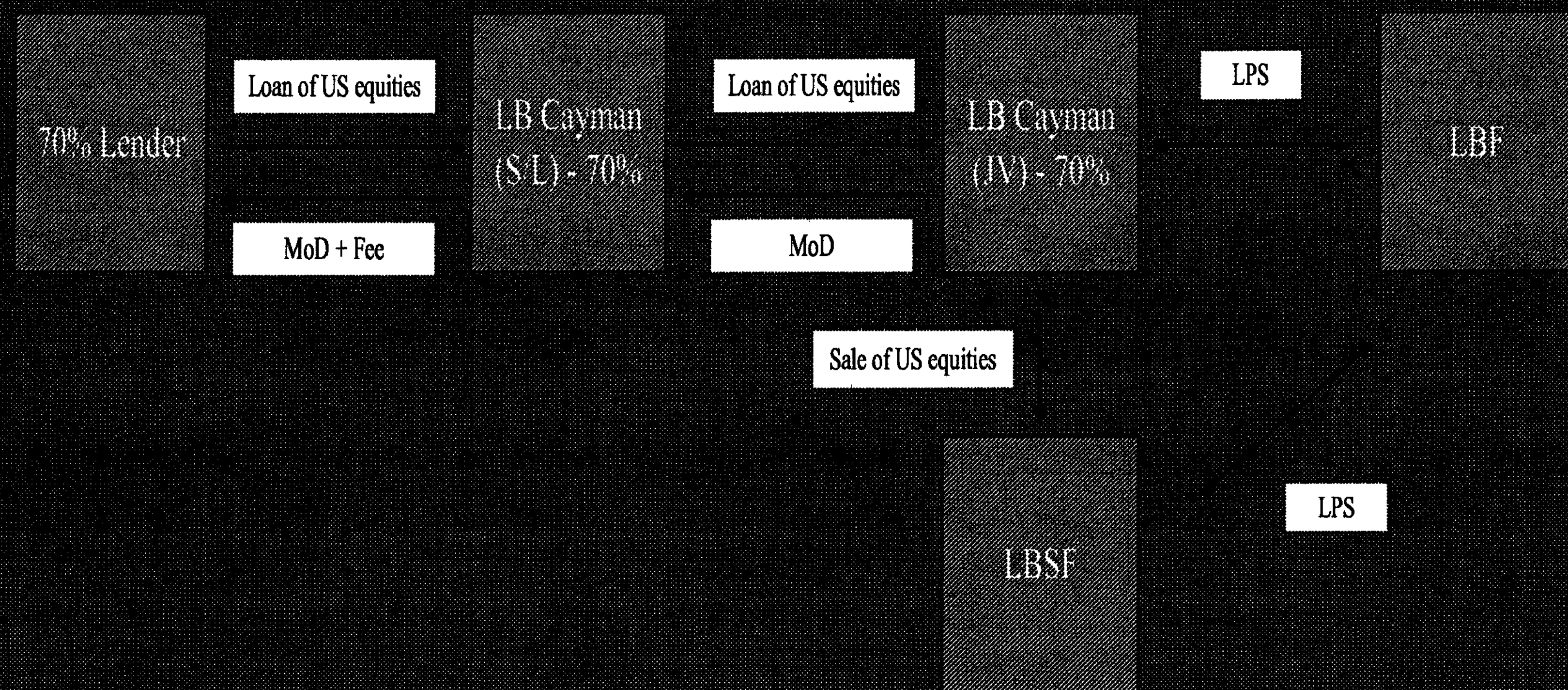
LBHIPSI00002539

Yield Enhancement Flow Diagram (US box)



LEHMAN BROTHERS

From:	Demonte, Anthony V [ademonte@lehman.com].	Sent:9/1/2005 8:00 AM.
To: [-]	Baldassano, Matt [Matt.Baldassano@lehman.com]; Maynard, Ian [imaynard@lehman.com]; Boraczek, Bob [bob.boraczek@lehman.com].	
Cc: [-]	Demonte, Anthony V [ademonte@lehman.com].	
Bcc: [-]	.	
Subject:	MCIP.	

Special Div coming up...There is a shareholder vote on Oct 6th, the special div record date is not announced at the moment.
HB looking for Yield Enhancement on a large position. We would need to do VS a Swap..We can add to a existing LPS. They understand the way we would unwind the Swap. We need to be as competitive as possible.
They are 98 bid away from Lehman, at the very least we need to match.
The Counterpart offering 98 is UBS. Please keep there bid with UBS to yourself as I had to squeeze that information out of HB, they really weren't too comfortable with sharing that information.

HB looking for a answer ASAP

Thanks
AD

Anthony V. DeMonte
Equity Finance, VP
212-526-9025
ademonte@lehman.com

From: Metaxas, James [jmetaxas@lehman.com] Sent:10/25/2004 4:51 PM.
To: [-] Demonte, Anthony V [ademonte@lehman.com].
Cc: [-] .
Bcc: [-] .
Subject: RE: Trade Confirm

Got it, thanks again.

Jim

-----Original Message-----
From: Demonte, Anthony V
Sent: Monday, October 25, 2004 4:49 PM
To: Metaxas, James
Subject: RE: Trade Confirm

fyi, the only reason for HB to SWap is for yield enhancement.

thx

-----Original Message-----
From: Metaxas, James
Sent: Monday, October 25, 2004 4:48 PM
To: Demonte, Anthony V
Subject: RE: Trade Confirm

Thanks, Anthony.

Jim

-----Original Message-----
From: Demonte, Anthony V
Sent: Monday, October 25, 2004 4:46 PM
To: Metaxas, James
Subject: RE: Trade Confirm

we will trade today, settle on the 28th Record is the 29th ...They are absolutely looking for the div

thx

-----Original Message-----
From: Metaxas, James
Sent: Monday, October 25, 2004 4:38 PM
To: Demonte, Anthony V

Permanent Subcommittee on Investigations
EXHIBIT #21

Subject: RE: Trade Confirm

Anthony -

Are they due the dividends on this as is, or does it have to be a short settle?

Jim

-----Original Message-----
From: Demonte, Anthony V
Sent: Monday, October 25, 2004 4:19 PM
To: NY EQ Swap MO; Prime Highbridge
Subject: FW: Trade Confirm
Importance: High

all-

I will book a new LPS Smart Ticket to represent HI4

thx

-----Original Message-----
From: Demonte, Anthony V
Sent: Monday, October 25, 2004 4:16 PM
To: Anthony Demonte; Daniel Kryzanowski; Erazo, Christina; 'Jordan, James'; Matthew Bowen; Michael Meys; NY EQ Swap MO; Prime Highbridge; Thomas Regazzi
Subject: Trade Confirm
Importance: High

Trade Confirm

Leh Code

Counter-party

Buy/Sell

Account

Desc

Ticker

Cusip

Qnt

Price

Proceeds

T/D

S/D

Basket

Lehman Swap

Buy from

PB High Bridge UTIL (193)

Alliant energy Corp

LNT

018802108

178,209

$ 25.90

$ 4,615,613.10

10/25/2004

10/28/2004

HI4

(Letter) copy

w/ Shar

LEHMAN BROTHERS

Small

April 24th, 2001

Maverick Capital
Attn: Sharyl M. Robertson, Partner
300 Crescent Court
Suite 1000
Dallas, TX 75201

Dear Sharyl,

It was a pleasure meeting with you, Michelle and Joe. As follow up to our meeting we are providing the following:

❖ **Credit and Financing**
Over the next two weeks, we propose a review with senior Lehman Brothers credit executives to provide a fuller understanding of Maverick's financial strength. This meeting will help facilitate expanding of credit lines, setting collateral parameters, cross-netting, secured and unsecured financing facilities, and committed notice provisions.

In addition to the above meeting, we also suggest Joe Manogue meet our Treasury group to gain more insight into Lehman's funding process and the Equity Finance funding framework.

❖ **Insurance Wrapper for Prime Brokerage**
Enclosed are official confirmations from Travelers Casualty and Surety (AA Rated) stating that it has fully insured the net equity for LBIE prime brokerage clients. The coverage extends to assets held on behalf of all Lehman Brothers Prime Brokerage clients at all Lehman custodians and sub-custodians. The policy is available for full legal review with our London counsel.

❖ **Prime Plus**
Our Prime Plus product provides U.S. based hedge funds risk based margin lending with all the benefits of traditional prime brokerage including the insurance wrapper for added protection. Competitive products re-class short securities into a principal stock loan which result in recall exposure and non-insured broker dealer credit. Added benefits of Prime Plus include "one account" processing and enhanced margin and interest reporting.

- **Dividend Enhancement Solutions**

  We have a variety of solutions using swap and securities lending vehicles for achieving yield enhancement. We propose Maverick provide us an *Interest List* on a weekly basis for possible enhancement trades which would result in quoted indicative pricing levels.

- **Electronic Connectivity**

  We would like to demonstrate our new client web-portal Lehmanlive for both Maverick offices in Dallas and New York. Lehmanlive can provide Maverick personnel direct access to all Equity products including research, economics, prime brokerage, and portfolio analytics.

  Lehman Brothers also provides electronic trade connectivity via FIX protocol. Maverick can electronically transmit and receive trade information directly from its order management system. We would like to demonstrate this connectivity in conjunction with the above Lehmanlive demonstration.

  Our Securities Lending Desk can receive and transmit stock loan files via standard transmission methods. A WEB solution is under development and will be available in July 2001. We would like to discuss the current transmission methods and select the best solution for Maverick.

- **Portfolio Management Systems & Prime Brokerage Reporting**

  Our head of prime brokerage technology Gareth Quinn will be contacting you regarding the current portfolio management marketplace. Gareth has years of experience with most vendors and will demonstrate the Beauchamp software previously discussed. We will also make available resource expertise with the GENEVA software product.

  We have recently developed a new suite of prime brokerage reports for June 5th client delivery. Additional reports including accounting and P&L will be released later this year via GENEVA. We will send you a sample of the new report suite May 1st.

- **Lehman Brothers Financials**

  Enclosed are Lehman Brothers' 2000 Business and Financial Review and our 2000 Annual Report. Highlights worth noting include:

  - Total Stockholders Equity of $8.6bil.
  - Total Capital of $43.8bil.
  - Total Assets of $225bil.
  - Conservative short-term debt profile of only 14% of total debt outstanding (GS @ 57% and MSDW @ 35%)
  - Short-term debt to net asset ratio of only 4%
  - Highest coverage of "less-liquid" assets in industry of 427% (GS @ 249% and MSDW @ 241%)
  - Lowest OTC credit exposure in industry of 100% (GS @ 330% and MSDW @ 111%)

- **Lehman Brothers Prime Brokerage "Team Maverick"**
  Attached is our dedicated Lehman Brothers Global Prime Brokerage "Team Maverick" contact list. The team will customize their coverage specifically to meet Maverick's requirements.

We are very pleased to have the opportunity to expand the Maverick Capital/Lehman Brothers business partnership and will formally present a comprehensive service and price proposal immediately after the above follow-up items are completed to Maverick's satisfaction. I will call you in a few days to discuss the above issues and initiate the immediate next steps.

Kindest regards.

Howard Blechman
Managing Director
Global Head-Global Prime Brokerage Group

CC: Joseph M. Manogue
Maverick Capital
767 Fifth Avenue, 11th Floor
New York, NY 10153

ENCLOSURES

Lehman Brothers

Team Maverick

Global Prime Brokerage Group

Senior Account Coverage

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hblechma@lehman.com

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Alan Pace
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nescoffe@lehman.com

Global Equity – Cash Research Sales

Lou Schaufele
U.S. Sales - Dallas
(214) 720-9471

David De Luca, Chris Valli, Chris Mathews
U.S. Portfolio Sales – New York
(212) 526-7032

John Snyder, Peter Jarck
U.S. Trading – Listed, OTC
(212) 526-7610, 528-7055

Andy Gross, Robin Lowe, Britt Lintner
International Sales, Trading
(212) 528-6308, 6306, (44) 207-260-3113

Angel Gonzalez-Sanfeliu
Emerging Market Group Sales
(212) 528-8600

Jay Elkins, Jamie Axford
Hedge Fund Sales
(212) 526-9130

Sent:2/4/2004 1:43 AM.

From: Antonelli, Christopher G [CAntonel@lehman.com].
To: [-] Baldassano, Matt [Matt.Baldassano@lehman.com].
Cc: [-] .
Bcc: [-] .
Subject: FW: Long Transfers

By the way, you should call jim chen in dallas to discuss swaps. We were going back and forth last week, but never connected. Since I'm here, I think you'd be the best person to follow up with him. I think they'd be open to putting some back on once they become comfortable with the fact that we're not going to push them to sign a new isda. Also, tell them about doing long swap/cfd business around record date items so that they get enhanced div treatment on us stocks and so they don't have to move them out to UBS as they have been doing.

His number is:
Redacted by the Permanent Subcommittee on Investigations
Talk to you later.

-----Original Message-----
From: jim.chen@maverickcap.com [mailto:jim.chen@maverickcap.com]
Sent: Saturday, January 31, 2004 2:07 AM
To: Antonelli, Christopher G
Subject: Re: Long Transfers

Do you have a dividend enhancement product for long or short US equities in the offshore accounts? For the long US equities we only do it for our LDC account. For short domestic equities we try to save on our dividend expense in our LDC and Fund II accounts. Let me know.

"Antonelli,

Christopher G" To: "'Jim Chen'"
<jim_chen@maverickcap.com>
<CAntonel@lehman. cc:

com> Subject: Long Transfers

Permanent Subcommittee on Investigations
EXHIBIT #23

LBHIPSI00134533

01/30/2004 10:51

AM

Jim,
I notice that you transfer some of your long position out around their upcoming record dates to UBS. I imagine that is because of the dividend payment. Is there something we can do for you that they are? I'd love to discuss if so.

Thank you.
Chris

Christopher Antonelli
Lehman Brothers
Equity Finance
> * 212-528-0700
> * 646-758-4540
>

From: Harrison, Kevin A [harrison@lehman.com]

Sent: 5/27/2005 8:56 AM

To: [-]

Cc: [-]

Redacted by the Permanent Subcommittee on Investigations

Bcc: [-]

Subject: FW: US Cayman 70% trade.

> -----Original Message-----
> From: Story, Richard G
> Sent: Monday, June 16, 2003 5:02 AM
> To: Brier, Bruce
> Cc: Maynard, Ian; Harrison, Kevin A; Bacanovic, Paul
> Subject: US Cayman 70% trade
>
> so for questions 1 and 2, it seems like you're saying there is no
> alternative other than moving a person to HK ?
> As you know, EFG doesnt have any employees in HK today so there is a
> fairly large admin cost of moving somebody
> from say Tokyo (but its obviously feasible considering the PL we are
> talking about).
>
> Lets explore if a hybrid situation could work between HK/Tokyo :
> 1. can the person travel to HK to execute the trades, but still live
> mainly in Tokyo ?
> 2. If not, what is the minimum time required to be spent in HK per
> annum ?
> 3. can you clarify exactly what that person will have to physically do
> for each trade (in order to minimise US Tax risk) ?
>
> -----Original Message-----
> From: Brier, Bruce
> Sent: 13 June 2003 18:57
> To: Story, Richard G
> Cc: Maynard, Ian; Harrison, Kevin A; Bacanovic, Paul
> Subject: RE: US Cayman 70% trade
>
> Richard
>
> Let me try again with some comments. Please read italics see below.
>
> Bruce
>
> -----Original Message-----
> From: Story, Richard G
> Sent: Friday, June 13, 2003 3:42 AM
> To: Brier, Bruce
> Cc: Maynard, Ian; Harrison, Kevin A; Bacanovic, Paul
> Subject: RE: US Cayman 70% trade
>
> thanks Bruce - this all makes sense. Three questions :
>

Permanent Subcommittee on Investigations

EXHIBIT #24

> 1. Is it critical to have the person in HK (because its a 70%
> jurisdiction) as opposed to Luxembourg (a 70 or 85% jurisdiction
> dependent on whether SICAV or FCP)?
> We have an EFG salesperson in Lux as of last week for EUR div.
> trades, but nobody in HK today, so could do Lux tomorrow but HK would
> take a bit of work. The reason for the bodies is to thwart any
> argument that these entities are non-substantive shells. If a tax
> authority successfully argued this withholding and other taxes could
> be due. Luxco is a separate entity which needs its own staff. Cayco is
> a division of Hong Kong for US tax (check the box) which is why the
> body can work in Hong Kong or Cayman.
>
> 2. If it has to be HK, do they need to be resident in HK or just
> employed by a HK company ? EFG employees resident in Tokyo are
> employed by LBJ but
> Im pretty confident we can arrange fairly easily to switch their
> legal employer to an LB HK co. Maximum reduction in US tax risk if
> resident in Hong Kong. Moreover, if person stayed in Japan HK entity
> could be considered to have a Japanese branch.
>
> 3. Can you explain the LBSF safeguard point you raise - not heard
> about that one ? The safeguard issue is as follows: IRS is could
> argue US withholding tax is due either on the in lieu made by Cayco or
> the swap payment made by LBSF. This safeguard applies to the swap
> payment. While the general rule is no withholding on swaps the IRS
> could argue that LBSF is a agent for Cayco and the dividends collected
> by LBSF are really for Cayco's.(i.e., the swap payment was in fact a
> dividend payment). One existing safeguard is the use of baskets
> instead of swaps. In addition to the basket safeguard I proposed
> having LBSF sell and swap back so that LBSF receives swap payments
> instead of actual dividends. If the IRS used the agent argument there
> would be no withholding since Cayco could receive swap payments
> directly. Unfortunately we have some regulatory issues here I am
> analyzing.
>
> I hope this helps clarify the issues,
>
> Bruce
>
> -----Original Message-----
> From: Brier, Bruce
> Sent: 12 June 2003 22:09
> To: Story, Richard G
> Cc: Maynard, Ian; Harrison, Kevin A; Bacanovic, Paul
> Subject: RE: US Cayman 70% trade
>
> Rich
>
>
>

Attorney Client Privilege

Attorney Client Privilege

>
> Regards,
>
> Bruce
>
> -----Original Message-----
> From: Story, Richard G
> Sent: Thursday, June 12, 2003 12:40 PM
> To: Brier, Bruce; Maynard, Ian
> Subject: US Cayman 70% trade
>
> Bruce

Attorney Client Privilege

> Reason I ask is that we are getting very close to having large
> new supply available which would take us
> above our current approved Risk limit of $25m (per Tax dept
> definition of Risk Limit of the 15/30% WHT) :
>
> 1) currently utilising $12m of Risk Limit @ Jun03 split :
> BGI - $700m @ 2.5% yield of 70% Dublin stock = $5m
> BGI - $500m @ 2.5% yield of 85% Tokyo stock = $2m
> San Paolo - $700m @ 2.5% yield of 70% Lux stock = $5m
>

> 2) potential utilisation within next 4 weeks of $37m of 'Risk'
> split :
> JPM - $3bn of 2.5% yielding 70% Lux stock = $22m
> Citi - $2bn of 2.5% yiedling 70% Lux stock = $14m
> SS - $200m 2.5% yielding 70% Dublin stock = $1m
>
> Having just spoken to Jeff on the topic, we think its probably
> an appropriate time to present a 1-pager to
> Joe Monico & Ian Lowitt on the trade to get their formal
> approval to raise the limit. What are your thoughts
> on this and what do you see as the obstacles in getting $50-100m
> limit approved ?
> Rich

From: Wecker, Jeff [jwecker@lehman.com]. Sent 1/25/2005 7:30 AM.
To: [-] Story, Richard G [rstory@lehman.com].
Cc: [-]
Bcc: [-]
Subject: RE: Conclusions of US div meeting.

Rich,

I read the note that you recently sent regarding div pricing at competitors. Are all the major competitors in the yield enhancement game? If not, who really competes for this business. Who are the biggest in the hedge fund client space?

Jeff

> -----Original Message-----
> From: Story, Richard G
> Sent: Tuesday, January 25, 2005 7:11 AM
> To: Okay, Bevin J; Harrison, Kevin A; Maynard, Ian; Wecker, Jeff
> Subject: RE: Conclusions of US div meeting
>
> Borrow via Cayman is considered by Tax dept to be lower risk than CFD
> in LBIE, so this is no.1 preference if
> Its operationally possible for Fortress to lend us their long posns ?
>
> Either way, suggest you show them 90% as a div. price on longs
>
>
> -----Original Message-----
> From: Okay, Bevin J
> Sent: Monday, January 24, 2005 3:58 PM
> To: Story, Richard G; Harrison, Kevin A; Maynard, Ian; Wecker, Jeff
> Subject: RE: Conclusions of US div meeting
>
> Kevin brought me up to speed on Fortress discussion.
> Please let me know what I can do.
>
> My thoughts:
> - We have CFD's docs in place with Drawbridge Quantitative Strategies
> so should be easy to rep.
> - If we go down the road of CFD, Fortress would need to understand
> that they relinquish control of the underlying (ie no votes, execution
> discretion, reporting etc) and can only give Lehman unwind levels for
> the CFD, that's it.
> - Not sure of the term of the trade but longer the better.
> - Better fact pattern that Fortress business is very broad across
> capital markets and not just this type of trading. Prime brokerage
> relationship includes div, non div names, US, UK, Asia, futures, etc
>
>
> -----Original Message-----
> From: Harrison, Kevin A

Permanent Subcommittee on Investigations
EXHIBIT #25

> Sent: Monday, January 24, 2005 10:25 AM
> To: Okay, Bevin J
> Subject: FW: Conclusions of US div meeting
>
>
>
> -----Original Message-----
> From: Story, Richard G
> Sent: Friday, January 21, 2005 11:32 AM
> To: Wecker, Jeff; Harrison, Kevin A; Maynard, Ian
> Subject: Conclusions of US div meeting
>
> Jeff, Kevin
> 1) Fortress client discussion - I think Bevin is the coverage person
> to join this call ?
> 2) decision on clients to re-mark from 100% to say 85-90% - did John
> want to do this for stat clients or PB clients also ?
> Rich

From: Thomas, Alan (IED) <Alan.Thomas@morganstanley.com>
Sent: Wednesday, July 21, 2004 1:59 PM
To: epm <epm@morganstanley.com>; Boak, Kathleen (IED) <Kathleen.Boak@morganstanley.com>; ssgna <ssgna@morganstanley.com>; mmhotwire <mmhotwire@morganstanley.com>; glbstraders <glbstraders@morganstanley.com>; nyiedhedge <nyiedhedge@morganstanley.com>; nycbdesk <nycbdesk@morganstanley.com>
Cc: fpgswaptrading <fpgswaptrading@morganstanley.com>
Subject: MSFT Total Return Swaps -- FOR INTERNAL DISTRIBUTION
Attach: Message Text.txt

Here are the main points regarding total return equity swaps on MSFT:

WHY
-- Offshore funds are subject to withholding tax of up to 30% on cash dividends from US stocks
-- Morgan Stanley can enhance the dividend payout from 70% to 100% through a total return equity swap
-- This is a great opportunity to highlight an application that is relevant to all dividend-paying securities (not just MSFT)

WHEN
-- The record date for the Special Cash is 11/17/04. We can enter into the transaction at any time, but should aim to do so no later than 11/12/04, for regular way settlement. In other words, there is time, but often the first call gets the trade

COSTS
-- Fees on the swap are the same as commissions on the underlying securities
-- If client already owns MSFT, Morgan Stanley will purchase the stock and enter into a swap transaction with no commissions up-front
-- Financing is the same as PB's "debit" rate
-- If client is not PB'ed at Morgan Stanley, the Financing rate will be competitive with the debit rate at the client's PB
-- If the client does not use leverage, the client has the option to fully collaterize to reduce the financing cost
-- BOTTOM LINE -- The incremental cost of having a swap versus owning MSFT is either zero or minimal depending on the client's situation

CONTACTS
Equity Product Marketing
Kevin Nowlin [PB] x2-5319
Jeff Penney x1-8670
Venk Lal x1-5974
Adam Langsam [Chicago] 3+726-4342
Bill Miller [Boston] 3+856-8781
Paul Zabaleta x1-8603
Tiffany Smith x1-5478

NY-Equity Sales
Kathy Boak [Research Sales] x1-9035

MS-PSI 000798

Permanent Subcommittee on Investigations
EXHIBIT #26

Equity Swaps Desk 212-761-8805
Alan, Scott, Matt, Larry, and Oleg

For those interested, please see "Other Swap Q&A" section below.

Thanks,
Alan

Other Swap Q&A [primarily for Hedge Funds that are PB'ed with MS]

□ How are margin requirements different between PB and Total Return Equity Swap Transactions?
-- As long as the "Bridge Agreement" is executed, there will be no difference in the requirements

□ How is margin / collateral reporting different between US equities in PB and Total Return Equity Swap Transactions?
-- As long as the "Bridge Agreement" is executed, the swap positions will be included in the PB margin reports along with the equity positions. The collateral that is systematically moved to a separate collateral account will be reflected on a separate interest report which is very similar to the PB interest reports.

□ What additional costs are there with Total Return Equity Swap Transactions?
-- There are no costs beyond those incurred when trading and holding in PB the underlying securities
-- Fees on the swap are the same as commissions on the underlying securities
-- Financing is the same as PB's "debit" rate

□ What percentage of the dividend will the Total Return Equity Swap Transaction pay?
-- In contrast to the 70% (30% withholding) of the dividend that is received on the underlying securities, the swap will pay 95-100% of the dividends.

□ What credit exposure is associated with Total Return Equity Swap Transactions?
-- Performance under the equity swap transaction agreement is the obligation of the parties to that agreement. Therefore, the parties are subject to credit risk to each other.
-- Monthly resets are the standard, and go a long way to reducing the credit exposure.

□ How are Total Return Equity Swap Transactions reported?
-- Transaction, position, dividend, financing, and corporate action data is available through ClientLink, and in a format that is very similar to the PB reports.

□ Who will cover my client service needs for Total Return Equity Swap Transactions?
-- The same PB representatives that cover your needs today are well-versed in equity swaps and can handle related issues.

□ How do I terminate a Total Return Equity Swap Transaction and use a different broker to MS for executions?

-- The client may short shares through another B/D. MS will then sell to the client the underlying securities to cover the short and terminate the swap.

□ What documentation is needed prior to entering into Total Return Equity Swap Transactions?

-- Master ISDA Agreement - contains general terms of swap transactions
-- Credit Support Annex - contains collateral related terms
-- ATS Annex - allows for Trade Activity Reports to be delivered and introduces the concept of deemed confirms (only initial confirmation needs to be executed), and therefore substantially simplifies the documentation process around equity swaps [Optional]
-- Bridge Agreement - allows PB to set collateral requirements on the combined equity and swap positions [Optional]

--

Cox, Byron

From: Brennan, Daniel (IED) [Daniel.Brennan@morganstanley.com]
Sent: Monday, August 09, 2004 1:59 PM
To: Thomas, Alan (IED)
Subject: CRM (MOORE CAPITAL) - Microsoft total return equity swap / Moore Capital

MORGAN STANLEY CIS Call Report

FOR INTERNAL DISTRIBUTION ONLY

SUBJECT: Microsoft total return equity swap / Moore Capital

DATE: Aug 9 2004 TIME: 8:00AM

AUTHOR: Daniel Brennan

LOCATION:

TYPE: Client Marketing (Phone Out) CLASS: Full Note

CLIENTS: MOORE CAPITAL
MOORE CAPITAL

CLIENT ATTENDEES

Michael Melnick, CIO/Equit	MOORE CAPITAL	+1 212 7827503
William Scazzero	MOORE CAPITAL	+1 212 7827356

MS ATTENDEES

Kathleen Boak, Managing Di	IED	+1 212 761-9035
Daniel Brennan, Executive	IED	+1 212 761-5578
Shaun Fallon, Executive Di	IED	+1 212 761-5700
David Frost, Vice Presiden	IED	+1 212 761-5259
Roy Martins, Executive Dir	IED	+44 20 7425-668
Scott Ragovin, Executive D	PBRK	+1 212 762-5105
Alan Thomas, Executive Dir	IED	+1 212 761-8805

CONFIDENTIAL SECTION

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MS-INT 004375

MS-PSI 001408

Permanent Subcommittee on Investigations
EXHIBIT #27

pre-clearance.)

Spoke with Bill Scazzero who works on Moore's trading desk to ascertain usefulness of the MSFT total return equity swap for Moore Capital. Bill informed me that Morgan Stanely and Moore Capital frequently transact such swaps to maximize returns given offshore status and dividend withholding issues and that these issues are mostly taken care of our Prime Brokerage group and Moore's back office. Scott Ragovin referred me to Roy Martin from our London financing team, who indicated that he spoke v recently with Tony Gallagher (Moore Dir of Operations) and his assistant Sal Beleno on, amongst other items, the MSFT total return swap. Since the start to end execution of the MSFT swap will be different from other dividend total return swaps we do with Moore, its a bit more complex. As well given Moore Capital trades in and out v frequently, it may not be beneficial for this trade to be entered into. Given some special status attached to the MSFT trade, Alan Thomas thought it may make sense to pitch the MSFT trade details to someone at the PM or trading side vs relying on the operations group. I have let Mike Melnick and Bill Scazzero aware of the basic issues and offered up a conversation with our financing team to drill into the issues. Will look to set up a call with our financing team pending interest from Moore.

DISTRIBUTION

Jon Blum (jblum)
Kathleen Boak (boak)
Daniel Brennan (dbrennan)
Matthew Desalvo (mdsalvo)
Shaun Fallon (fallons)
~~Malachi Flanagan (flanagan)~~
David Frost (frostd)
Robert Karofsky (karof)
Roy Martins (rmartins)
Scott Ragovin (srag)
Marc Robert (marrc)
Alan Thomas (athomas)
Raymond Tierney (rya)
Call Report E-mail Subscribers

From: Penney, D. Jeffrey (IED) <Jeff.Penney@morganstanley.com>
Sent: Thursday, July 22, 2004 8:34 AM
To: epm <epm@ms.com>; dmds <dmds@ms.com>; Boak, Kathleen (IED) <boak@ms.com>
Cc: Portogallo, Richard (IED) <rport@ms.com>; Lalli, Steve (EFS) <lalli@ms.com>; fpgny <fpgny@ms.com>; fpgln <fpgln@ms.com>; Kermisch, Jamie (IED) <jamiek@ms.com>
Subject: MSFT div timing

Please note:
This trade is more urgent than people are assuming. It should be traded NOW. Here's why:
Although the special is slated for November, we do NOT want to put on trades close to record date. Tax risk increases dramatically.
The trade should be put on well in advance of the record date.
There is also a regular dividend in August, which presents a perfect opportunity to get positioned in advance of the special.
Furthermore, we don't want to trade on top of that record date, either.
Bottom line, this is CURRENT BUSINESS, over the next 2-3 weeks. Please do not let clients become complacent.
Finally, feedback from Goldman Sachs PB clients is that they have NOT heard from Goldman on this. We have first mover advantage and need to close.
Regards,
Jeff

Permanent Subcommittee on Investigations
EXHIBIT #28

MSDW Equity Finance Services I (Cayman) Limited ("Cayco")

Outline operating procedures

It is the primary responsibility of any business looking to enter transaction on behalf of Cayco to ensure that these Operating Procedures are completed with. Any transaction that does not comply with any of the terms of these Operating Procedures represents a 'new structure' and requires a sign off from the support areas listed in 5. below (or, where indicated, the specific support area mentioned).

General Restrictions

1. Generally, Cayco is a thinly capitalised company and cannot absorb losses. Any transaction proposed for Cayco must take this into account, including where any profit or loss on the transaction will reside. The business unit controllers and the legal entity controllers should be involved in any such proposals.

2. Cayco should never hold long stock positions. All securities should be sold, loaned or delivered out of Cayco intra day.

3. Cayco must not enter into stocklending arrangements direct with MSIL. If stock needs to be lent to MSIL, any stock should be lent to MSKG and MSKG should onlend the stock to MSIL. An exception may be granted to this rule for deliberate monetisation trades; in such cases, a sign off should be sought on a case by case basis.

4. Surplus cash in Cayco must not be lent to any affiliate or entity in the US without the approval of the Tax Department (because of s.956 (deemed dividend) problems). Any such cash may be lent to MSIL, but only for a maximum of 364 days (otherwise there are interest withholding tax problems).

5. If Cayco (i) is to enter into derivative transactions (including options and swaps): or (ii) is to have equity exposure (i.e. they are not delta flat), dispensation should always be obtained from Law & Compliance, Tax Department, Regulatory Capital controllers and the legal Entity controller.

Specific US Restrictions

6. Cayco may sell stock positions to US institutional investors, using MS&CO as agent and follow rule 15a-6 procedures.

7. Cayco may not enter into stock lending transactions with any US counterparts unless that counterpart is a registered US broker-dealer or bank lending for its own account and as agent for its customers.

8. Cayco may not purchase securities from any person in the US other than a US broker-dealer or bank.

9. Cayco may not enter into derivatives transactions with any US person.

10. Cayco may not carry out any repo activity with any US person.

MS-PSI 020270

Permanent Subcommittee on Investigations

EXHIBIT #29

11. Cayco may not source collateral from MS&CO or from any customer whose account is carried at MS&CO (directly or indirectly through MSIL).

12. Cayco may not lend US equities against cash collateral unless the cash is equal to at least 200% of the value of the US equities or the borrower provides Cayco with a "permitted purpose" representation.

13. Cayco may not carry out any advisory business.

14. Cayco may not invest in futures.

15. Cayco must maintain its books and records in accordance with the US GAAP and in a fair and consistent manner.

= Redacted by the Permanent Subcommittee on Investigations

"SANJAY MADAN, DEUTSCHE BANK SECURI" <SMADAN@bloomberg.net>

10/15/2004 04:12 PM

To: Andrea Leung/NewYork/DBNA/DeuBa@DBNA
cc:
Subject: SARAH WAS GOING TO LEAVE YOU A MESSAGE FROM ME. DETAILS ON

SARAH WAS GOING TO LEAVE YOU A MESSAGE FROM ME. DETAILS ON THE QUESTION IF IT HELPS-
[redacted] AT PHOENIX INVESTMENT PARTNERS OWNS 400,000 SHARES OF MSFT. THE SPECIAL DIVIDEND PAYABLE IN MID NOV WILL CAUSE HIM ACCOUNTING ISSUES. HE SAYS THEY WILL HAVE TO TREAT THE $3 DIV AS A 'RETURN OF CAPITAL' WHICH WILL CAUSE THEM TO HAVE TO 'AMEND 1099'S'. HE IS LOOKING FOR A WAY TO MAINTAIN EXPOSURE TO MSFT BUT AVOID THE DIVIDEND PAYMENT. ARE YOU THE RIGHT GUY TO ASK AB OUT POSSIBLE DERIVATIVE SOLUTIONS? THANKS. KEITH

Permanent Subcommittee on Investigations
EXHIBIT #30

Paul Busby@DBNA
09/16/2004 08:49 AM

To: JP Muir/NewYork/DBNA/DeuBa@DBNA@DEUBAINT
cc: Andrea Leung/NewYork/DBNA/DeuBa@DBNA, EPS-NA, Richard Kennedy/NewYork/DBNA/DeuBa@DBNA, Adam York/NewYork/DBNA/DeuBa@DBNA, Edwin
Subject: Re: Extraordinary Dividend Rules and Microsoft One-Time Dividend

FYI -

We are in the process of determining hedge fund demand for "All In" enhancement to clients and our own proprietary trades with Simon Pearson. We'll be hopefully sitting down as a group in the next week to outline our plan of action on 70% dividend liability underlying.

Paul Busby
Director
Global Equity Prime Services
Securities Lending
Tel 212 250 5766
JP Muir@DBNA

JP Muir@DBNA
09/16/2004 08:37 AM

To: EPS-NA, Richard Kennedy/NewYork/DBNA/DeuBa@DBNA, paul.busby@db.com, Andrea Leung/NewYork/DBNA/DeuBa@DBNA
cc:
Subject: Extraordinary Dividend Rules and [redacted] One-Time Dividend

perhaps useful info....
----- Forwarded by JP Muir/NewYork/DBNA/DeuBa on 09/16/2004 08:33 AM -----

<ErnstYoung.NYFSO@ey.com>
09/14/2004 05:21 PM
Please respond to ErnstYoung.NYFSO

To: JP Muir/NewYork/DBNA/DeuBa@DBNA
cc:
Subject: Extraordinary Dividend Rules and [redacted] One-Time Dividend

As expected, the "qualified dividend" rules enacted last year have affected more than just the tax rate applicable to many dividends. The reduced tax rate on qualified dividends also has encouraged corporations to maintain or increase their dividend payments to investors.

Please click here to read more about Howard Leventhal's and Joe Bianco's comments.

Please click here to update your personal profile.

Please click here to refer a colleague to receive the Ernst & Young Hedge Fund Tax Alert.

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Permanent Subcommittee on Investigations
EXHIBIT #31

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PROJECT: DBIL Rehypothecation: U.S. Record Date Availability Projection

Conference Call
Tuesday, February 6, 2007
Attendees:
Laurence Pillon (London)
Simon Pearson (London)
Don Copans (NY)
SuiMin Zhang (NY)
Andy Pettit (NY)

Background: DBIL (Jersey) executes "blind" rehypothecation trades with U.S. PB clients for dividend capture purposes that run over record dates.

Issue: PB clients recall U.S. dividend stock prior to record date.

Goal: To identify clients that are likely to reduce their eligible U.S. stock positions prior to record date.

Current Process: SuiMin sends file 10 days prior to record date of holdings of the identified U.S. equities by client alias (client is not disclosed).

Working Solution: Utilizing CPort data, SuiMin will retrieve the 10 days prior to the last two record dates, going back 6 months, of the U.S. dividend stocks identified, of the positions held by PB client aliases. Priority order will be those U.S. stocks going record in the next thirty days. This data will be sent to Simon Pearson for analysis.

Next Steps:
1) Deliver historical U.S. dividend stock holdings report to Simon Pearson.
2) Simon will analyze and determine if the data is meaningful.
3) PHASE I - If data has value, SuiMin will construct process to deliver historical U.S. dividend stock holdings history report by client alias 10 days prior to current record date for each applicable issue.
4) PHASE II – Develop correlation analysis by client alias by issue of trading/holdings trends.

Next Follow-up Meeting: Tuesday, February 13, 2007

Permanent Subcommittee on Investigations
EXHIBIT #32

New Product Application

Application ID:	AB104293-1	Request Date:	27 Jan 2005
Product Area:	Prime Services	Product Name:	DBIL Sec Lending ' SEF Structure
Status:	Approved	Requestor:	Natasha Manning

Application Form for CIB

SECTION 1. BASIC DETAILS

General

Requestor Name:	Natasha Manning
Delegate Requestor Name:	Natasha Manning
Requestor Location:	Channel Islands
Business Sponsor:	Simon-Gef Pearson
Required Start Date:	27 Jan 2005
Orignal Required Start Date:	

Business Line

Group Division:	CIB
Business Division:	Global Markets
Business Area:	GM Equity
Product Area:	Prime Services
Desk/Dept:	Offshore Group Banking Division

NPA Category

NPA Category:	Enhancement	Enhancement To:	AB104293-Securities Lending/Borrowing in DBIL

Support Groups Contacted
DB Ldn Global Equities;DB Ldn Prime Brokerage;Tax;Controlling;Operations;Credit;Legal;Treasury - already signed off by mail in Oct 2004

SECTION 2. PRODUCT DATA

Product Name and Description

Product Name: DBIL Sec Lending / SEF Structure

Product Description: This is an alternative structure to the Securities Lending transactions approved for DBIL. This request for approval will essentially be for only one half of the previously signed off structure although we request that everyone re-sign this NPA just to formalise matters. DBIL will borrow US securities from an institutional investor as well as entering into the following transactions - sale of equity to the market, OTC derivative (option or forward). The securities lending transaction falls under the existing NPA. The additional approval is sought for the derivative component of the transaction only. The introduction of DBIL to the Securities Lending and OTC derivative environment will enhance existing DB Group activity in this marketplace Institutional Client/Counterparty credit approval will be driven by the Securities Lending Marketing Team, Global Equities, but will also require approval by the Offshore Group Credit Committee within DBIL, Jersey Front office activities will be undertaken by the Wholesale Desk within the Jersey Banking Division. DBIL Jersey will operate a Prime Brokerage account with DB London to facilitate the transaction. The operation of this account will be covered by PB documentation between DBIL Jersey and DB London. Back Office functions will be facilitated via the Prime Brokerage account. Trade support and middle office functions will be performed by DB London under an agreed SLA. Please see attachment for detailed product structure.

Product Classification

Product Type:	STRUCTURED TRANSACTIONS	Asset Class:	Equity

Exchange Details

Exchange/OTC:	OTC	Exchange Name:	

Maturity

Maximum Maturity: 1 Year

Underlying Index		Commodities	
Underlying Index:		Commodities:	

Currencies

Currencies: USD

SECTION 3. LOCATION DATA

Legal Entity locations

Primary Legal Entity Location: Channel Islands

Secondary Location:

Trading Locations
Primary Proposed Location: Channel Islands

Additional Proposed Locations: London | Existing Locations: London, Frankfurt, New York, Sydney, Tokyo DSI

Client Target Group
Customer Type: Financial Institutions | Customer Locations: Various

Sales/Origination Locations
Sales/Origination Locations: London

DB Legal Entity Offering Product
Deutsche Bank International Limited;Deutsche Bank AG London Prime Brokerage;Deutsche Bank AG London

SECTION 4. MODEL & OPERATIONAL DATA

Model & Pricing Information
Model Name: Not applicable | Pricing Sources:

Systems Information
Front Office Systems: iDelta IMS | Settlement Systems: Global 1 eSpear

SECTION 5. BUSINESS CASE

Business Case
Transaction Volume: 100 per month | Revenue: Eur 10m

SECTION 6. ATTACHMENTS

Attachments
DBIL Sec Lending alternative structure (NPA doc).doc (See next page)

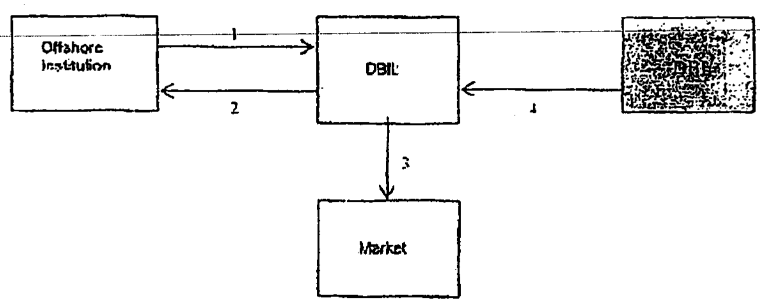
Deustche Bank International Limited ("DBIL") Equity Finance alternative structure

Rationale

The requirement from SEF to harness the use of one of the offshore group has been growing over at least a few years and GEPS or even equities as a division has a distinct disability from this.

Broadly speaking, there are substantial US equities held offshore which are consistently included in basket pricing (baskets that would be borrowed on an exclusive basis for use within the overall equities business). We are currently not competitive in that pricing as any borrow of those US equities requires a deduction and payment of withholding tax on substitute payments equal to 15% of any dividend. Our competitors do not have to account for this tax (given some of their offshore structures) and can therefore offer a more aggressive price to lenders. A non-US treaty entity is attractive as the amount of withholding tax required to be deducted is reduced to 0% (providing certain criteria are met), therefore allowing us to be more competitive with our pricing.

Alternative Structure



1 A non-US treaty resident entity ("the lender") holds US equities. Part of its normal course of business is to lend these stocks to the market. It lends DBIL a basket ("the basket") of such equities.

2 In lieu of the basket DBIL pledges collateral equal to the value of the stock + a small margin (this premium of collateral is standard in the general securities lending market). The collateral would be either cash (USD or another major currency) or G7 debt (could be G10).

3 Simultaneously to 1 and 2 above DBIL would sell the basket to the market (probably otc UK broker market) in lieu of USD cash (DVP).

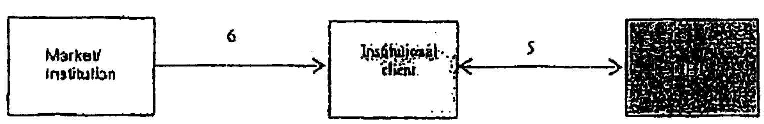
4 As a hedge to 3 above either:

DBIL buys a call option from DBL and sells a put option to DBL (with a maturity anywhere between 7 days and 40 days). The options would be physically settled giving DBIL the right to buy the shares with a strike slightly lower than the reference price. Both strikes would be equal, the resulting premium always payable by DBIL to DBL.

OR

DBIL enters into a forward (again physically settled) agreeing to buy the shares back at a forward price, again there would only be a payment from DBIL to DBL

The rest is not part of the NPA but completing the picture of what we may do to reap a positive financing return



5 Independently, DB London Branch ("DBL") buys a swap on a similar basket in terms of quantity and constitution from one of its Institutional Clients (Interbank relationships). The term of the swap would mirror that of the options or forward above (ranging from 1 week to 40 days).

6 An assumption we could make would be that the Institutional client buys shares from the market to hedge this swap

<u>More detailed Cash and collateral Flows</u>

The transaction is fairly simple in nature and all complications arise from standard settlement, cashflows and raising collateral. Described below are some of the variations and problems that can occur and how we propose to deal with them:

On trade date DBIL would arrange for the loan of a basket of US equities ("the basket") in 3 days time (this coincides with the standard US settlement cycle) from the lender. Collateral will be required as noted in step 2 above and this could be in different forms.

Cash collateral - inception

Standard cash transactions are DVP (delivery versus payment) meaning that the cash collateral and the basket should move at the same time. The flow would be as follows:

Steps 1 and 2

i. Trade date ("TD"), agreement of the loan takes place
ii. Settlement date ("SD"), DBIL require intra-day funding to pledge cash collateral to the lender. DBIL borrow this cash intra-day from DBL
iii. The cash and stock move at the same time leaving DBIL long stock and the lender long cash

Steps 3 and 4

iv. Simultaneously (to (i) above) on TD DBIL executes a sale to the market (a broker) on a T + 3 basis. DBIL also enters into a put/call or fwd with DBL using the sale price as the reference price
v. On SD (after steps 1 and 2 happen), DBIL receive stock from (iii) above and use this to settle the DVP sale transaction. DBIL receive USD cash.
vi. DBIL uses this long cash to return the intra-day funding from DBL

Settlement fails - Steps 1 to 4 Inception

Steps 1 and 2 must happen together as the starting point occurs with the intra-day funding from DBL moving to DBIL. If the intra-day loan settles and the DVP settlement with lender is not possible on part of the basket (e.g. some stocks are not available) then any excess cash should be returned to DBL. If it is too late to return cash to DBL, the nostros' will be swept. In the case of stock not settling into DBIL from the lender, the sale should be partially cancelled and the options/fwd amended to the new quantities. If this can not be done (due to timing in the day) then a fail to the market will occur. Technically DBIL are now in a position to claim interest from the broker (to accommodate the interest accrual imbedded in the options / fwd).

If both steps 1 and 2 happen and perhaps they take place too late during the SD for 3 to settle, DBIL will be long stock and short the intra-day cash funding to DBL. As part of DBIL's general business it has consistent outstanding loans to DBL. We are relying on legal right of offset for any short cash to contra against existing loans. If this happens late at night, overnight funding in this instance should be possible under the arrangement DBL has with NY. Again, if possible the sale and options/fwd should be partially cancelled, if not the sale will fail leaving DBIL in the same position (this is quite normal in the equities market). Any costs of failure will be bourne by the relevant parties to the fail. This will be interest costs primarily as described above

Step 3 is DVP and the stock and cash movements occur at the same time. As these rely on the market broker involved any fail would put us back in the position above.

Cash collateral – unwind
The unwind in reverse should flow as follows:

Steps 3 and 4

i. On SD of the term date of the put/call minus 3 business days (normally the Valuation date "VD" for the swaps in steps 5 to 6 or indeed the VD for the options/fwd) DBIL would buy shares from DBL at the exercise price of the options/fwd, DVP against USD cash.
ii. DBIL request intra-day funding from DBL in order to settle the DVP purchase
iii. The shares and cash move DVP leaving DBIL long stock and short intra-day funding to DBL

Steps 1 and 2

iv. On SD of the term date minus 3 days DBIL will agree with the lender to return shares in lieu of the collateral (to coincide with (iii) above)
v. SD, the shares and cash move DVP unwinding the loan transaction. This leaves DBIL long cash and short intra-day funding to DBL
vi. DBIL returns the intra-day funding to DBL

Settlement fails - Steps 1 to 4 Unwind
Steps 3 and 4
As these steps rely on the DBL purchase settling, if this fails DBIL will be left with the intra-day funding from DBL. Depending on the time of day of the fail this may be returned to DBL before the final deadline for daily funding or swept by treasury out of the nostros (as described above).

Steps 1 and 2.
If steps 3 and 4 fail then the above will happen. If they settle then DBIL will be long stock and short intra-day cash to DBL. In this case DBIl will rely on legal right of offset against existing loans. This will also be the case if steps 1 and 2 fail (as they are DVP).

Non-cash collateral – inception
Where non-cash collateral is required by the lender settlement of the collateral normally takes place one business day before settlement of the stock ("prepay"). In this case the flow would be as follows:

Steps 1 to 4

i. TD, agreement of the loan takes place (again SD is TD + 3 days)
ii. SD minus 1("SD – 1" or TD + 2), DBIL require non-cash collateral ("G10") which they get from a repo with DBL
iii. DBIL prepay the G10 to the lender on SD - 1
iv. SD the lender gives stock to DBIL (against the prepayment of G10)
v. DBIL use the stock to settle DVP with the market broker. The cash raised is used to satisfy the repo with DBL

In this context the repo G10 is delivered one day before the cash settles which implies an offset of exposure of against existing loans made by DBIL to DBL. The repo exposure will never exceed the loans outstanding.

Settlement fails – steps 1 to 4 Inception
If the DBL repo fails and DBIL do not receive the G10 (SD – 1) then the whole transaction will fail as DBIL can not prepay and get the stock on SD. All parties should be flat although DBIL may need to either extend settlement of the sale to the market broker and the put/call facing DBL (to accommodate the extra day settlement cycle). If this is not possible a market fail will occur and we are back to the situation described above of standard market interest claims.

If DBIL receive the G10 from DBL and DBIL are not able to pass it on to the lender then the whole transaction will fail DBL in this instance will have prepaid the G10 a day earlier than required for actual settlement of the stock, which will use the offset described above. The position with extending terms of the sale and options is the same OR the market fail and interest claims is the same.

If the G10 makes it to the lender SD – 1, the first leg that could fail is the stock coming to DBIL on SD. In this case the situation is exactly as describe above.

If the G10 settles with the lender SD – 1, the stock is passed to DBIL by the lender but can not be settled to the market broker then the position is also as above.

NB: where prepay takes place a day too early the consequence is just an extra day's worth of credit risk on the prepaid collateral (and probably an extension of the repo by a day).

Non-cash collateral – unwind
This again is fairly simple as follows (although there may be a requirement to "postpay" ie, provide collateral to the lender for an extra day – this is not a frequent requirement). In reverse order:

Steps 3 and 4

i. On VD of the options/fwd DBIL buy shares from the DBL at the exercise price of the options / fwd, DVP against USD cash
ii. DBIL request intra-day funding from DBIL to settle the DVP purchase
iii. The shares and cash move DVP leaving DBIL long stock and short intra-day funding to DBL

Steps 1 and 2

iv. On the same VD DBIL will agree with the lender the return of the shares in lieu of collateral (to coincide with (i) above)
v. On SD the shares will move Fop (as the lender has G10 already), either the lender will return the G10 same day or there will be a postpay for one day.
vi. If the G10 is returned same day then the repo ends at this point and the G10 is returned for USD cash, the cash satisfying the intra funding If the G10 is returned the following day then the repo will end day after aswell.

Settlement fails – steps 1 to 4 Unwind
If the purchase from DBL fails then DBIL will have no stock to return and the whole loan and repo will need to be extended by one more day. DBIL will be left with intra-day funding from DBL and depending upon the time of day either this will be returned or swept from the nostros by treasury.

If the purchase settled then DBIL will be long stock and short intra-day cash. If nothing else settles then the short cash will offset against exsiting loans as described above.

If the stock settles back to the lender and DBIL do not receive the G10 then the position is the same as above although in this case they have no stock.

New Product Application

Application ID:	AB104293	Request Date:	16-Dec-2003
Product Area:	Prime Services	Product Name:	Securities Lending/Borrowing in DBIL
Status:	Approved	Requestor:	Andrew Falle

Application Form for CIB

SECTION 1. BASIC DETAILS

General

Requestor Name:	Andrew Falle
Delegate Requestor Name:	Andrew Falle
Requestor Location:	Channel Islands
Business Sponsor:	
Required Start Date:	15 Mar 2004
Orignal Required Start Date:	

Business Line

Group Division:	CIB
Business Division:	Global Markets
Business Area:	GM Equity
Product Area:	Prime Services
Desk/Dept:	Offshore Group Banking Division

Permanent Subcommittee on Investigations

EXHIBIT #34

NPA Category

NPA Category: Regular New Product Enhancement To:

Support Groups Contacted
DB Ldn Global Equities, DB Ldn Prime Brokerage, Tax, Controlling, Operations, Credit, Legal, Treasury

SECTION 2. PRODUCT DATA

Product Name and Description
Product Name: Securities Lending/Borrowing in DBIL
Product Description: Global Equities have identified clients who have US stock available for lending together with identifying a potential borrower of the same stock. DBIL Jersey will sit in the middle of the transaction and take a margin from the borrowing fees being paid and received. The introduction of DBIL to the Securities Lending environment will enhance existing DB Group activity in this marketplace. Institutional Client/Counterparty credit approval will be driven by the Securities Lending Marketing Team, Global Equities, but will also require approval by the Offshore Group Credit Committee within DBIL Jersey. Front office activities will be undertaken by the Wholesale Desk within the Jersey Banking Division. DBIL Jersey will operate a Prime Brokerage account with DB London to facilitate the transaction. The operation of this account will be covered by PB documentation between DBIL Jersey and DB London. Back Office functions will be facilitated via the Prime Brokerage account. This product is potentially only an interim solution while we seek to overcome UK "Controlled Foreign Companies" issues. When we have done so it is anticipated that this product will be developed into a more intricate structure which will generate greater revenues for the DB Group as a whole and will not require the participation of a third party. An NPA will be produced for this when the "CFC" issues are resolved. We have consulted with the local reg... [Please see Product Description atta

Product Classification
Product Type: STOCK LENDING/BORROWING Asset Class: 0

Exchange Details
Exchange/OTC: OTC Exchange Name:

Maturity
Maximum Maturity: 1 Year

Underlying Index
Underlying Index: Commodities
Commodities:

Currencies
Currencies: USD

SECTION 3. LOCATION DATA

Legal Entity locations
Primary Legal Entity Location: Channel Islands Secondary Location:

Trading Locations

Primary Proposed Location: Channel Islands

Additional Proposed Locations:

Existing Locations: London, Frankfurt, New York, Sydney, Tokyo DSI

Client Target Group
Customer Type: Financial Institutions
Customer Locations: Various

Sales/Origination Locations
Sales/Origination Locations: London

DB Legal Entity Offering Product
Deutsche Bank International Limited; Deutsche Bank AG London Prime Brokerage

SECTION 4. MODEL & OPERATIONAL DATA

Model & Pricing Information
Model Name: Not applicable
Pricing Sources:

Systems Information
Front Office Systems: iDelta
Settlement Systems: Global 1

SECTION 5. BUSINESS CASE

Business Case
Transaction Volume: 5bln pa
Revenue: Eur 3m

SECTION 6. ATTACHMENTS

Attachments

- DBIL Securities Borrowing and Lending- NPA support doc.doc
- DBIL Structure.doc
- JerseyKeyOps.doc
- London Tax Sign Off Restrictions.txt
- Product Description.txt

<u>Deutsche Bank International Limited, Jersey ("DBIL") Securities Borrowing and Lending – NPA Support document</u>

<u>Booking process</u>

DBIL will be borrowing from a variety of non-US lenders and on-lending to Macquarie Bank (UK).
Trades will be booked via trade upload into idelta by DBIL. Idelta feeds the trades into Global 1 for settlement.
Trades will be booked for T+3 settlement.
Any subsequent trade maintenance that is required to be performed on the trades will be done via the idelta contracts management screen.
Trades will be Non DTC tracking for dividend purposes.

<u>Systems</u>

Idelta – idelta will be on the desktops of the users in Jersey. Trades will be entered directly into idelta
Global 1 – will reside in Ldn for operational purposes. Users in Jersey will not have access to Global 1.
Shere – billing manager system used by operations. New entity set up required.
eSpear – for trades to feed directly from Global 1 to eSpear there is development work required in eSpear. This has been specified. However to avoid any dependency on eSpear development times, trades are being routed through Eclipse in the interim.
Eclipse – Global 1 will feed Eclipse, which in turn will feed eSpear (as an interim solution to the above). Trades are to go into Eclipse as buy and sell trades to specific borrow, loan and collateral accounts for easy identification. The IT work to allow this to happen is estimated to be complete by end February.
DPS – development work is required for DPS to take the feed from Global 1 in the correct manner. Development time for the required work has been estimated at 2 months. It has been indicated that due to current resource allocations work will not be completed until end of June. In this instance a manual process is being documented to be used as a short term solution until the DPS development work is complete. This manual process will require sign-off by senior management in Ops.
Bank Master – Bank Master is the General Ledger system of DBIL. It does not have the ability to take feeds from other systems and therefore the trade entries will be input manually from reports supplied by DB Ldn Ops.

<u>PB a/c</u>

In order to facilitate the structure, DBIL will become a client of Deutsche Bank AG London Prime Brokerage ("PB"). In this instance PB will perform all back office functions for DBIL with regard to the securities lending trades. The securities lending assets will be moved through DB Ldn as Custodian.
PB will charge DBIL standard transaction charges for the use of their services.
PB will offer contractual settlement on these trades. In this instance it will fund to meet delivery requirements of DBIL.
If any fails occur resulting in DBIL being long or short cash they will either be credited interest or debited an overdraft charge respectively.

<u>Ops</u>

Ldn Ops will perform all back office functions for the DBIL entity in Global 1, i.e. settlements, marks, billing, payments etc.

<u>P&L</u>

P&L will be retained in DBIL from the securities lending transactions, whereby the stock is borrowed and lent at a spread.
A profit split between DBIL and SEF has been agreed and will be facilitated by UBR movements to the agreed amounts within DBIL.

<u>Credit</u>

Clients are currently being marketed to. There is to be one borrower in the structure which is Macquarie Bank (UK). There will be a number of lenders. These are primarily clients that are currently dealt with on DB Ldn, and thus should not be new to credit. However the Securities Lending marketing team will liaise directly with credit to gain the appropriate approval for these clients to trade directly with DBIL.

15a6 Clients

Where a US Investment Manager or Agent Lender acts on behalf of a foreign lender they become subject to the US 15a6 regulations.
In this instance, if DBIL borrows shares from these clients there is a requirement to record and settle the trades through DBSI as agent.
This process will be dealt with in a separate NPA.

Exclusives

We will be taking some exclusive portfolios from clients. In this instance a dummy security (referencing the portfolio) will be booked in order to accrue the fees. This is done to a separate counterparty code (usually prefixed with X). This trade will not actually instruct or settle. It is marked daily to the actual value of the portfolio.
When actual stocks are taken down from the portfolio they are booked and settled per normal but with a zero fee (as we are already accruing the agreed fees via the NAV booking).
The NAV booking for the exclusive portfolios will not be entered into Bank Master.

Collateral

Collateral expected from the lenders will range from Cash to G10/G7 debt. Where cash is USD trades will be DVP. Where cash is non-USD trades will be free of payment. Non cash collateral trades will be free of payment. Macquarie will match the collateral required from the lenders so that the trades will effectively be straight pass throughs.
DB Ldn will be providing funding to Macquarie to ensure that it meets the collateral requirements to DBIL (see structure doc)

Funding

Although the transaction flow is designed to be cashflow neutral, there are various instances when DBIL could be long/short cash overnight due to fails making it unable to complete the transaction flow.
Due to controlled foreign companies regulations the amount of funding that can be obtained by DBIL from DB Ldn is severely limited.
DBIL are currently in the process of obtaining legal and tax approval to allow them to net their cash funding with their cash deposits with the same entity (DB Ldn) to greatly reduce the usage of the controlled foreign companies limit, and enable them to fund to cover fails in this structure.
As a PB client, DBIL will obtain funding from PB to meet settlement and payment obligations. PB's funding requirements are covered by DB Ldn Treasury.

Note: if the netting is not approved then we will have to revisit the issue as DBIL will not be able to obtain funding from DB Ldn.

Legal

When opening a PB account, DBIL is required to signed PB documentation which outlines the services offered by PB and their legal obligations to act on behalf of their client.
With regard to legal documentation between DBIL and its clients, this will be in the form of the GSLMA, which is an industry standard securities lending agreement.

Reporting

P&L reports will be provided from Global 1 by Ldn Controlling, with the ability to interrogate the figures in idelta.
Balance Sheet and Risk Weighted Asset reports will be available in idelta.
Trade activity reports will be provided from Ldn Ops to show security and cash movements on the securities lending trades.

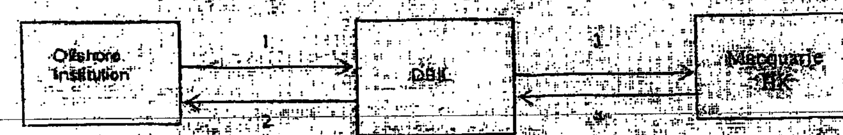
Deutsche Bank International Limited ("DBIL") Securities Lending Structure

Rationale

The requirement from SEF to harness the use of one of the offshore group has been growing over at least a few years and GEPS or even equities as a division has a distinct disability from this.

Broadly speaking, there are substantial US equities held offshore which are consistently included in basket pricing (baskets that would be borrowed on an exclusive basis for use within the overall equities business). We are currently not competitive in that pricing as any borrow of those US equities requires a deduction and payment of withholding tax on substitute payments equal to 15% of any dividend. Our competitors do not have to account for this tax (given some of their offshore structures) and can therefore offer a more aggressive price to lenders. A non-US treaty entity is attractive as the amount of withholding tax required to be deducted is reduced to 0% (providing certain criteria are met), therefore allowing us to be more competitive with our pricing.

Structure

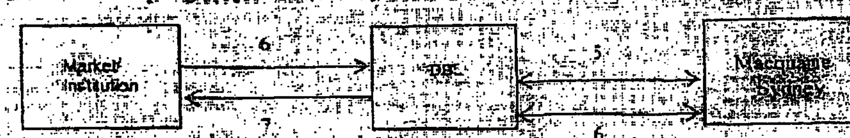


1 A non-US treaty resident entity ("the lender") holds US equities. Part of its normal course of business is to lend these stocks to the market. It lends DBIL a basket ("the basket") of such equities.

2 In lieu of the basket DBIL pledges collateral equal to the value of the stock + a small margin (this premium of collateral is standard in the general securities lending market). The collateral would be either cash (USD or another major currency) or G7 debt (could be G10).

3 Simultaneously to 1 and 2 above DBIL would on-lend the basket to Macquarie Hong Kong (Macquarie HK – another non-US treaty resident entity)

4 In lieu of the basket Macquarie HK would pledge collateral to DBIL. It is anticipated that the collateral pledged by HK will be equivalent to that provided in 2 above (see below for more detail)



5 Independently, DB London Branch ("DBL") sells a swap on a similar basket in terms of quantity and constitution to Macquarie Sydney. The term of the swap would mirror that of the loans above (ranging from 1 week to 1 month).

6 Depending on the collateral type DBL may enter into a reverse collateral loan with Macquarie Sydney to reduce the overall cost of raising G10/G7 collateral

7 Either DBL buys shares to hedge 5 above from the market (the shares would be used within the equity business) OR

8 DBL would buy a swap from another institution (probably UK)

More detailed Cash and collateral Flows

The transaction is fairly simple in nature and all complications arise from standard settlement, cashflows and raising collateral. Described below are some of the variations and problems that can occur.

On trade date DBIL would arrange for the loan of a basket of US equities ("the basket") in 3 days time (this coincides with the standard US settlement cycle) from the lender. Collateral will be required as noted in steps 2 and 4 above and this could be in different forms.

Cash collateral – inception
Standard cash transactions are DVP (delivery versus payment) meaning that the cash collateral and the basket should move at the same time. The flow would be as follows:

Steps 1 and 2

i. Trade date ("TD"), agreement of the loan takes place
ii. Settlement date ("SD"), DBIL require intra-day funding to pledge cash collateral to the lender. DBIL borrow this cash intra-day from DBL
iii. The cash and stock move at the same time leaving DBIL long stock and the lender long cash

Steps 3 and 4

iv. Simultaneously (to (i) above) on TD DBIL arranges to loan the basket to Macquarie HK
v. Settlement date (after steps 1 and 2 happen), Macquarie HK require funding to pledge cash collateral to DBIL
vi. The cash and stock move at the same time leaving Macquarie HK long stock and DBIL long cash
vii. DBIL uses this long cash to return the intra-day funding from DBL

Settlement fails – Steps 1 to 4 inception
Steps 1 and 2 must happen together as the starting point occurs with the intra-day funding from DBL moving to DBIL. If the intra-day loan settles and the DVP settlement with lender is not possible on part of the basket (e.g. some stocks are not available) then any excess cash should be returned to DBL. If it is too late to return cash to DBL, the nostros will be swept.

If both steps 1 and 2 happen and perhaps they take place too late during the SD for 3 and 4 to occur, DBIL will be long stock and short the intra-day cash funding to DBL. As part of DBIL's general business it has consistent outstanding loans to DBL. We are relying on legal right of offset for any short cash to contra against existing loans. If this happens late at night, overnight funding in this instance should be possible under the arrangement DBL has with NY.

Steps 3 and 4 are DVP and occur at the same time. As these rely on Macquarie HK any fail would put us back in the position above.

Steps 5 to 8
Steps 5 to 7 form part of the general SEF business therefore not requiring explanation (see below for non-cash collateral)

Cash collateral – unwind
The unwind in reverse should flow as follows:

Steps 5 to 8
As above – no explanation required

Steps 3 and 4

i. On SD of the term date of the loan minus 3 business days (normally the Valuation date "VD" for the swaps in steps 5 to 7) Macquarie HK would agree with DBIL to return the shares DVP for the cash collateral
ii. DBIL request intra-day funding from DBL in order to return collateral to Macquarie HK
iii. SD, the shares and cash move DVP unwinding the loan transaction. This leaves DBIL long stock and short intra-day funding to DBL

Steps 1 and 2

iv. On SD of the term date minus 3 days DBIL will agree with the lender to return shares in lieu of the collateral.
v. SD, the shares and cash move DVP unwinding the loan transaction. This leaves DBIL long cash and short intra-day funding to DBL.
vi. DBIL returns the intra-day funding to DBL.

Settlement fails - Steps 1 to 4 Unwind
Steps 3 and 4
As these steps rely on Macquarie HK, if failure of the stock happens DBIL will be left with the intra-day funding from DBL. Depending on the time of day of the fail this may be returned to DBL before the final deadline for daily funding or swept by treasury out of the nostros.

Steps 1 and 2
If steps 3 and 4 fail then the above will happen. If they settle then DBIL will be long stock and short intra day cash to DBL. This will also be the case if steps 1 and 2 fail (as they are DVP).

Non-cash collateral – Inception
Where non-cash collateral is required by the lender settlement of the collateral normally takes place one business day before settlement of the stock ("prepay"). In this case the flow would be as follows:

Steps 1 to 4

i. TD, agreement of both loans takes place (the borrow from the lender and the loan to Macquarie HK)
ii. SD minus 1 ("SD – 1"), DBIL require non-cash collateral ("G10") which they get from Macquarie HK (Macquarie Group raise the collateral from a reverse collateral loan with DBL – see below)
iii. DBIL prepay the G10 to the lender on SD – 1
iv. SD the lender gives stock to DBIL (against the prepayment of G10)
v. DBIL give stock to Macquarie HK (again against the prepayment of G10) leaving DBIL flat stock and flat G10.

Settlement fails – steps 1 to 4 Inception
If Macquarie HK are not able to pass the G10 (SD – 1) to DBIL then the whole transaction will fail as DBIL can not prepay and get the stock on SD. All parties should be flat (see below – reverse collateral loan).

If DBIL receive the G10 from Macquarie HK and DBIL are not able to pass it on to the lender then the whole transaction will fail. Macquarie HK in this instance will have prepaid the G10 a day earlier than required for actual settlement of the stock.

If the G10 makes it to the lender SD – 1, the first leg that could fail is the stock coming to DBIL on SD. In this case both Macquarie HK and DBIL will have prepaid a day early.

If the G10 settles with the lender SD – 1, the stock is passed to DBIL by the lender but can not be moved to Macquarie HK (perhaps because it is too late in the settlement day), then DBIL will be long stock and Macquarie HK will have prepaid a day too early.

NB: where prepay takes place a day too early the consequence is just an extra day's worth of credit risk on the prepaid collateral (and probably an extension of the reverse collateral loan by a day).

Reverse collateral loan and DBL swap with Macquarie – Inception
As discussed above the cost of Macquarie raising G10 is much greater than for the DB Group. This leg is to reduce the cost of this for the structure and is linked to the swap DBL writes with Macquarie. The flows will work as described below:

i. On SD – 1 Macquarie HK requires G10 to give to DBIL. DBL enter into a reverse collateral loan with Macquarie HK on SD – 1 providing them with G10 in return for USD cash (this is DVP). The tenor is similar to the loans under steps 1 to 4 although the start date is one day earlier and the end date is one day after (with the ability to unwind this loan on the SD).

ii. As the cost of Macquarie HK raising the cash is also expensive DBL provides margin on SD-1 under the swap with Macquarie Sydney. The margin should be near equal to the cash Macquarie HK give to DBL under (i) above. The Margin will only be provided until SD at which point Macquarie HK should have obtained cash by selling the stock.

Fails on the reverse collateral loan, margin on the swap – Inception
Firstly if the margin on the swap fails then Macquarie Group will not have cash enough to fund the reverse stock loan. As this is DVP then the whole transaction will fail as no G10 will move to the Macquarie group.

If the margin settles and the reverse stock loan does not then the whole transaction will fail as no G10 moves. In this case DBL will just have to margin the swap for an extra day and will be taking Macquarie credit risk for the same period.

If the margin and the reverse stock loan settle then Macquarie have the G10 and any further fails are exactly as described above under "Settlement fails – steps 1 to 4 inception".

Reverse collateral loan and DBL swap with Macquarie – Unwind
The reverse flows can be complicated in the event of the lender not passing back the G10 on SD (what is know as a "postpay"). Bearing this in mind the proposed structure is set up to deal with this by extending the reverse collateral loan by a day:

i. Macquarie HK return the stock (they will require intra-day funding to buy the stock in the market) on the SD of the loan. This will be FOP (free of payment), leaving them short stock and it is assumed short cash (used to buy the stock).
ii. DBIL returns the stock to the lender, leaving them short collateral which they are obliged to return to Macquarie HK.
iii. In the event the lender does not return the G10 then the main consequence of the structure is Macquarie Group being short cash (this assumes the reverse collateral loan is extended by another day). Either Macquarie Group fund their short cash position for one day OR DBL extends the swap by an additional day and margin it providing Macquarie Group with the cash.
iv. When the lender returns the G10 to DBIL, DBIL will pass this onto Macquarie.
v. Macquarie Group will return the G10 to DBL in lieu of the cash (the cash will then be used to return their intra-day funding – it is not assumed DBL will provide this intra-day funding).

Fails on the reverse collateral loan, margin on the swap – Unwind
The fails are dealt with above and by the extension of the reverse collateral loan.

Deutsche Bank International Limited

Securities Lending
Key Operating Procedures Manual

Andrew Faile
December 2003

1.0 Introduction

This guide describes the standards to be maintained in the Securities Lending Front Office at Deutsche Bank International Limited, Jersey.

The manual complements, but does not replace, the following documents:

The Compliance manual
The Deutsche Global Equities Key Operating Manual
The International Guidelines for Trading and Settlement
Global Equity Prime Services Trade Support Procedures Manual

This manual was originally written in January 2001 for the London business and has since been updated and adapted for other business units. Further updates will be required whenever a significant process enhancement or new system is introduced.

2.0 Trading

The securities lending market is driven both by the need to cover short positions (such as Firm and Prime Brokerage shorts) and to on-loan positions to other institutions. A trader does not take outright positions, and therefore runs a book with no market risk. As well as covering shorts and responding to and generating market demand, a trader is responsible for minimising excess borrows and reviewing dividend mis-matches.

2.1 Trade Capture

The trader who negotiated the deal books all trades in the Front Office deal capture system "iDelta" which interfaces with the operating system Global One. In special circumstances, Traders Assistants aid in this process. All trades are booked on trade date; if this is not the case then the Head of the Trading desk must sign-off.

2.2 Amendments to Pending Trades

Trades in pending status should not be amended. Any pending trade that needs changing should be cancelled and rebooked by the Front Office.

2.3 Amendments to Settled Trades

Once a trade has settled, responsibility for amendments passes to Operations, except for basic changes such as amending dividend rates or internal comments, which can be made by the desk (their access allows for no more). Any other requests emanating from the Desk must be communicated by email.

If a settled trade needs to be cancelled (in a situation where a trade has been settled down in error), Operations should unsettle the trade and request that the Trade Support cancel the pending trade.

2.4 Trader Limits

Trader limits have not been set, because Securities Lending traders do not take market risk as the borrower always has an obligation to return the shares upon demand. As a result, market risk remains with the underlying owner of the shares (despite the transfer of beneficial ownership). The traders do however have to adhere to the credit limits that are set for all counterparts, and have to get any trade of over USD 50 million signed off by the Head Trader.

2.5 Intra-day exposure limits

As stated above, the Head of the Desk must sign off any trade that creates intra-day exposure of more than USD 50million.

2.6 Term Trades

All term dates must be matched (borrows/loans) or otherwise verified with the Head of the Desk.

2.7 Pre-trade credit limit checking

The credit department uses Matrix to monitor and track all limits. The limits in Matrix are sent in report format to the trading desk via email. It is the responsibility of the securities lending trader to know counterpart limits and trade within these limits. Management ensure that pre-deal credit checks are performed for all counterparts who are on the 80% exposure report and all excesses are approved prior to dealing.

Credit review excesses breaches and limits that are 80% or over, the day after a trade is executed. The credit officer will then distribute a watch list to trading desk via email first thing in the morning.

2.8 Fails

In the event that part of a trade should fail to settle the trade shall be cancelled and re-struck.

2.9 New clients

No trade may be undertaken until a client has been fully set up in the system, complete with all necessary documentation (including the legal agreement, HK Addenda and MOD2 as necessary), and an approved credit limit (including OGCC sign-off). It is the trader's responsibility to ensure that this is all in place prior to trading.

2.10 Hong Kong trades

No Hong Kong trades may be undertaken without a valid registered Addenda, and it is the trader's responsibility to ensure that this has been put in place. A daily report, maintained by the Securities Lending Trade Support, is distributed detailing the Addenda that have been registered.

2.11 MOD2s

MOD2s are put in place with all eligible clients by the Securities Lending Marketing department when an account is opened, and the original document is passed to the Legal department for safekeeping. The Legal department confirm receipt of the documentation to Operations and the Business Unit.

A spreadsheet detailing all MOD2s is maintained by trade support and is available to the Securities lending marketing team for their perusal. Three months prior to the expiration of a MOD2, trade support will speak to the client and attempt to renew the agreement. If the client has not responded one month prior to expiry, trade support will inform the Securities Lending Marketing department who will liaise with the client directly. The process will then work as for a new MOD2, with Legal confirming receipt.

In cases that a MOD2 is not renewed, the Securities Lending marketing team are responsible for flagging this to the Trading Desk, who will take this into account when considering trading with the counterpart.

2.12 New markets

A trader must ensure that all due diligence has taken place before trading in a new market, and that sign-off has been received from all the relevant groups (Operations, tax, compliance, legal, regulatory, credit).

2.13 New products

Any wish to trade a new product should be presented to the COO or Business Manager, who will liaise with the relevant personnel in determining whether formal New Product Approval is required. If it is, a paper has to be written for presentation to the New Product Approval Committee: this Committee must approve any such product before trading may start.

2.14 Billing

At the end of each month all client bills for that month are run by the operations department and sent to the client. In the event of a discrepancy occurring, the details are added to a billing spreadsheet that is shared between the Business and Operations. An owner is assigned to all outstanding items, and that person is made responsible for solving the difference.

If solving a discrepancy necessitates a potential P&L write-off, a mailbox will be sent to the Head of the Trading Desk at whose discretion this portion of the bill may be written off.

A list of outstanding billing is sent weekly to the Head of Operations and Business Manager for their review.

2.15 P&L Review

Each day a detailed P&L is sent to the desk by controlling, and is reviewed by the Desk Heads and Country Managers. Any anomalies should be investigated with the appropriate parties and the Desk Head should sign-off the P&L on a weekly basis, all errors having been corrected.

2.16 Collateral

The Collateral provided by the stock borrower shall meet the requirements for collateral from the stock lender.

Collateral pledging/receiving for all new trades and daily mark to markets is the responsibility of Securities Lending Operations, who should liaise with the trade counterparty as necessary, for example to discuss the need for different types of collateral. Stock Loan traders should liaise with Operations whenever a trade of over USD 30million is done in order to ensure that sufficient collateral is available. Similarly all same day trades should be highlighted to Securities Lending Operations in order that collateral is provided in a timely manner.

2.17 Buy-Ins

In any case where we are threatened with being bought in or wish to enforce a buy-in on a counterpart, this should be discussed with the Head Trader at the earliest possible opportunity.

2.18 Hot Stocks

"Hot stocks" are those which are classified as difficult to borrow. Each day the traders in London update the hot list with the current "hot" stocks.

3.0 Trade Support Controls/Reports

On a daily basis, the Trade Support group monitors/reviews a number of reports that are critical to the control of the business. Among these are the following:

3.1 Shorts

Trade Support use iDelta's inventory management screen to cover their shorts.

3.2 Imbalances

Trade Support use the iDelta Security Imbalance Report to see where borrows do not match loans.

3.3 Cash rates

Trades booked against a cash pool have their rates agreed daily (unless otherwise agreed). Trade support have a of list of these trades for entity DB573 and DB 032, and agree new rates daily, amending Global One accordingly. SL collateral operations agree all other cash rates.

3.4 Term trades

After pulling off a list of upcoming term dates each day, trade support liaise with the traders concerned if stocks need to be rolled or returned.

3.5 Pre-record date returns

A report is generated showing all securities coming up to record date; trade support use this to ensure that any excess stock is returned prior to this day, thus avoiding dividend problems. The front-end inventory management system iDelta also displays dividend information, which is often used as a point of reference.

3.6 Corporate actions

The record date warning report is generated so trade support can review individual securities approaching record date and ensure that no fails or breaks are outstanding.

Trade support also book all trades necessitated by a corporate action (such as bonus issues and stock splits) upon the instructions of the Corporate Actions group within Operations.

3.7 Overborrows/ Returns

An overborrow report is generated by iDelta.

3.8 Autoborrows

Trade support review auto-borrows and determine what can be replaced by street borrows, depending on cost, size, age and cause. They also monitor any cases where the agent has failed to return an autoborrow despite having sufficient stock in our depot.

3.9 Report distribution and sign-off

A number of reports are given to the Head Trader each day for sign off. Trade support file these in case of queries at a later date.

3.10 One year old trade reporting

Trade support produce and distribute a report showing trades which have been outstanding for longer than one year, and follow up ensuring preventative action is taken.

In addition, for Hong Kong trading, a report is produced and reviewed daily which shows any trade done with a client who does not have signed registered Addenda in place. The Head of Trade Support and the Business Manager review this.

3.11 Distribution of credit report

The credit report is posted on the securities lending website and is sent daily via email. The report shows outstanding balances by client along with their credit limits and percentage utilization. This list is available to all front office staff, the credit department, and reviewed by the Head of the Desk.

Once an account is within 20% of its limit, Securities Lending will request a credit extension from the credit department, and will either be granted a temporary increase while this is pending or may be asked to keep within the limit pending review of their request.

3.12 Blotters

Each day London and Frankfurt trade support receive trade blotters from Tokyo, Hong Kong and New York. These blotters detail inter-company trades done between one of these entities and London, and are used by trade support to check and book the trades as necessary.

In addition, a London blotter, detailing trades done between London and one of the above entities, is compiled every day and sent to the relevant group.

3.13 New Accounts

Typically, new relationships are introduced to the Securities Lending group either through the Global Securities Lending Marketing Team or the Equity Prime Service Sales group. Additionally, broker to broker business is often the result of solicitation from other market participants.

The Deutsche Bank Credit department must first approve all new potential securities lending counterparts before the Legal department will begin the process of documentation. The approval process includes a full check on counter-party creditworthiness and establishment of credit risk limits consistent with firm-wide credit policy and sign-off by Offshore Group Credit Committee (OGCC).

Accounts are opened by the Securities Lending Operations department only upon receipt of a copy of the completed document signed by a credit line manager, the OGCC and an authorized Securities Lending Trader. The Legal department keeps all documentation.

4.0 Risk/Exposures

4.1 Counterparty risk

It is normal practice in the securities lending market for the borrower of shares to deliver collateral to the lender. Although the type of collateral varies from one client to another, market practice dictates that the collateral given should equal 105% of the loan value.

It is the responsibility of the Operations department to "mark to market" the loans and collateral on a daily basis, and to recall/pledge collateral as required. The thresholds vary on a client by client basis depending on factors such as size of the book and marking convention of the client involved.

Operations maintain a daily report showing all borrows/loans and collateral delivered/received. This report is circulated to the credit department in order to assist them in monitoring firm exposures. Operations notify the Desk should there be any significant (defined as greater than GBP 2million) exposures outstanding. This report is reviewed by the Securities Lending business manager.

4.2 Market risk

As previously mentioned securities lending transactions can be unwound upon demand by the lender, who retains ultimate ownership of the shares. Due to this, no hedging strategies are needed and no position limits are necessary.

4.3 Country risk

Individual market volatility is important due to the substantial shock to markets that it can create. In times of increased volatility it is therefore necessary that Operations pay particularly close attention to exposures (running reports several times per day if necessary).

4.4 Legal risk

Securities Lending transactions conducted on the books of Deutsche Bank International Limited Jersey are all governed by the Overseas Lending Agreement (OSLA), the market standard agreement for international securities lending.

4.5 Large Exposures

It is necessary to pay particularly close attention to exposures for regulatory purposes. The Jersey Financial Services Commission (JFSC) regulations require that any exposure to a single client that exceeds 25% of DBIL's capital base requires reporting to the local regulator. It should be noted that such action is required for any exposure greater than 25% of the capital base and is not peculiar to stock lending/borrowing transactions.
For the purposes of reporting, no margin is allowed on collateral i.e. $105m collateral given against a stock borrow of $100m is reported as a $5m exposure.

4.6 Balance Sheet Limits

Traders are responsible for ensuring that they comply with the allocated balance sheet limits. Controllers (who perform weekly audits of balance sheet usage) should inform Securities Lending management if and when limits are being approached/exceeded.

5.0 Segregation of Duties

Separation of duties is necessary so as to achieve independence and integrity in the following areas:

Trading Desk
Trade Support
Collateral Operations
Settlement Operations
Accounting
Monitoring/review

As a minimum requirement, the trading function must be separated from all other functions, and must not exert pressure, whether explicit or implicit, over the other areas.

5.1 Account opening

The Global Marketing Team usually initiates new client relationships. Once the necessary legal documentation has been signed, compliance sign-off obtained, and credit limit determined, the marketing team will complete an account opening form, which is then sent on to Operations for their additions. In turn this is then forwarded (by Operations) to Client Services, who open the account ready for trading.

No trades may be undertaken prior to completion of the above process.

5.2 Trade Capture

All trades are entered by the Front Office with the exception of autoborrows and corporate actions (as previously detailed). Collateral and settlement operations do not have the necessary systems access to book regular trades.

5.3 Trade Authorisation

When trades are booked in Global One they automatically feed down to a queue in Globe from where they are checked and authorised by settlement Operations.

5.4 Trade amendments

There should be no pre-settlement amendments by either front office or Operations. Trades needing amendments must be cancelled and rebooked.

5.5 Trade Settlement

Trade settlement responsibility resides solely with the Operations department, although some internal trades are booked with auto-settlement.

5.6 Communication with agents

All agent communication should emanate from the Operations department. If the Front Office have a specific question for an agent, this must be routed through an Operations employee.

5.7 Cash payments/receipts

No front office employee is involved in making/receiving payments. All instructions, bookings, authorizations and monitoring of payments takes place in the Operations department.

5.8 P&L Calculations

Exclusively the Controllers perform all P&L calculations. The Front Office is responsible only for explaining trades to Controllers upon their request. The traders monitor their P&L on a daily basis and compare it with the figures prepared by Controllers, with any differences between the two communicated to and investigated by the latter group.

5.9 Setting of credit limits

Credit limits are set independently of the Front Office. The only input the Front Office has in this process is the initial request to set the limit up.

5.10 Signoff of client exposure (intraday)

Where we assume intraday credit risk of over USD 30million, the trader concerned must have this signed off by the Head of the Trading Desk.

5.11 Changes/enhancements to IT systems

Any changes required to Securities Lending IT systems should be routed through the Business Manager or the Head of New Product Development rather than directly to the IT department.

5.12 Amendments to client/security static

All requests for amendments to client or security static are made by the Business Unit to the Operations group, who in turn request the changes to be made by the Client Services group.

6.0 Legal/Documentation/Compliance

It is the overall responsibility of the Securities Lending marketing team to ensure that all documentation is put in place and kept up-to-date at all times. The marketing department is the point of contact for legal matters.

6.1 Client account opening procedures/checklist

It is the responsibility of the legal department to negotiate client agreements on behalf of the securities lending desk.

6.2 MOD2s

MOD2s will be obtained as necessary and kept by the legal department. Please see the section on MOD2s previously in this document.

6.3 Putting HK Addenda in place (executing and registering)

Unless specifically not necessary, new clients should have a Hong Kong Addenda in place. Where possible, this should be adopted at the time of inception. All new Addenda need to be registered with the Hong Kong authorities within a month of being signed.

Securities lending marketing maintain a spreadsheet with details of every HK Addenda. Traders are not permitted to trade Hong Kong stocks in the absence of a registered Addenda.

In order to ensure that trades cannot be settled in the absence of a registered Addenda, no HKD client static is set up until the SBA number is registered in the Global One system. It is the duty of Operations to ensure that, in the absence of this client static, no manual instructions are sent for HKD trades either.

6.4 Document safekeeping

All original documents are retained by the legal department in a secure place. Photocopies of originals are retained in the Securities lending cabinets.

6.5 Restricted stocks

Compliance posts a list of restricted stocks on its web site each day. The traders should take this into account before agreeing to a trade. When a stock appears on the list Global 1 will not allow trade bookings on the security in question, so a call must be placed to compliance in order to determine whether restrictions can be lifted.

7.0 Systems

Securities Lending use Global One (a vendor system) for trade bookings, while the trading unit is aided by the use of Globe and IDelta for availability, short reports and inventory/position management. IDelta is the front-end inventory management system that has been developed by Stock Loan IT in NY. Trade entry functionality is currently being built within the inventory management system.

7.1 Access to systems

Each group involved in Securities lending trades (traders, trade support, operations, controllers and IT) is granted a different level of access to the systems, thus ensuring that there can be no segregation of duty conflicts. Traders, for example, are not able to settle trades, while the operations group has no access to trade input screens in Global 1.

Access to Global 1, and Globe is controlled by Information Security Services (ISS) who grant access based on the completion of forms and sign off by approved signatories only. The inventory management system, Delta is controlled by Securities Lending IT.

7.2 Contingencies

In the event of either Globe or Global One failing, the Securities lending IT team are able to switch to a second piece of hardware, located in Milton Keynes, in order to allow the group to continue working. Currently, a Business resumption plan exists, which consists of a nightly database dump in London. This dump is then copied to NY and available on a NY server (the hardware configuration is the same as London and is a dedicated production server).

Globe backups are automatically taken every 15 minutes, so it is impossible that a great deal of data could be lost. With regard to Global One, backups are currently only taken at the end of each day, although the IT department are working on streamlining this process such that backups are taken as frequently as for Globe.

8.0 Stock Lending Website

The securities lending website is a password secured site. Both NY and London overnight reports including Profitability and Outstanding reports required by SL can be viewed on the website. Reports that used to be distributed by securities lending to all other areas can also be seen on the site.

Trade information, Technology documentation and Operation procedures can also be viewed on the securities lending website.

9.0 Credit

9.1 Setting of client limits

The credit department assign limits to clients individually, and enter these limits into Matrix. They also send out a 80% exposure report.

9.2 Requests for new/increased limits

Traders should channel requests for credit limits through the Securities Lending marketing department who will in turn approach the Securities Lending credit officer to request increases.

10.0 Support Units/Functions

Below are detailed the key tasks of the Securities Lending support units.

10.1 Operations

Releasing SWIFT instructions to the agents
Ensuring timely settlement of all products related to securities lending transactions

Mark to markets
Exposure management
Collateral management
Nostro/depot reconciliations
Client billing

10.2 Corporate Actions

Communication of MOD2 expires
Compilation/maintenance of comprehensive MOD2 lists
Maintaining and reconciling record date positions
Liaising with clients regarding corporate events
Paying/receiving cash dividends & stock resulting from corporate actions
Allocating/charging internal desks for dividends and with-holding tax
Liaising with the Inland Revenue
Informing trade support of trades that need to be booked as a result of a corporate action

10.3 Controllers

Maintaining and reconciling the Firm's books and records
P&L reporting and analysis
Balance sheet reporting
Regulatory reporting
Management reporting

10.4 Credit

Approving credit limits
Monitoring credit exposures
Communication of specific concerns with regard to counterparts, markets or stocks

10.5 Legal

Negotiating/approving all agreements
Advising on legal changes that affect the business
Ad-hoc advice as requested

10.6 Tax

Ad-hoc advice as requested

10.7 Compliance

Ensure that the business is conducted in an appropriate manner
Communicate changes in regulations as they affect Securities Lending
Ad-hoc advice as requested

10.8 Information Technology

Providing and maintaining an efficient system and providing comprehensive user support
Upgrading the technology as possible
Enhancing the system as requested

Appendix 1: Securities Lending – Contact List

London

Jean-Paul Musicco – Global Head of Securities Lending

Ben Sofolawe – Head of International Trading

Darren Johns – Global Business Manager

Roy Zimmerman – Marketing Manager

Dermont Drechen – Head of Trade Support

Mark Morris – European Head of Securities Lending Operations

Rodger Houghton – Head of Controlling

David Keane – European Head of Securities Lending IT

Jersey

Mark Wildman – Global Head Offshore Group Banking

Andrew Falle – Head of Wholesale Trading

Darren Langlois – Wholesale Trading

Brett Ireland – Head of Jersey Controlling

Robert McConnell – Risk Controlling

NPA Sign off AB104293
This sign off only covers the change of business with respect to the new stock borrow and loan trading activity which DBIL wishes to undertake. This sign off does not cover the further enhanced business that still requires UK Inland Revenue confirmation that DBIL will still be operating within the allowable perimeters of the UK CFC legislation. A separate NPA sign off will therefore required for that new business.
This sign off is subject to the following restrictions:
1. DBIL will in all cases be the Principal borrower and Principal lender of US issued Equity positions.
2. The lending and borrowing counterparties with whom DBIL will contract with must themselves be Principals and resident in a jurisdiction that has not concluded a Double Taxation agreement with the USA. These Principal counterparties will either be directly contracted with DBIL or Principals contracting with DBIL through the use of an appointed Agent Lender.
3. Before a transaction can be undertaken, all Principal lending counterparties will be required to provide the Prime Broker with a valid Form W-8Ben and a duly signed certificate confirming that the Proprietary lender is (i) the beneficial owner of the MOD and (ii) that they are not a UK recipient. Other documentary evidence may suffice with regard to (i) and (ii) but this is presently under review. Acceptable documentary evidence with regard to (i) and (ii) will be required if the Prime Broker is to disapply the Reverse Charge under Reg 7 SI 1993/2004.
4. Before a transaction can be undertaken with a Principal lending counterparty contracting with DBIL via a non-US Agent Lender, the Prime Broker must be in possession of a valid Form W-8IMY from the Agent and from the underlying Principal lender a valid W-8Ben as well as a certificate confirming that the underlying lending client is (i) the beneficial owner of the MOD and (ii) that they are not a UK recipient. Other documentary evidence may suffice with regard to (i) and (ii) but this is presently under review. Acceptable documentary evidence with regard to (i) and (ii) will be required if the Prime Broker is to disapply the Reverse Charge under Reg 7 SI 1993/2004.
5. Before a transaction can be undertaken with a Principal lender contracting with DBIL via a US Agent Lender, the Prime Broker must be in possession of a valid Form W-8Ben from the underlying Principal lender as well as a certificate confirming that the underlying lending client is (i) the beneficial owner of the MOD and (ii) that they are not a UK recipient. Other documentary evidence may suffice with regard to (i) and (ii) but this is presently under review. Acceptable documentary evidence will with regard to (i) and (ii) will be required if the Prime Broker is to disapply the Reverse Charge under Reg 7 SI 1993/2004.
6. Agency Lenders. If the Prime Broker is unable to identify the underlying Principal lending client within its internal systems it is the responsibility of the Agency Lender to provide the Prime Broker with full details of the underlying lending client when submitting the market claim for the 70% US Substitute Payment. Without such information, PB Operations will be unable to settle the claim because the underlying payee may be undocumented. Failure to provide the required information will delay payment of the US Sub.
7. Borrow and loan transaction will not be tracked within the OTC

Global Equities have identified clients who have US stock available for lending together with identifying a potential borrower of the same stock. DBIL Jersey will sit in the middle of the transaction and take a margin from the borrowing fees being paid and received.
The introduction of DBIL to the Securities Lending environment will enhance existing DB Group activity in this marketplace.
Institutional Client/Counterparty credit approval will be driven by the Securities Lending Marketing Team, Global Equities, but will also require approval by the Offshore Group Credit Committee within DBIL Jersey.
Front office activities will be undertaken by the Wholesale Desk within the Jersey Banking Division.
DBIL Jersey will operate a Prime Brokerage account with DB London to facilitate the transaction. The operation of this account will be covered by PB documentation between DBIL Jersey and DB London.
Back Office functions will be facilitated via the Prime Brokerage account.
This product is potentially only an interim solution while we seek to overcome UK "Controlled Foreign Companies" issues. When we have done so it is anticipated that this product will be developed into a more intricate structure which will generate greater revenues for the DB Group as a whole and will not require the participation of a third party. An NPA will be produced for this when the "CFC" issues are resolved. We have consulted with the local regulator on the tratment of exposure, specifically netting of legs of the transaction. Their response is due early next year and we remain confident that they will approve netting for reporting purposes.
Profit split at management accounts level shall be apportioned in accordance with the current agreement between Global Equities and Private Wealth Management.