

97TH CONGRESS, 1ST SESSION

JCX-11-81

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Congress of the United States

JOINT COMMITTEE ON TAXATION
1015 LONGWORTH HOUSE OFFICE BUILDING
Washington, D.C. 20515

April 29, 1981

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to a request by Congressman Brodhead, the staff of the Joint Committee on Taxation has examined a sample of tax returns involving the use of commodity straddles and related tax shelters. We have completed the examination of this sample and prepared the attached report which contains examples of the types of shelters reflected on the returns, the amount of deferral and conversion activity, and the income and occupations of taxpayers using these shelters.

In order to insure the confidentiality of taxpayer information, we have eliminated all identifying information from examples discussed in the report. All amounts in the examples have been rounded and occupations are stated in general terms. However, every case discussed accurately reflects an actual return.

Also, we are enclosing a selection of pages from prospectuses for a variety of tax shelters. A copy of the entire prospectus for each of these shelters is available in the Joint Committee offices.

Sincerely,

Mark McConaghy
Mark McConaghy

Enclosures

REPORT ON SAMPLE OF COMMODITY STRADDLE RETURNS

The staff of the Joint Committee on Taxation has examined a sample of tax returns filed by taxpayers claiming deductions for losses in connection with transactions in commodity tax straddles and similar tax shelters. This report summarizes the sample and provides examples of several returns.

Confidentiality

Returns were provided to the Joint Committee staff by the Internal Revenue Service pursuant to authority granted in section 6103(f) of the Internal Revenue Code. The confidentiality of the returns and of associated return information has been insured. In preparing this report and the examples discussed in it, the staff has eliminated all identifying information. All amounts have been rounded and occupations are stated in general terms. However, every case mentioned reflects an actual tax return.

Sample

Although time limitations prevented selection of a precise statistical sample of commodity shelter returns, the Internal Revenue Service selected returns representative of the major types of straddle shelter activity. The sample is comprised principally of returns filed by individual taxpayers in the years 1977-80. In addition, the Service included in the sample several partnership returns (Form 1065) filed by shelters sold as limited partnership interests.

Taxpayers

The sample covered a variety of geographic regions; returns were filed from both large and small communities. The range of

of taxpayer occupations was diverse; among the individuals in the sample were blue collar workers, professionals, entrepreneurs, and business executives. Taxpayers in the sample worked in sales, services, entertainment, manufacturing, and the financial industry. Wage and salary incomes reported on the returns ranged from middle income levels around \$50,000, to amounts in excess of \$1 million. Several taxpayers sheltered capital gains of several million dollars per return; many sheltered gross incomes of half a million dollars.

Taxpayers reported millions in losses from participation in shelter operations as limited partners. In one district, 51 returns reflecting partnership interests reported aggregate losses in excess of \$280 million. Two other partnerships in another district, with approximately 250 partners, created about \$110 million in losses from straddles.

Types of straddles

Although the sample indicated that taxpayers engage in a variety of shelter transactions, straddles structured in Treasury futures contracts were the most numerous. Straddles in Treasury bill futures and options increased during the sample period and now appear the most common commodity shelter. Some shelters offset straddle positions in Treasury bills and Treasury bill futures and options with positions in GNMA ("Ginnie Mae") certificates and futures and options in Ginnie Maes. The relative use of silver futures straddles appears to have declined since approximately 1977. However, many returns listed "commodity losses" without stating the nature of the under-

lying commodity. Several individual returns reported income or gain in excess of \$1 million on each return which was rolled over repeatedly for several years through the use of straddles.

Examples

A number of returns have been summarized to show how commodity straddles are employed to shelter ordinary income and capital gains from tax. The examples, which are explained in the discussion of the several specific types of shelters, are attached to this report.

Silver Straddles

Silver straddles are used to defer capital gains and convert short-term gains into long-term gains.

In a typical silver straddle, the taxpayer, usually near the end of the tax year, establishes offsetting long and short positions in silver futures contracts with different delivery months. The taxpayer closes the loss leg of the straddle and purchases another similar contract for delivery in a different month. The taxpayer deducts the loss on the liquidated leg in the first year. The following year, more than 6 months after the initial contracts were purchased, both contracts are closed. The result is that the taxpayer has a short-term capital loss in the first year and long-term capital gain in the second year (which again may be deferred).

The shelter returns included an individual return which sheltered more than \$5,500,000 of capital gain with silver contract losses (and approximately \$520,000 of ordinary income with Treasury bill straddle losses). (Example #1.) On another

return, a long-term capital gain in excess of \$600,000 from the sale of securities was deferred with silver straddle losses exceeding \$800,000. (Example #2.)

Treasury Bill Straddles

Treasury bill straddles also are used to shelter ordinary income--wages, interest, and dividends.

In a typical T-bill straddle, the taxpayer establishes a straddle in T-bill futures contracts with delivery months toward the end of the tax year. While the futures contracts are considered capital assets, the underlying Treasury bills are ordinary income property. Toward the end of the year, the taxpayer closes the loss leg of the straddle. However, instead of disposing of the contract, the taxpayer takes delivery of the Treasury bills under a contract to buy, (or makes delivery under a contract to sell) and recognizes ordinary loss on the disposition of the T-bills. The taxpayer takes (or makes) delivery in order to be able to recognize the loss as ordinary loss. The taxpayer immediately replaces the liquidated position to maintain a balanced position. The next year the taxpayer will try to convert the sheltered ordinary income into long-term capital gain by recognizing gain on a long futures position held for more than six months.

Treasury bill straddles are sometimes structured with similar debt instruments, such as GNMA (Ginnie Mae) certificates.

The sample of shelter returns included a number of individual and partnership returns involving T-bill straddles. Three individual returns sheltered more than \$11,000,000 (\$11 million) with Treasury bill losses. (Example 3.)

One middle-income administrator used \$100,000 in T-bill losses to offset \$60,000 of wages, and \$40,000 of interest and other income (Example 4.) An executive, earning \$60,000, claimed T-bill losses of \$395,000 to wipe out most of \$420,000 in interest and commissions. (Example 5.) Losses of \$290,000 on T-bill options were claimed by a loan broker. Shelter losses and itemized deductions totalled \$440,000, offsetting most of the \$580,000 in wages earned by the broker. (Example 6.)

Treasury bill, GNMA straddle

Straddles can be structured in different debt securities provided the securities have relatively similar values and move in about the same proportions, whether directly or inversely, in relation to changes in market interest rates. Straddles in Treasury bills and GNMA ("Ginnie Mae") certificates, as well as straddles in the futures and options for these securities, were used on some returns to create losses. Example 3, an aggregate of three individual returns, included at least one return claiming losses on cancellation of GNMA contracts to shelter about \$420,000 from tax.

Broker-dealer shelters

Broker-dealer shelters take advantage of the rule in Code section 1236, which allows broker-dealers in stock and securities to wait up to thirty days after an asset's acquisition to determine whether to identify the asset as held for investment. Investment assets are treated as capital assets. When these shelters are established, the person acting as the broker-dealer,

often the general partner in a syndicated partnership, acquires securities and enters offsetting futures contracts to minimize economic risks. Before the thirty-day identification period ends, securities which have increased in value are designated as investment assets and sold at a gain, which is a short-term capital gain. Or, if the futures contracts have increased in value, the contracts are liquidated, producing short-term capital gain. (Securities which have decreased in value will be treated as ordinary income property (inventory), producing fully deductible ordinary losses.)

Before the end of the year, in order to defer tax on the short-term gain and to convert it to long-term capital gain, the broker-dealer will establish commodity futures straddles and liquidate a sufficient number of loss legs to wipe out the short-term gain. Example 7 is based on a return filed by a broker-dealer in securities. The return showed ordinary losses of about \$1.28 million on spreads offsetting ordinary income of \$656,000. Long-term capital gains of \$9.6 million and short-term capital gains of \$800,000 were more than offset by \$22.4 million in short-term capital losses on commodity futures.

Example #1

Occupation: Professional

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Wages	\$430,000		\$430,000
Interest	130,000		130,000
Dividends	135,000		135,000
Long-term capital gain		\$4,380,000	4,380,000
Total income	<u>\$695,000</u>	<u>\$4,380,000</u>	<u>\$5,075,000</u>
Itemized Deductions	<u>(240,000)</u>		<u>(240,000)</u>
Taxable income before shelter activities	\$455,000	\$4,380,000	\$4,835,000
Shelter Activities			
Treasury bill straddle	(520,000)		(520,000)
Silver straddle		(5,540,000)	(4,380,000)*
Taxable income	<u>(\$65,000)</u>	<u>0*</u>	<u>(\$65,000)</u>
Tax			
Regular tax			0
Minimum tax			<u>\$1,000</u>
Total taxes			<u>\$1,000</u>

* The capital loss of \$5,540,000 from the silver straddle will offset the taxpayer's entire capital gain of \$4,380,000. The excess loss of \$1,160,000 can be carried to other tax years to offset capital gains arising in those years.

Example #2

Occupation: Executive

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Wages	\$ 50,000		\$ 50,000
Interest & Dividends	225,000		225,000
Loss from partnerships and subchapter S corps.	(90,000)		(90,000)
Long-term capital gain		\$660,000	660,000
Total income	<u>\$ 185,000</u>	<u>\$660,000</u>	<u>\$ 845,000</u>
Itemized Deductions			
Taxable income before shelter activities	<u>\$(172,000)</u>		<u>(172,000)</u>
	13,000	660,000	673,000
Shelter activities			
Silver straddle		(850,000)	(660,000)*
Taxable income	<u>\$ 13,000</u>	<u>0*</u>	<u>\$ 13,000</u>
Tax			
Regular tax			\$ 1,000
Minimum tax			22,000
Total taxes			<u>\$ 23,000</u>

* The \$850,000 capital loss will offset the entire \$660,000 capital gain. The excess loss of \$190,000 will be carried to other tax years to offset capital gains arising in those years.

Example #3

Aggregate of Three Identifiable Individual Returns

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Wages	\$12,240,000		\$12,240,000
Interest	160,000		160,000
Partnership loss	(250,000)		(250,000)
Capital gain		\$ 20,000	20,000
Farm income	500,000		500,000
Business income (loss)	40,000		40,000
Other income (loss)	700,000		700,000
Total income	<u>\$13,390,000</u>	<u>\$ 20,000</u>	<u>\$13,410,000</u>
Itemized Deductions			
Taxable income before shelter activities	<u>\$(1,150,000)</u>		<u>\$(1,150,000)</u>
	\$12,240,000	\$ 20,000	\$12,260,000
Shelter activities			
Treasury bill straddle	(960,000)		(960,000)
Loss on Treasury bill option	(10,000,000)		\$10,000,000
Cancellation of GNMA contract	(420,000)	\$ 20,000	(420,000)
Taxable income	<u>\$ 860,000</u>	<u>\$ 20,000</u>	<u>\$ 880,000</u>
Tax			
Regular tax			\$ 530,000
Minimum tax			---
Total taxes			<u>\$ 530,000</u>

Example #4

Occupation: Administrator

	<u>Ordinary Income</u>	<u>Capital Gain</u>	<u>Total Income</u>
Income			
Wages	\$ 60,000		\$ 60,000
Interest	20,000		20,000
Other income (loss)	90,000		90,000
Total income	<u>\$ 170,000</u>		<u>\$ 170,000</u>
Itemized Deductions	<u>(25,000)</u>		<u>(25,000)</u>
Taxable income before shelter activities	\$ 145,000		\$ 145,000
Shelter Activities			
Treasury bill straddle	<u>\$(100,000)</u>		<u>\$(100,000)</u>
Taxable income	<u><u>\$ 45,000</u></u>		<u><u>\$ 45,000</u></u>
Tax			
Regular tax			\$ 2,000
Minimum tax			--
Total taxes			<u><u>\$ 2,000</u></u>

Example #5

Occupation: Executive

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Wages	\$ 60,000		\$ 60,000
Interest	210,000		210,000
Commissions	200,000		200,000
Total income	<u>\$ 470,000</u>		<u>\$ 470,000</u>
Itemized Deductions			
Taxable income before shelter activities	<u>(50,000)</u>		<u>(50,000)</u>
	420,000		420,000
Shelter activities			
Treasury bill straddle	(395,000)		(395,000)
Investment fee	(25,000)		(25,000)
Taxable income	<u>\$ -0-</u>		<u>\$ -0-</u>
Tax			
Regular tax			\$ 1,000
Minimum tax			--
Total Taxes			<u>\$ 1,000</u>

Example #6

Occupation: Loan Broker

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Wages	\$ 580,000		\$ 580,000
Interest	80,000		80,000
Business income (loss)	(80,000)		(80,000)
Total income	<u>\$ 580,000</u>		<u>\$ 580,000</u>
Itemized Deductions			
Taxable income before shelter activities	<u>150,000</u>		<u>150,000</u>
Shelter activities	430,000		430,000
Shelter activities			
Loss on Treasury Bill option	\$ (290,000)		\$ (290,000)
Taxable income	<u>\$ 140,000</u>		<u>\$ 140,000</u>
Tax			
Regular tax (less tax credits of \$50,000)			\$ 20,000
Minimum tax			15,000
Total taxes			<u>\$ 35,000</u>

Example #7

Occupation: Broker/Dealer in Securities

	<u>Ordinary Income</u>	<u>Capital Gains</u>	<u>Total Income</u>
Income			
Interest & dividends	\$ 56,000		\$ 56,000
Sale of assets	600,000		600,000
Long-term capital gain		9,600,000*	9,600,000
Short-term capital loss		(100,000)	(100,000)
Business income (loss)	(48,000)		(48,000)
Other income (loss)		800,000	800,000
Total income	<u>\$ 608,000</u>	<u>\$10,300,000</u>	<u>\$10,908,000</u>
Itemized Deductions**			
Taxable income before shelter activities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	\$ 608,000	\$10,300,000	\$10,908,000
Shelter Activities			
Straddles	(\$1,280,000)		(1,280,000)
Loss on commodity futures		(\$22,400,000)	(10,300,000)***
Taxable income	<u>\$ (672,000)</u>	<u>0***</u>	<u>\$ (672,000)</u>
Tax			
Regular tax			
Minimum tax			<u>none</u>

* This appears to be the rollover of capital gains from a straddle loss in the preceeding year. That is, the taxpayer probably had a capital loss in the preceeding year of approximately \$9,600,000, which represented the loss leg of the commodity straddle, and the \$9,600,000 capital gain recognized this year is the profit leg of the straddle.

** Taxpayer had itemized deductions of \$127,000 but was unable to utilize them because his straddle activities eliminated all of his gross income so that his adjusted gross income was zero (itemized deductions are deducted from adjusted gross income).

*** The \$22,400,000 capital loss will offset the entire \$10,300,000 capital gain. The excess loss of \$12,100,000 will be carried to other tax years to offset capital gains arising in those years.

T-BILL/GNMA tax shelter

I N S T R U C T I O N S

The minimum fee for trading T-Bills and/or GNMA futures to convert ordinary income to capital gains is \$2,500. The fee enables you to incur a debit balance or loss in the account up to \$20,000. The debit balances or tax losses can be increased in increments of \$10,000 for additional fee of 12.5% for each \$10,000 in debit balance. Capital Gain can be rolled over for a 5% FEE.

The following chart correlates the fee requirement to tax write-off (deductible expenses).

<u>FEE</u>	<u>(Debit Balance) TAX WRITE-OFF</u>	<u>(Capital Gains) ROLL OVER FEE</u>
\$ 2,500	\$20,000	\$1,000
3,750	30,000	1,500
5,000	40,000	2,000
6,250	50,000	2,500
7,500	60,000	3,000
8,750	70,000	3,500
10,000	80,000	4,000
11,250	90,000	4,500
12,500	100,000	5,000

If you need further assistance to determine your tax loss needed and procedure, do not hesitate to call (213) 883-5106 or Toll Free in California, (800) 382-3628; and National, (800) 423-5351.

After you have determined your cash requirement for the fee, fill in the forms and proceed as follows:

1. Sign, date and address the letter addressed to the "International Monetary Exchange, RE: COMMODITY MANAGEMENT ACCOUNT."
2. Fill out application as complete as possible. It is important to include a passport number or other positive form of I.D. in case you want to visit the company in Panama.
3. Under "PURPOSE OF LOAN," CHECK "Commodity Account" and enter after "Amount Requested," the tax loss desired and most IMPORTANT the kind of trading, i.e. (CONVERT ORDINARY INCOME TO CAPITAL GAINS) or (SPREAD GNMA'S TO ROLL CAPITAL GAINS).
4. Buy a Cashier's Check made out to the "INTERNATIONAL MONETARY EXCHANGE" for the fee indicated in the above chart for the tax write-off you desire and send it together with the letter "RE: Commodity Management Account," and the application to Telecon, 21243 Ventura Blvd., Suite 214, Woodland Hills, California 91364. for the fast messenger service to Panama, postage paid envelope enclosed.
5. Confirms and statements will be sent as orders are executed.

T-BILL | GNMA tax shelter

TAX DEFERRAL AND CONVERSION TO CAPITAL GAIN

S U M M A R Y

In January of 1976, Treasury Bill Futures were introduced on the International Monetary Market in Chicago.

By definition, the Treasury Bills themselves are not a capital asset, therefore, any income or loss derived from them or the futures are taxed on an ordinary basis. In contrast, GNMA'S are a capital asset and consequently their futures are given capital gains treatment.

Both instruments fluctuate and react to the interest rate market virtually in direct proportion. Because of this relationship and a no margin requirement on the International Monetary Exchange, a 9 to 1 tax shelter can be effected in the first year.

Therefore, the ideal trades are being short T-Bills and long GNMA'S with interest rates going down. In this manner, through a series of trades, an ordinary loss can be created in the T-Bills this year and a capital gain in the GNMA'S in future years.

RESULT: DEFERS TAX FOR TWO YEARS AND SUBSEQUENTLY ORDINARY TAX TO A CAPITAL GAIN PAYABLE APRIL 15, 1981.

The International Monetary Exchange letter to Joe Quinn and the attached legal opinion discuss this excellent shelter in detail. If after reading the attached information and further explanation is needed, call the "Toll Free" numbers listed below.

National (800) 423-5351

California (800) 382-3628



OXFORD
 Investment Management Corporation
 P.O. BOX 1567, GRAND CAYMAN
 CAYMAN ISLANDS, BRITISH WEST INDIES

TAX OPTION CORPORATION TAX SHELTER

DATE: _____

ACCOUNT APPLICATION
 (RECEIPT)

NAME _____

ADDRESS _____ PHONE _____

CITY _____ STATE _____ ZIP _____

SOCIAL SECURITY NUMBER _____

NAME FOR CORPORATION _____

NAME OF STOCKHOLDER(S) _____

ADDRESS _____ PHONE _____

CITY _____ STATE _____ ZIP _____

OBJECTIVES (AMOUNT):

STRADDLES \$ _____

COMMODITIES \$ _____

SEND CASHIERS CHECK OR MONEY ORDER ONLY.

 OFFICE USE ONLY:

FUNDS RECEIVED \$ _____

TYPE OF CHECK _____

TAX OPTION CORPORATE TAX SHELTER

(S U B - C H A P T E R " B ")

C H E D U L E O F S E M I N A R S

			CLIENT SEMINAR	AGENT SEMINAR
February 27, 1979	Tuesday	PORTLAND, OREGON	7:30 p.m.	
March 10, 1979	Saturday	SAN FRANCISCO, CA.	2:00 p.m.	9:00 a.m.
March 12, 1979	Monday	LOS ANGELES, CA.	7:30 p.m.	3:00 p.m.
March 13, 1979	Tuesday	PORTLAND, OREGON	7:30 p.m.	
March 23, 1979	Friday	SPOKANE, WASHINGTON	7:30 p.m.	3:00 p.m.
March 24, 1979	Saturday	SEATTLE, WASHINGTON	10:00 a.m.	2:00 p.m.
March 27, 1979	Tuesday	PORTLAND, OREGON	7:30 p.m.	
April 5, 1979	Thursday	BOISE, IDAHO	7:30 p.m.	3:00 p.m.
April 6, 1979	Friday	SALT LAKE CITY, UT.	7:30 p.m.	3:00 p.m.
April 7, 1979	Saturday	RENO, NEVADA	11:00 a.m.	2:00 p.m.
April 10, 1979	Tuesday	PORTLAND, OREGON	7:30 p.m.	
April 14, 1979	Saturday	SAN FRANCISCO, CA.	10:00 a.m.	2:00 p.m.
April 15, 1979	Sunday	VISALIA, CALIFORNIA	2:00 p.m.	10:00 a.m.
April 16, 1979	Monday	LOS ANGELES, CA.	7:30 p.m.	3:00 p.m.
April 21, 1979	Saturday	CHICAGO, ILLINOIS	9:00 a.m.*	11:00 a.m.
April 22, 1979	Sunday	DETROIT, MICHIGAN	10:00 a.m.	2:00 p.m.
April 23, 1979				



OXFORD
Investment Management Corporation
P.O. BOX 1567, GRAND CAYMAN
CAYMAN ISLANDS, BRITISH WEST INDIES

NOTICE
NOTICE
NOTICE

The cost of participating in the Oxford Investment Management Corporation Tax Straddle Tax Shelter ~~is~~ LESS during the early months of the year. The cost goes up about .5% each month.

Early participation can save you money.

MARCH FEE*	9.0 % of desired position
APRIL FEE*	9.5 % of desired position

* Does not include open commodity investments.

THE TAX OPTION CORPORATION

TAX SHELTER

(SUB CHAPTER "S" CORPORATION)

"Anyone may arrange his affairs so his taxes may be as low as possible. He is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase ones taxes. Over and over again our courts have said there is nothing sinister in arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike, and all do right; for nobody owes any public duty to pay more than the law demands. Taxes are an enforceable extraction and not a voluntary contribution."

Judge Learned Hand
(Haverling v. Gregory, 60F, 809)

INTRODUCTION

The use of a Tax Option Corporation Tax Shelter enables taxpayers of incomes of \$35,000. per year or more to implement two tax avoidance methods. First, deferral of current year income tax and, second, elimination of the deferred tax. Specifically, converting ordinary income tax of the the current year and combining the profits with other created losses in the subsequent year. In most cases this can eliminate an individual's tax bill or at least reduce it substantially.

Deferment enables the taxpayer to delay this year's taxes. He can then invest the savings. The money, normally paid to Uncle Sam can be invested for personal objectives and profits.

This Shelter is accomplished by creating a situation where profits and loss from investments can be deducted from ordinary income. This is achieved by creating a Tax Option Corporation (Sub Chapter "S") by filing Form 2553 with the I.R.S. and receiving I.R.S. recognition as a corporation. The corporation's purpose would be to speculate in investments including commodity future contracts. Risk is minimized by straddling each position. Each position creates a profit and its straddle counterpart creates a corresponding loss.

In the current year, the losses pass through the Tax Option Corporation as ordinary loss to the stockholder(s), as provided by the law under Sub Chapter "S" of the corporation tax law. Profits are held back and deferred to the next year at which time they also pass through to the stockholder(s). Profits are also treated as ordinary. At this point, the Shelter has simply deferred ordinary income from one year to the next.

To avoid a tax consequence in the second year, the Tax Option Corporation enters into a partnership agreement with a non-taxed entity, i.e.; a foreign trust, a foreign company, or a church. Another straddle is purchased. The partner takes the gain and the Tax Option Corporation takes the loss. Hence, the gain of the previous year is offset with a loss the second year and the tax liability is cancelled.

For the corporation to qualify as an investment company, profit seeking investments must be made. To achieve an adequate amount of investment activity a second investment program is included, a commodities account, without straddles. The investment required for this account is 2% of the amount to be straddle. For further explanation See Diagram # 1.

RISK CONSIDERATIONS

The first objective of the Tax Option Corporation Tax Shelter is deferment. And since our taxing system requires voluntary reporting, deferment is a virtual certainty. Losses are created and claimed. The burden of review falls upon the I.R.S., thus tax payment is deferred until the I.R.S. acts. (Sometimes years.)

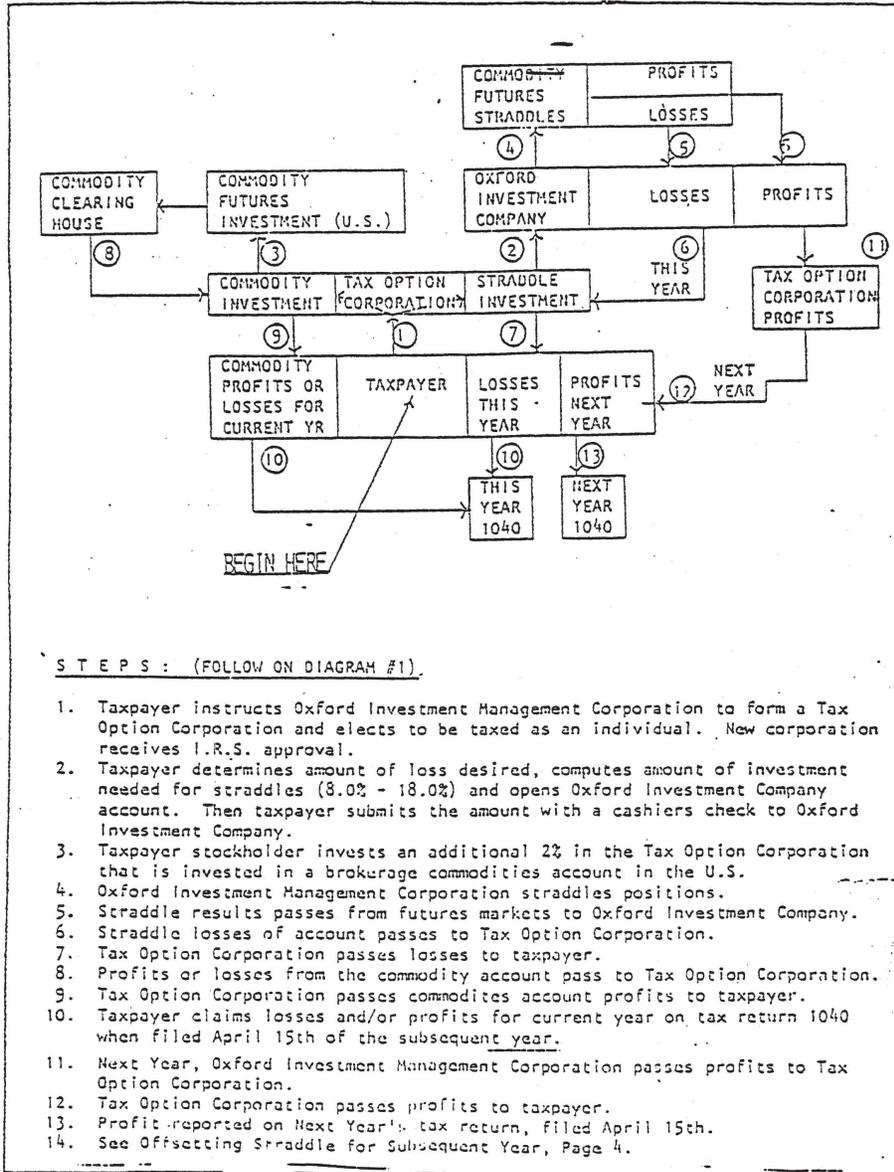
The second objective, eliminating ordinary income tax created by the second straddle, can be done with a partnership. Undoubtedly, the I.R.S. will audit returns with extraordinary losses. They customarily try to minimize tax reductions; hence, it is logical to assume the use of the Tax Option Corporation will be carefully examined.

If the I.R.S. rejects the claims of the Tax Option Corporation, their decision can be appealed through the tax appeals process. This process can take years to complete. Deferment can be further stretched out through part of the appeals process.

To determine if a reasonable chance for successful tax reduction exists, the creators of the Tax Option Corporation Tax Shelter have secured several legal opinions. Each sees the plan as defensible. However, none can guarantee the plan will not be challenged. In fact, it is almost a certainty that it will. The question is, "Will it fly?". We think so. We do not know so.

Legal briefs to answer audits and appeals will be provided, thus reducing costs. The legal briefs are prepared by knowledgeable tax attorneys with specialties in Tax Option Corporation law.

Successful tax reduction is the goal. Deferment is a certainty.

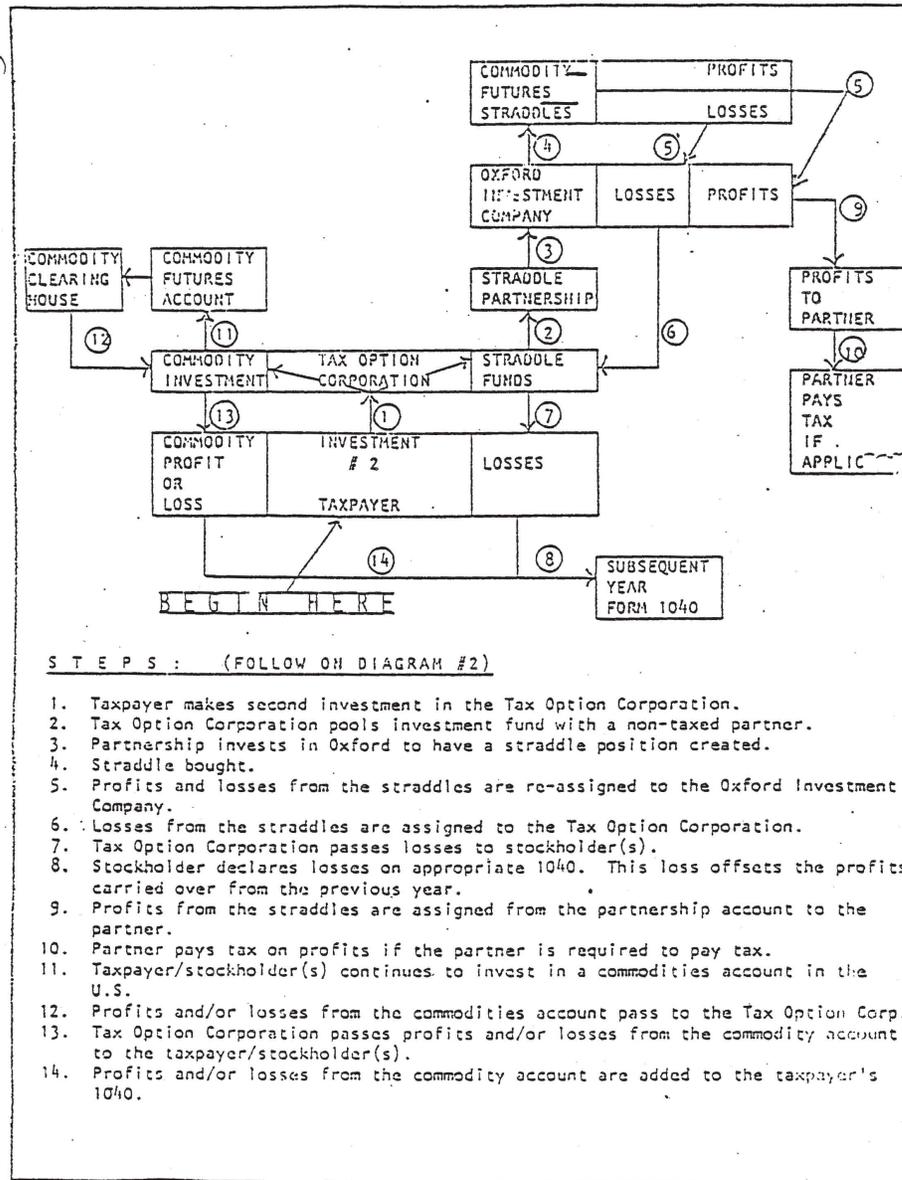


STEPS: (FOLLOW ON DIAGRAM #1).

1. Taxpayer instructs Oxford Investment Management Corporation to form a Tax Option Corporation and elects to be taxed as an individual. New corporation receives I.R.S. approval.
2. Taxpayer determines amount of loss desired, computes amount of investment needed for straddles (8.0% - 18.0%) and opens Oxford Investment Company account. Then taxpayer submits the amount with a cashiers check to Oxford Investment Company.
3. Taxpayer stockholder invests an additional 2% in the Tax Option Corporation that is invested in a brokerage commodities account in the U.S.
4. Oxford Investment Management Corporation straddles positions.
5. Straddle results passes from futures markets to Oxford Investment Company.
6. Straddle losses of account passes to Tax Option Corporation.
7. Tax Option Corporation passes losses to taxpayer.
8. Profits or losses from the commodity account pass to Tax Option Corporation.
9. Tax Option Corporation passes commodities account profits to taxpayer.
10. Taxpayer claims losses and/or profits for current year on tax return 1040 when filed April 15th of the subsequent year.
11. Next Year, Oxford Investment Management Corporation passes profits to Tax Option Corporation.
12. Tax Option Corporation passes profits to taxpayer.
13. Profit reported on Next Year's tax return, filed April 15th.
14. See Offsetting Straddle for Subsequent Year, Page 4.

DIAGRAM #2

ACTIVITY FOR SECOND YEAR



STEPS: (FOLLOW ON DIAGRAM #2)

1. Taxpayer makes second investment in the Tax Option Corporation.
2. Tax Option Corporation pools investment fund with a non-taxed partner.
3. Partnership invests in Oxford to have a straddle position created.
4. Straddle bought.
5. Profits and losses from the straddles are re-assigned to the Oxford Investment Company.
6. Losses from the straddles are assigned to the Tax Option Corporation.
7. Tax Option Corporation passes losses to stockholder(s).
8. Stockholder declares losses on appropriate 1040. This loss offsets the profits carried over from the previous year.
9. Profits from the straddles are assigned from the partnership account to the partner.
10. Partner pays tax on profits if the partner is required to pay tax.
11. Taxpayer/stockholder(s) continues to invest in a commodities account in the U.S.
12. Profits and/or losses from the commodities account pass to the Tax Option Corp.
13. Tax Option Corporation passes profits and/or losses from the commodity account to the taxpayer/stockholder(s).
14. Profits and/or losses from the commodity account are added to the taxpayer's 1040.

OXFORD INVESTMENT MANAGEMENT CORPORATION

**RATES FOR TAX OPTION CORPORATION TAX SHELTER
(FIRST YEAR COSTS FOR STRADDLES)

<u>MONTH OF PURCHASE</u>	<u>AMOUNT</u>
JANUARY	8.0% of DESIRED POSITION
FEBRUARY	8.5% " " "
MARCH	9.0% " " "
APRIL	9.5% " " "
MAY	10.0% " " "
JUNE	10.0% " " "
JULY	10.5% " " "
AUGUST	11.0% " " "
SEPTEMBER	11.5% " " "
OCTOBER	12.0% " " "
NOVEMBER	14.0% " " "
DECEMBER	18.0% " " "

INCLUDES:

- All consultant fees.
- Creation of Tax Option Corporation.
- I.R.S. approval for Tax Option Corporation tax treatment.
- All attorney fees for creating Tax Option Corporation.
- All Oxford Investment Management Corporation fees.
- All margin requirements.
- All costs Tax Court defense of First I.R.S. rejection.
- All costs of Appeals of First Test Case.
- All legal briefs for audit.
- All legal briefs for appeals.
- Unlimited consultation.

**ADD 2% of the amount of straddle for Commodity Futures Investment

**DOES NOT INCLUDE SECOND YEAR PARTNERSHIP AND STRADDLE COSTS.

RATE EXAMPLES

AMOUNT OF DESIRED WRITE-OFF STRADDLE COSTS INVESTMENT FOR COMMODITY FUTURES ACCOUNT

	9%	10%	11%	2%
\$ 25,000	\$ 2,250	\$ 2,500	\$ 2,750	\$ 500
\$ 30,000	\$ 2,700	\$ 3,000	\$ 3,300	\$ 600
\$ 35,000	\$ 3,150	\$ 3,500	\$ 3,850	\$ 700
\$ 40,000	\$ 3,600	\$ 4,000	\$ 4,400	\$ 800
\$ 45,000	\$ 4,050	\$ 4,500	\$ 4,950	\$ 900
\$ 50,000	\$ 4,500	\$ 5,000	\$ 5,500	\$1,000
\$ 60,000	\$ 5,400	\$ 6,000	\$ 6,600	\$1,200
\$ 70,000	\$ 6,300	\$ 7,000	\$ 7,700	\$1,400
\$ 80,000	\$ 7,200	\$ 8,000	\$ 8,800	\$1,600
\$ 90,000	\$ 8,100	\$ 9,000	\$ 9,900	\$1,800
\$100,000	\$ 9,000	\$10,000	\$11,000	\$2,000
\$110,000	\$ 9,900	\$11,000	\$12,100	\$2,200
\$120,000	\$10,800	\$12,000	\$13,200	\$2,400
\$125,000	\$11,250	\$12,500	\$13,750	\$2,500
\$150,000	\$13,500	\$15,000	\$16,750	\$3,000
\$175,000	\$15,750	\$17,500	\$19,250	\$3,500
\$200,000	\$18,000	\$20,000	\$22,000	\$4,000

COMPARISON: NO SHELTER VS. SHELTER

E X A M P L E

\$ 35,000 COMBINED ANNUAL INCOME

(\$ 25,000 STRADDLE)

	NO SHELTER	SHELTER
GROSS INCOME (AFTER OTHER DEDUCTIONS)	\$ 35,000	\$ 35,000
DEDUCTIONS FROM STRADDLE LOSS	-0-	(\$ 25,000)
ADJUSTED GROSS INCOME	\$ 35,000	\$ 10,000
ITEMIZED DEDUCTIONS (ASSUME 10%)	(\$ 3,500)	(\$ 3,500)
TAX TABLE INCOME	\$ 31,500	\$ 6,500
EXEMPTIONS (4)	(\$ 4,000)	(\$ 4,000)
TAXABLE INCOME	\$ 27,500	\$ 2,500
FEDERAL INCOME TAX (36%)	(\$ 5,767)	-0-
SHELTER COST (10%)	-0-	(\$ 2,500)
CASH OUTLAY--1ST YEAR	(\$ 5,767)	(\$ 2,500)
2ND YEAR	-0-	(\$ 2,500)
TOTAL COST	(\$ 5,767)	(\$ 5,000)
INTEREST GAIN 1ST YEAR 10% OF \$3,265	-0-	\$ 326
INTEREST GAIN 2ND YEAR 10% OF \$3,265	-0-	\$ 77
TOTAL INTEREST EARNINGS \$2,500 = \$.765	-0-	\$ 403
NET COST	(\$ 5,767)	(\$ 4,597)
NO SHELTER NET COST	(\$ 5,767)	
SHELTER NET COST	(\$ 4,597)	
NET SAVINGS	(\$ 1,170)	

COMPARISON: NO SHELTER ~~VS.~~ SHELTER

E X A M P L E

\$ 65,000 COMBINED ANNUAL INCOME

(\$ 50,000 STRADDLE)

	<u>NO SHELTER</u>	<u>SHELTER</u>
GROSS INCOME (AFTER OTHER DEDUCTIONS)	\$ 65,000	\$ 65,000
DEDUCTION FROM STRADDLE LOSS	<u>-0-</u>	<u>(\$ 50,000)</u>
ADJUSTED GROSS INCOME	\$ 65,000	\$ 15,000
ITEMIZED DEDUCTIONS (ASSUME 10%)	<u>(\$ 6,500)</u>	<u>(\$ 6,500)</u>
TAX TABLE INCOME	\$ 58,500	\$ 8,500
EXEMPTIONS (4)	<u>\$ 4,000</u>	<u>\$ 4,000</u>
TAXABLE INCOME	\$ 54,500	\$ 4,500
FEDERAL INCOME TAX (50%)	(\$ 17,710)	(\$ 185)
SHELTER COST (10%)	<u>-0-</u>	<u>(\$ 5,000)</u>
CASH OUTLAY 1ST YEAR	(\$ 17,710)	(\$ 5,185)
2ND YEAR	<u>-0-</u>	<u>(\$ 5,000)</u>
TOTAL COST	(\$ 17,710)	(\$ 10,185)
INTEREST GAIN 1ST YEAR	-0-	\$ 1,253
10% OF \$12,525		
INTEREST GAIN 2ND YEAR	-0-	\$ 753
10% OF \$12,525-\$5,000 = \$7,525)	<u>-0-</u>	<u>\$ 753</u>
TOTAL INTEREST EARNINGS	-0-	\$ 2,006
NET COST	(\$ 17,710)	(\$ 8,179)
NO SHELTER NET COST	(\$ 17,710)	
SHELTER NET COST		<u>(\$ 8,179)</u>
NET SAVINGS		(\$ 9,531)

COMPARISON: NO SHELTER VS. SHELTER

E X A M P L E

\$100,000 COMBINED ANNUAL INCOME

(\$ 80,000 STRADDLE)

	<u>NO SHELTER</u>	<u>SHELTER</u>
GROSS INCOME (AFTER OTHER DEDUCTIONS)	\$100,000	\$100,000
DEDUCTION FROM STRADDLE LOSS	<u>-0-</u>	<u>(\$ 80,000)</u>
ADJUSTED GROSS INCOME	\$100,000	\$ 20,000
ITEMIZED DEDUCTIONS (ASSUME 10%)	<u>(\$ 10,000)</u>	<u>(\$ 10,000)</u>
TAX TABLE INCOME	\$ 90,000	\$ 10,000
EXEMPTIONS (4)	<u>(\$ 4,000)</u>	<u>(\$ 4,000)</u>
TAXABLE INCOME	\$ 86,000	\$ 6,000
FEDERAL INCOME TAX (58%)	(\$ 34,964)	(\$ 450)
SHELTER COST (10%)	<u>-0-</u>	<u>(\$ 8,000)</u>
CASH OUTLAY 1ST YEAR	(\$ 34,964)	(\$ 8,450)
2ND YEAR	<u>-0-</u>	<u>(\$ 8,000)</u>
TOTAL COST	(\$ 34,964)	(\$ 16,450)
INTEREST GAIN 1ST YEAR 10% OF \$26,514	-0-	\$ 2,651
INTEREST GAIN 2ND YEAR 10% OF \$26,514 - \$8,000 = \$18,514	<u>-0-</u>	<u>\$ 1,851</u>
TOTAL INTEREST EARNINGS	-0-	\$ 4,502
NET COST		\$ 11,948
NO SHELTER NET COST	(\$ 34,964)	
SHELTER NET COST	(\$ 11,948)	
NET SAVINGS	(\$ 23,016)	

TREASURY BILL

GNMA

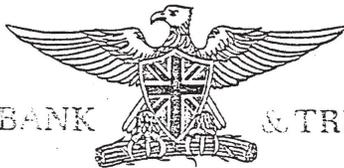
GOLD

SILVER

Managed Accounts

BY

FEDERAL BANK & TRUST CO. Ltd.



Registered Office • Whitechapel, • Kingstown, St. Vincent West Indies, • P.O. Box 589 • Telephone 61757



ADVICE

Nothing herewith contained suggests tax evasion nor will Federal Bank & Trust Co. Ltd., nor any of its subsidiaries or Personnel cooperate in any way with anyone in any act in the United States or off-shore to evade taxes.



HIGHER LEVERAGE AND LESS EXPENSIVE COMMISSIONS ARE THE REASONS THESE TRADES ARE DONE OFF-SHORE VERSUS THE UNITED STATES

Making T-Bill, GNMA, Gold & Silver Trades in the U.S. requires heavy deposits and, in addition to these deposits, commissions of \$50.00 and up are charged per trade. Since several trades may be necessary to meet an individual's requirements, it can readily be seen that the amount of money necessary to perform trades in the United States would make it prohibitive cash-wise and be of questionable value to the average taxpayer.

These heavy expenses are substantially lowered for the taxpayer who trades through Federal Bank & Trust Co., Ltd. The Bank is satisfied to make a modest profit based on the volume of trades transacted and has the advantage of an omnibus account with its brokers so it is able to negotiate low commission rates, which it passes on to its clients.

REMEMBER

FOR YOUR PROTECTION:

- (1) *Your account opening deposit goes into escrow.*
- (2) *Escrow funds are not released until the required trades have been placed for your account.*
- (3) *All confirmations and interim statements are reviewed by a member firm of one of the top ten international accounting firms.*

AND IN ADDITION:

*If losses should occur and
If IRS should challenge the proposed treatment of these transactions, as indicated in our letter of May 15, 1979, Federal Bank & Trust will provide legal representation and defense at no cost to you to maintain the expected tax treatment.*

RESULTS OF ARBITRAGE TRADING EQUALS THE SIMPLEST OF ALL TAX DEFERRALS

Treasury Bills are not capital assets, according to IRS code. Therefore, profits or losses derived from trading in them are ordinary gains or losses for tax purposes. On the other hand, GNMA's are capital assets, and as such, gains or losses derived from trading them are capital gains or losses for tax purposes.

Since both instruments move in direct proportion to interest market shifts, an arbitrage can be devised to maximize tax benefits should the trades prove to be unprofitable.

By employing such an arbitrage between T-Bills and GNMA certificates, ordinary income in 1979 can be converted to a long-term capital gain in 1980 or 1981 (see below). When the capital gain comes back next year the maximum tax rate is 28%, which is considerably less than the ordinary income tax rate of 50% to 70% for earned or unearned income.

Additionally, under certain circumstances, the long-term capital gain can be deferred for another year for approximately 4% margin. When one considers that the use of money is worth at least 10% per year, the deferment of tax becomes enormously advantageous.

MARGIN REQUIREMENT FOR CAPITAL GAINS DEFERMENT

ONE YEAR - 4%

TWO YEARS - 6%

**WHEN DOES NO PROFIT EQUAL PROFIT?
HOW FAILURE CAN BE TURNED TO MODEST SUCCESS BY TAX SAVINGS.**

Example A

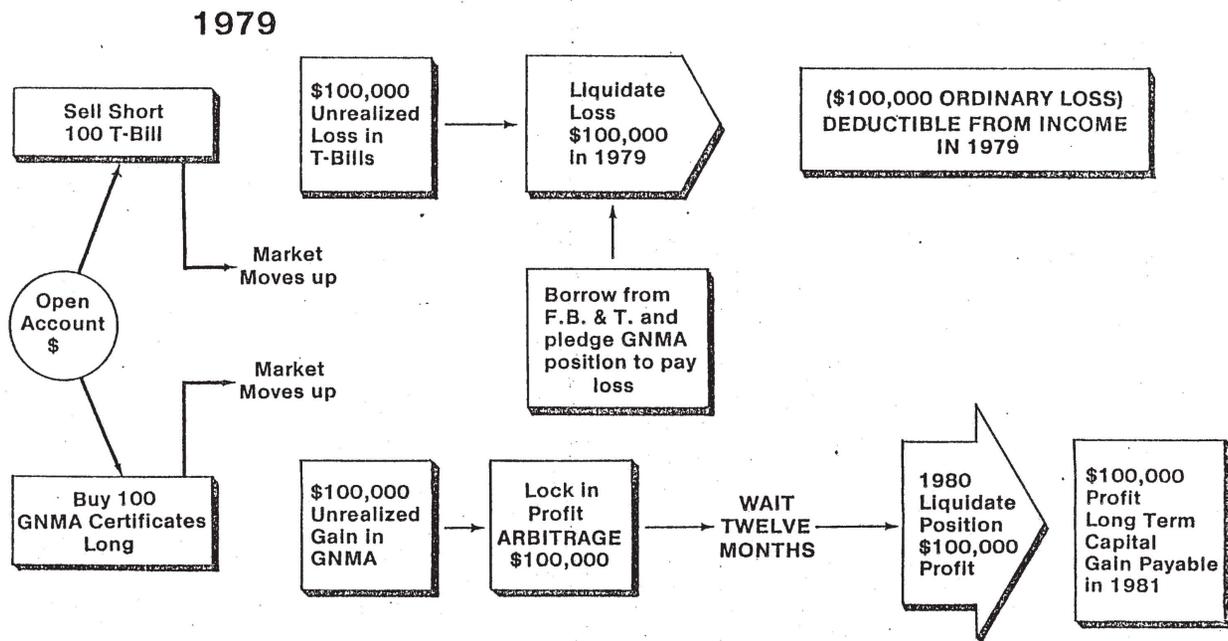
Average Taxpayer		Monies paid by Taxpayer in the 50% Tax Bracket
1979 Income	\$100,000	\$50,000
Average Taxpayer With F.B. & T. Account		
1979 Income Per	\$100,000	
1979 Ordinary Loss	-\$100,000	
F.B. & T. Margin Deposit		16,000
Reduction in cash paid for tax.		<u>\$34,000</u>
The use of this money has to be worth at least 10% Per Annum		<u>3,400</u>
Working Benefit of Reduction		<u>\$37,400</u>
1980 Offsetting Capital Gain	\$100,000	
Less Margin Deposit	-16,000	
Taxable Capital Gain	<u>\$ 84,000</u>	
Tax on Capital Gain (Est.)*		18,480
NET BENEFIT		<u>\$18,920</u>

EXAMPLE B

Average Taxpayer		Monies paid by Taxpayer in the 70% Tax Bracket
1979 Income Per	\$100,000	70,000
Average Taxpayer with F.B. & T. Account		
1979 Income Per	\$100,000	
1979 Ordinary Loss	-\$100,000	
F.B. & T. Margin Deposit		16,000
Reduction in cash paid for tax		<u>\$54,000</u>
The use of this money has to be worth at least 10% per annum		<u>5,400</u>
Working Benefit of Reduction		<u>\$59,400</u>
1980 Offsetting Capital Gain	\$100,000	
Less Margin Deposit	-16,000	
Taxable Capital Gain	<u>\$ 84,000</u>	
Tax on Capital Gain (Est.)**		23,520
NET BENEFIT		<u>\$35,880</u>

*For illustration purposes, we have used an effective long-term capital gains rate of 22%
**For illustration purposes, we have used an effective long-term capital gains rate of 28%

SIMPLIFIED
HYPOTHETICAL ILLUSTRATION
T-BILL — GNMA ARBITRAGE





TRANSCONTINENTAL TRUST
COMPANY LIMITED

Registered Office:
Nassau, Bahamas
P. O. Box 589

22nd August, 1979.

Reply To:
P. O. Box N4826,
Nassau, Bahamas
Telephone (809-32) 5-1126

Mr. R. G. Williams, Chairman,
Federal Bank & Trust Co. Ltd.,
Whitechapel, Kingstown,
St. Vincent, West Indies,
P. O. Box 589.

Dear Mr. Williams,

Further to our letter of 15th. March, 1979, I confirm that Transcontinental Trust Co. Ltd., is prepared to act as Escrow Agent for the receipt of funds from your clients, to advise your brokers that the funds have been received, and to disburse the funds in accordance with your instructions.

The fee for our services will be deducted from the funds held by us in trust when such funds are released to you.

It is clearly understood that the sole obligation of Transcontinental Trust Co. Ltd., is to act as Escrow Agent in relation to each transaction.

In order to expedite clearance of funds and the initiation of trading, we confirm that we have an escrow account with Landmark First National Bank, One Financial Plaza, Fort Lauderdale, Florida.

This Company is a wholly owned subsidiary of Transcontinental Financial Corporation Ltd. Bank references on our parent company can be obtained from Royal Bank of Canada, Main Branch, P. O. Box N-7537, Nassau, Bahamas. However, I must emphasize that a bank reference can only be obtained by your client's bankers in response to a written request to our bankers. Our bankers will not respond to telephone inquiries since to do so is a criminal offense under the Bank Secrecy Act of the Bahamas.

Yours very truly,
TRANSCONTINENTAL TRUST COMPANY LIMITED

Edward Morris,
VICE PRESIDENT

EM/dmk

ASSOCIATED OFFICES: MIAMI NEW YORK CHICAGO PANAMA LONDON SINGAPORE CURACAO

ORANGE COUNTY
OFFICES:
SUITE 330
4440 VON KARMAN AVENUE
NEWPORT BEACH, CALIF. 92660
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LAW OFFICES OF
MESERVE, MUMPER & HUGHES
333 SOUTH HOPE STREET - 35TH FLOOR
LOS ANGELES, CALIFORNIA 90071
TELEPHONE: (213) 620-0300

EDWIN A. MESERVE
1863-1955
SHIRLEY E. MESERVE
1889-1959
HEWLINGS MUMPER
1889-1968

TELECOPIER: 625-1930 • TWX NO. (910) 321-4382
CABLE ADDRESS: "MESMUHU"

OUR REFER. NO.

August 9, 1979

Federal Bank & Trust Co., Ltd.
c/o Paragon Management, Inc.
4367 North Federal Highway
Fort Lauderdale, Florida 33308

Gentlemen:

You have requested our opinion with respect to the federal income tax consequences incident to certain transactions in the cash after market in actual issued Treasury bills ("T-bills") and the cash after market in mortgage backed certificates guaranteed by the Government National Mortgage Association ("Ginnie Maes"). The facts as represented to us are as follows:

1. The Program. Federal Bank & Trust Co., Ltd. is a company incorporated under the laws of the Territory of St. Vincent. Trans-Oceanic Trading Co., Ltd., is a wholly-owned subsidiary of Federal Bank & Trust Co., Ltd. Federal Bank & Trust Co., Ltd. and Trans-Oceanic Trading Co., Ltd., will recommend to its clients a program of investment in arbitrage transactions involving actual Treasury bills and Ginnie Maes.

2. Treasury Bills. T-bills are bearer obligations of the United States issued at a discount and redeemed at maturity. Treasury bills have a maturity of one year or less and are sold at weekly auctions by the Federal Reserve Board. The price of T-bills generally reflects prevailing short-term interest rates.

3. Ginnie Maes. A Ginnie Mae is a mortgage-backed certificate guaranteed by the Government National Mortgage Association. These certificates are backed by pools of government insured and/or guaranteed residential mortgages with the mortgage and note kept in safekeeping at a financial institution. The price of Ginnie Maes generally reflects prevailing long-term interest rates.

4. Arbitrage. An arbitrage transaction (also referred to as a "spread") is the purchase of one instrument and sale of another related instrument in the expectation that the price relationships

Federal Bank & Trust Co., Ltd.
August 9, 1979

between the two will change so that a subsequent offsetting sale and purchase will yield a net profit.

5. Treasury Bill/Ginnie Mae Arbitrage. An arbitrage between a T-bill and a Ginnie Mae is generally undertaken in the expectation that the difference between short-term and long-term interest rates will change, in which case a profit (or loss) may be realized on the transaction.

6. Objective. It is the objective of the recommended program to realize a profit by making judgments about the relationships between short-term and long-term interest rates and other factors reflected in the difference between the prices of T-bills and Ginnie Maes. It is also anticipated that in selecting positions to be closed and the timing thereof, preference will be given to those generating tax losses in the earlier taxable year (particularly if ordinary in nature), in order to maximize tax benefits. It is the objective of the program to realize a profit independent of its tax consequences.

7. Execution of Trades. All trades by Trans-Oceanic Trading Co., Ltd. will be executed by its clearing broker. All trades by the clearing broker are executed through other brokers or banks and are executed at risk to Trans-Oceanic Trading Co., Ltd. and its clients.

OPINION

1. Treasury Bills Not a Capital Asset

Section 1221 (all references to a "Section" herein are Internal Revenue Code unless otherwise stated) provides that the term "capital asset" means "property held by the taxpayer" (whether or not connected with his trade or business) with the exception of six categories of property thereafter set forth. Section 1221(5) excludes from the definition of a capital asset:

"An obligation of the United States or any of its possessions, or of a State or any political subdivisions thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue;"

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A T-bill is such an obligation and is not, therefore, a capital asset. Reg. §1.1221-1(c); Rev. Rul. 51, 1953-1 C.B. 497.

In Revenue Ruling 78-414, 1978-47 I.R.B. 13, the Internal Revenue Service ruled that commodity futures contracts on T-bills are capital assets. The conclusions of Revenue Ruling 78-414 do not affect, however, the rule governing T-bills themselves. Thus, in this Ruling, the Service specifically stated that:

"...the purchase of the commodity future contract for future delivery of Treasury bills as described above is the acquisition of rights to Treasury bills and not the acquisition of Treasury bills.***The fact that Treasury bills, pursuant to Section 1221(5) of the Code, are not capital assets does not affect the conclusion that the above commodity future contract on Treasury bills is a capital asset."

The Ruling, therefore, specifically recognizes that a Treasury bill is not a capital asset.

Based, therefore, on Section 1221(5), it is our opinion that gain or loss on the sale of actual T-bills is ordinary income or ordinary loss.

2. Ginnie Maes as Capital Asset

As indicated in Reg. §1.1221-1, the term "capital assets" includes all classes of property not specifically excluded by Section 1221. Examples of property considered to be a capital asset which are relevant herein include mortgages held as an investment (Pickus, T.C. Memo 1963-342; cf. Rev. Rul. 60-346, 1960-2 C.B. 217); U.S. Treasury Notes and Bonds (Rev. Rul. 78-5, 1978-1 I.R.B. 12); foreign currency (Rev. Rul. 74-7, 1974-1 C.B. 198); U.S. currency, e.g., silver certificates (Rev. Rul. 68-634, 1968-2 C.B. 46); and physical commodities such as cotton (Bondurant, 245 F.2d 265 (6th Cir. 1957)). Ginnie Maes are mortgage backed certificates in the nature of bonds. It is therefore our opinion that Ginnie Maes acquired as an investment are "capital assets".

3. Long-Term Capital Gain Holding Period

In general, Section 1222 provides that a long-term capital gain or loss is the gain or loss from the sale or exchange of a capital asset held for more than one year, i.e., at least one year and a

Federal Bank & Trust Co., Ltd.
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day. Section 1222 further provides that the long-term capital gain holding period is six months and a day "in the case of futures transactions in any commodity subject to the rules of a board of trade or commodity exchange". A Ginnie Mae is not subject to the foregoing exception and, therefore, in the case of a Ginnie Mae, it is our opinion that the long-term capital gain holding period is one year and a day.

4. Potential Limitations on Losses

Notwithstanding the foregoing provisions, the Code and judicial authority prescribe certain limitations on losses which are considered below.

4.1 "Wash Sale" Rule

Section 1091 disallows a loss deduction on sale of a security if the taxpayer has acquired a "substantially identical security" within a 61-day period which begins 30 days before the date of the sale and ends 30 days thereafter. The substance of the rule is to ignore the sale and treat the security as if it had never been sold. Debt securities are not considered "substantially identical" if they are different in any material feature. Rev. Rul. 76-346, 1976-2 C.B. 247; Rev. Rul. 58-211, 1958-1 C.B. 529; Rev. Rul. 58-210, 1958-1 C.B. 523. These Rulings establish that features such as the issuer, maturity date and the price at which sold are all considered to be material features. Thus, it is our opinion, that Treasury bills or Ginnie Maes of different maturity dates are not substantially identical to one another, nor are Treasury bills substantially identical to Ginnie Maes.

4.2 Short-Sales

For federal income tax purposes, a short-sale of property is not deemed to be consummated until delivery of property to close the short-sale. Reg. §1.1233-1(a)(1). Whether the recognized gain or loss from a short-sale is capital gain or loss or ordinary gain or loss depends upon whether the property so delivered constitutes a capital asset in the hands of the taxpayer. Section 1233(a); Reg. §1.1233-1(a)(1).

For purposes of the long-term capital gain holding period, Reg. §1.1233-1(a)(3) provides that the period for which a taxpayer holds the property to close the short-sale is determinative. Thus, if a taxpayer makes a short-sale of shares of stock and covers the short-sale by purchasing and delivering shares which he held for

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August 9, 1979

not more than 12 months, the recognized gain or loss would be considered short-term capital gain or loss.

Section 1233(b) sets forth a special rule which, in substance, provides for a suspension of the running of the long-term capital gain holding period where a security "substantially identical" to one owned by a taxpayer less than such period is sold short and also treats any gain on the closing of such a short-sale as short-term capital gain. The acquisition of an option to sell "substantially identical" property at a fixed price (a "put") is considered a short-sale.

The determination of whether one debt instrument is "substantially identical" to another is based on the same principles described above in paragraph 4.1 pertaining to the wash sale rule.

In the present case, an arbitrage transaction involving T-bills and Ginnie Maes will involve a short sale and therefore it is our opinion that Section 1233 will be applicable. If, then, a Ginnie Mae is sold short, any gain or loss on the delivery of a Ginnie Mae not held for more than one year to close the short sale will be short-term capital gain or loss. Further, if a Ginnie Mae is sold short at a time when a "substantially identical" Ginnie Mae is held by the taxpayer, Section 1233(b) will operate to suspend the running of the long-term capital gain holding period. In any event, however, since a T-bill is not a capital asset, any gain or loss on the closing of a short sale involving T-bills will be ordinary in nature.

4.3 Rev. Rul. 77-185/"Closed Transaction"

In Rev. Rul. 77-185, 1977-1 C.B. 48, the Service has ruled that a taxpayer who entered into a spread transaction in silver futures contracts involving contracts calling for delivery in different months was not entitled to deduct a loss on the closing of one position (or leg) of the spread when at the same time a new position in a third different month was acquired. The position set forth in Rev. Rul. 77-185 was also extended to spreads involving T-bill futures in Rev. Rul. 78-414. The conclusions of Rev. Rul. 77-185 were first stated by the Service in Private Ruling 7612010580A issued December 1, 1976. This Ruling reversed a contrary conclusion initially reached by the Service on the identical facts in an unpublished Technical Advice Memorandum issued September 26, 1975.

The conclusions of Rev. Rul. 77-185 were based on two theories, the first of which was that the closing of the one commodity futures

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position did not result in a "closed and completed transaction". In support of this position, the Service cited Horne, 5 T.C. 250 (1945), a transaction involving the sale and repurchase of two commodity exchange memberships which were "exactly like the other," and MacRae, 34 T.C. 20 (1960), a transaction involving identical and virtually simultaneous purchases and sales of U.S. Treasury Notes.

The suggestion of Rev. Rul. 77-185 that silver futures contracts calling for delivery in different months are "exactly like" or "identical" to each other is inconsistent with Section 1233(e) which provides for purposes of the short-sale rule that such contracts are not "substantially identical" securities. It is also directly contrary to several longstanding cases which preceded the adoption of this Section in which the Service had contended, and the courts had specifically concluded, that a closed transaction resulted each time a taxpayer closed a position in a futures contract in order to replace the contracts sold with contracts calling for delivery in different future months. Trenton Cotton Oil Co., 147 F.2d 33 (6th Cir. 1945); Harriss, 143 F.2d 279 (2d Cir. 1944); Valley Waste Mills v. Page, 115 F.2d 466 (5th Cir. 1940); and Edward R. Bacon Grain Co. v. Reinecke, 26 F.2d 705 (D.C.N.D. Ill. 1928), aff'd per curiam, 54 F.2d 1078 (7th Cir. 1929). These cases also reflect the principal enunciated by the Supreme Court in Security Flour Mills Company, 321 U.S. 281 (1949), that the Service has no general authorization to make exceptions to the general rule of accounting by annual periods.

The application of Rev. Rul. 77-185 to spread transactions involving instruments other than commodity futures contracts is uncertain. In a National Office Technical Advice Memorandum, issued as Private Ruling 7730002 on April 14, 1977, the Service considered an option spread transaction in which the taxpayer wrote a three month option and simultaneously purchased a three month option on the same stock, the only difference between the two being a difference in the striking price. Under these circumstances, the Service concluded that:

"The purchase and sale of an option is a separate transaction with separate Federal income tax consequences from the granting and 'closing out' of an option even though both options are part of an option spread."

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This Ruling was issued four months after Private Ruling 7612010580A, the predecessor of Rev. Rul. 77-185, and two months prior to the issuance of Rev. Rul. 77-185. It is therefore reasonable to conclude that the National Office of the Service did not consider an option spread to be subject to the reasoning it applied to commodity futures spreads in those Rulings. Nevertheless, the Service made no reference to its position on commodity futures spreads and it may be that the Service considers Rev. Rul. 77-185 to be applicable to spreads in instruments other than future contracts.

If Rev. Rul. 77-185 were applied to spreads in T-bills and Ginnie Maes, it is unlikely that a spread involving instruments which are not "substantially identical" under the wash sale and short sale rules will be considered "exactly alike" or "identical". As indicated, the Service has consistently ruled that debt instruments are not considered "substantially identical" if they are substantially different in any material feature. Rev. Rul. 76-346, 1976-2 C.B. 247; Rev. Rul. 58-211, 1958-1 C.B. 529; Rev. Rul. 58-210, 1958-1 C.B. 523.

Based, therefore, on the above analysis, it is our opinion that the closed transaction analysis of Rev. Rul. 77-185 is inapplicable to spreads involving T-bills or Ginnie Maes which are not "substantially identical" within the meaning of the wash sale and short sale rules.

4.4 Rev. Rul. 77-185/Profit Motivation

In the case of an individual, Section 165(c) limits the allowability of a loss deduction on the sale of an asset, whether ordinary or capital, to losses incurred in any transaction entered into for profit. The second theory advanced by the Service in Rev. Rul. 77-185 was that the losses in a spread in silver futures contracts could not be deducted because the taxpayer had no reasonable expectation of deriving an economic profit from the transaction. The basis for this factual conclusion is not set forth and the facts stated indicate only that the "risk of the transaction was limited" and an overall loss was actually incurred. In point of fact, a gain could have been realized on the transaction as described had market conditions varied.

Rev. Rul. 77-185 relies on the Court of Claims decision in Knetsch, 348 F.2d 932 (Ct. Cl. 1965), which concluded that a deduction should be disallowed where the taxpayer's "only" motivating factor was the tax deduction. It also relied on Brown, 396 F.2d 459 (Ct.

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Cl. 1968), wherein the court disallowed a deduction for a transaction entered into solely for tax avoidance purposes. It therefore appears that Rev. Rul. 77-185 goes beyond these holdings in its assertion that there is no profit motivation when a taxpayer enters into a tax advantaged transaction with limited risk, notwithstanding that there may also be a motivation to obtain profit independent of the tax consequences.

The facts of the Ruling indicate that the taxpayer had timed the sales so as to realize a loss in the taxable year prior to the year in which the gain was realized. The timing of losses is very similar to selling short identical stock owned, but postponing delivery of such stock to close out the short sale until a later year in order to defer realization of the gain or loss. This strategy was approved in Doyle, 286 F.2d 654 (7th Cir. 1961), wherein the court held it to be "an everyday occurrence for a taxpayer to time the sale of capital assets to match up capital losses and gains". With respect to the profit element, the court felt it "sufficient that the sale was made to establish a capital loss".

A similar Service position was rejected in Beard, 4 T.C. 756 (1945), where a taxpayer had sold stock which was soon to be redeemed in order to have the gain taxed as a capital gain and to avoid taxation of the gain as ordinary income upon redemption. The Court noted that the taxpayer:

"Had an election as between two transactions; and bona fide he elected the one with less onerous tax consequence. He was not bound to retain his shares and await the redemption...with its inevitably higher tax."

See, also, Hobby, 2 T.C. 980 (1943).

A similar result was recently reached by the Court of Claims in American Home Products Corp., 79-2 USTC ¶9418 (June 13, 1979), where a taxpayer assigned futures contracts in foreign currency rather than purchasing foreign currency to make a settlement on the contracts. Assignment of the contracts resulted in long term capital gain whereas the purchase of currency would have resulted in short term capital gain. In responding to the Service's argument that a motivation of reducing taxes was present, the Court stated:

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"That American Home may have had tax consequences in mind when it made the assignment is clearly beside the point. It is fundamental that once a taxpayer properly enters a bona fide transaction the mere fact that the transaction legally reduces taxes is irrelevant."

The profit motive inherent in an arbitrage transaction arises from the expectation that the price relationships between one element of the transaction and the other will change so that a subsequent offsetting sale and purchase will yield a net profit. Arbitrage involves the making of judgments about price relationships and is therefore a form of speculation. In most cases, such trading involves a lower level of risk in that it is necessary to make a judgment only on the relative prices rather than the overall direction of the market. Thus, arbitrage is a strategy which can, and does, result in the realization of profit and loss.

The profit potential of spread transactions was recognized by the Service in Rev. Rul. 74-226, 1974-1 C.B. 119 which sets forth the inventory method of a non-dealer taxpayer trading in straddles. And, in Sicanoff Vegetable Oil Corp., 27 T.C. 1056 (1957), rev'd on another issue, 251 F.2d 76 (7th Cir. 1958), the Tax Court noted that spreading is undertaken with the expectation of closing both positions at a profit if the prices move as anticipated.

In the case where an investor engages in arbitrage transactions in T-bills and Ginnie Maes in the bona fide expectation of making a profit on variations in price levels and their relationships, such activity demonstrates a sufficient profit motivation under the judicial authorities cited, and may in fact be sufficient under Rev. Rul. 77-185, depending on the interpretation of the phrase "no reasonable expectation" of profit. It is therefore our opinion that losses on such transactions will be deductible when each specific transaction is closed.

4.5 Bona-fides of Sale

In order to deduct a loss on a sale it is necessary that the sale be bona fide. Thus, the Service has ruled that a sale to a non arms-length party as part of an understanding that the property will be resold to the taxpayer is not bona fide and will not be recognized for tax purposes. Rev. Rul. 72-225, 1972-2 C.B. 59. The courts have upheld the position of the Service. See, e.g., Fender, 577 F.2d 934 (5th Cir. August 2, 1978), where the sale to an affiliated party under an implied agreement to resell was disregarded. By

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contrast, in Doyle, 286 F.2d 654 (7th Cir. 1961); Beard, 4 T.C. 756 (1945); and Hobby, 2 T.C. 980 (1943), a sale in an established securities market was considered a bona fide sale. Similarly a sale to an independent entity, even where motivated by tax considerations, is considered bona fide. American Home Products, 79-2 USTC ¶9418 (Ct. Cl. June 13, 1979).

In the present case, it is represented that the trades will be effected through brokers and banks. Such trades, if executed according to customary procedures, will be considered bona fide and it is our opinion that they may not be disregarded on that ground.

4.6 "At-Risk" Limitations

Section 465, as amended by the Revenue Act of 1978, provides that any loss from an activity shall be allowed only to the extent of the aggregate amount with respect to which the taxpayer is "at risk" for such activity at the close of the taxable year. As a result of an amendment to this Section added by the Revenue Act of 1978, this provision is generally applicable to losses from all activities except real estate. It is therefore applicable to losses incurred in the activity of buying and selling T-bills and Ginnie Maes during taxable years beginning after December 31, 1978. Further, the provision applies to all taxpayers (other than widely held corporations) including individuals, sole proprietors, estates, trusts, shareholders in subchapter S corporations, shareholders in closely held corporations (which meet the stock ownership requirements of Section 542(a)), and partners in partnerships.

Under Section 465(b), a taxpayer is considered "at risk" for an activity with respect to (a) the amount of money and adjusted basis of other property contributed by the taxpayer to the activity, and (b) amounts borrowed with respect to the activity to the extent that the taxpayer is personally liable for the repayment of such amounts. The term "amounts borrowed" includes any liability incurred in the conduct of an activity to the extent that the taxpayer is personally liable for repayment of the liability. Proposed Reg. §1.465-24(a).

Section 465(b)(3) excludes from the amount considered at-risk amounts borrowed from "any person who has an interest (other than an interest as a creditor) in such activity" or who is related to the taxpayer. Those persons considered to be related to the taxpayer include the taxpayer's spouse, ancestors, lineal descendants, brothers and sisters, and corporations and other entities in which the taxpayer has a 50% or greater interest.

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Proposed Reg. §1.465-8(b) provides that a lender shall be considered a person with an interest in the activity other than that of a creditor only if the lender has either a capital interest in the activity or an interest in the net profits of the activity. Example (2) under this proposed Regulation indicates that compensation based on a percentage of gross receipts from an activity is not an interest in capital or net profits. Therefore, receipt of a commission based on gross receipts does not cause the recipient to have an interest in the activity other than that of a creditor.

Notwithstanding the foregoing, Section 465(b)(4) provides that a taxpayer shall not be considered at risk with respect to amounts protected against loss through "nonrecourse financing, guarantees, stop loss agreements, or other similar arrangements."

"Nonrecourse financing" is an indebtedness secured solely by proceeds received from the property used in the activity and without personal liability on the part of the maker for any deficiency. This definition is consistent with Section 465(b)(2) which provides that the term "borrowed amounts" does not include amounts borrowed on the security of "property used in the activity". By contrast, in the case where a taxpayer is personally liable for any deficiency, the fact that property used in the activity is pledged as collateral will not cause the amount borrowed to be considered not "at-risk". The principle is affirmed in a National Office Technical Advice Memorandum, issued as Letter Ruling 7927007 on March 22, 1979, wherein a partnership had pledged property used in its business as security for loans to it but the partners were still personally liable for the repayment of such amounts. The Service concluded in the Memorandum that such partners were "at-risk".

The terms "guarantee" or "stop loss agreements" as used in Section 465(b)(4) have reference to arrangements under which another person assumes all or a portion of the economic risk of an investment. See, Staff of Joint Committee on Taxation, General Explanation of the Tax Reform Act of 1976, examples on p. 37 at note 7. Application of this principle may be seen in Proposed Reg. §1.465-6 which states that a taxpayer shall not be considered at risk to the extent that the taxpayer is protected against loss of the borrowed amount. In each of the examples under the Regulation the taxpayer is protected against loss by having another person assume all or a portion of the economic risk in the activity.

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Another application of the foregoing may be seen in Revenue Ruling 77-398, 1977-2 C.B. 179, wherein the Service held that a taxpayer is not at risk where he is a party to an agreement under which a third party must loan the taxpayer on a yearly renewable basis amounts to repay loss where such yearly renewable note is payable solely from proceeds from the activity. Further, in Revenue Ruling 78-413, 1978-47 I.R.B. 9, a cross-assignment of notes between two taxpayers in the same activity was ruled equivalent to a binding agreement under which each taxpayer is reimbursed by the other against loss. In this Ruling, the Service noted that the purpose of the arrangement was to protect the taxpayer from an "economic loss".

Applying these principles to the present case, a taxpayer who buys and sells T-bills and Ginnie Maes will contribute money to the activity in the form of a margin deposit and the payment of commissions. Such money is contributed to the activity and is therefore "at-risk". The taxpayer will also incur a liability to pay the balance of the purchase price and such liability, to the extent the taxpayer is personally liable thereon, is an "amount borrowed" with respect to the activity. In certain cases, that liability will be incurred in favor of a person or entity who will receive a commission for executing the trades. The receipt of a commission will not cause that person to be considered a person with an interest in the activity other than a creditor. Therefore, assuming that the taxpayer is not related to the person to whom the liability is incurred, the full amount of the liability is considered "at-risk".

From time to time a taxpayer may have positions in which there is both an unrealized economic gain and loss. The existence of a position in which there is an unrealized economic gain is not non-recourse financing, a guarantee, a stop loss agreement or other similar arrangement which protects against loss realized in another position because the taxpayer is personally liable for any deficiency and no risk of loss has been transferred to another person. Instead, the economic loss realized will be experienced by the taxpayer and will offset any gain which would otherwise be realized by the taxpayer.

In conclusion, therefore, it is our opinion that a taxpayer engaged in the activity of buying and selling T-bills and Ginnie Maes will be at risk with respect to money contributed to such activity and for any liability incurred in its conduct, provided the taxpayer is personally liable thereon and the liability is not incurred in favor of a person related to the taxpayer.

MESERVE, MUMPER & HUGHES

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5. Scope of Opinion

The various statutory provisions, regulations promulgated thereunder, and the interpretation thereof by the Service and the courts having jurisdiction over such matters, on which the foregoing opinion is based, are necessarily subject to change from time-to-time. The conclusions stated herein are based on the facts as previously stated. Any alterations in the facts may affect the conclusions stated herein.

No opinion is expressed with respect to state and local taxes, federal or state securities laws, or any other federal or state law not explicitly referenced herein.

This opinion is solely for your use in connection with your advice to clients or potential clients with respect to the subject matter hereof. No opinion is expressed in the case of any such client or potential client as to the advisability of undertaking any transactions described herein as any such determination must take into account the individual facts and circumstances affecting the taxpayer. This opinion may not be quoted in whole or in part or otherwise referred to in any other context, nor is it to be filed with any governmental agency without the prior written consent of this firm.

Very truly yours,

Meserve, Mumper & Hughes

MESERVE, MUMPER & HUGHES

QUESTIONS AND ANSWERS

1. Q. What is Arbitrage?
A. Arbitrage is a method of trading in two different markets simultaneously hoping to acquire a profit by market disparity and also limit the risk by not taking a one-sided position.
2. Q. How is it possible to make money on a T-Bill/GNMA certificate arbitrage trade?
A. If the interest markets move favorably, which is the whole idea, a profit can be realized by distortion in the markets; i.e. T-Bills going down, Ginnie Maes going up, etc. Conversely, unfavorable moves can produce a loss.
3. Q. What happens if the market doesn't move?
A. Of course no one can guarantee market movement, but it's highly unlikely anything as volatile as interest rates would become stagnant.
4. Q. Who is Federal Bank & Trust Co., Ltd.?
A. F.B. & T. is a duly registered and licensed bank in St. Vincent, West Indies.
5. Q. Who is Trans-Oceanic Trading, Ltd.?
A. T.O.T., a wholly owned subsidiary of Federal Bank & Trust Co., Ltd., is an organization with offices in the Turks & Caicos Islands which service the bank and their international investor clients.
6. Q. Is there any problem with using a foreign bank, or a foreign broker?
A. No! Many U.S. and foreign citizens utilize the services of foreign brokers. Teletype speed confidentially, lower commissions, higher leverage, etc. are just a few of the many advantages to using foreign brokers.
7. Q. Can I accomplish this with a broker here in the U.S.?
A. Yes, but due to higher commissions and margin requirements it could require approximately \$36,000 or more for a \$100,000 trading account.
8. Q. What if the I.R.S. should challenge the tax treatment should the trades prove to be unprofitable?
A. In the event the I.R.S. should challenge the projected tax treatment, Federal Bank and Trust will provide a defense through the United States Tax Courts and the United States Court of Appeals.
9. Q. What if I have a capital loss carry forward?
A. If you have a capital loss carry forward, you may use it to offset against a capital gain dollar for dollar. We recommend you consult your tax advisor.
10. Q. Can ordinary losses be carried back and or forward?
A. Yes. Losses of this type - ordinary - can be carried back up to three (3) years under certain circumstances. We recommend you consult your tax advisor in these situations.
11. Q. Are commissions, fees, etc. deductible against any gains I may receive?
A. Yes! All fees, commissions, interest etc. charged for carrying an account are deductible.

12. Q. When should I start this program?
A. In order to take advantage of the anticipated movements in the market and to maximize timing benefits, one should start as early as possible.
13. Q. How do I know what and when to trade?
A. In your application you will give the bank full discretion to do that for you.
14. Q. What is the daily volume in the T-Bill market?
A. According to the Federal Reserve Report the dealer volume and dealer inventory averages approximately 11 billion dollars a day.
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ACCOUNT OPENING REQUIREMENTS

The minimum amount with which a trading account can be opened is determined by referring to the Margin requirement Page 24 since this will vary according to the time of year when the account is opened.

If you wish, F.B. & T. will assure you that any capital gain achieved can be carried forward for an additional year for a fee of only 4% thus giving a two-year deferral in the gain.

INSTRUCTIONS

- (1) In order to determine the trading range required, discuss it with your tax attorney or CPA and then with the Bank's representative and insert that sum in the blank space for "trading range" on the application. Then, dividing that sum by the multiple shown opposite the month in which you open your account (see next page), you obtain the margin requirement which will open your account.
- (2) Complete the application giving all information possible. Make sure to note exactly how funds are to be sent. Mail application to Federal Bank & Trust Co., Ltd. at the U.S. address shown on the application.
- (3) Funds may be sent either by wire, cashier's check or other uncomplicated manner of transferring U.S. dollars. Remember, trading cannot start until the escrow agent has cleared funds.

**MARGIN REQUIREMENTS
FOR 1979 T-BILL/GNMA MANAGED ACCOUNTS***

TIME PERIOD	ACTUAL MARGIN REQUIREMENT PER \$100,000 OF ARBITRAGE	APPROXIMATE LEVERAGE	ACTUAL MARGIN REQUIREMENT PER \$50,000 OF ARBITRAGE	APPROXIMATE LEVERAGE
May	\$12,500	8 to 1	\$6,500	7¼ to 1
June	\$13,000	7¼ to 1	\$6,750	7½ to 1
July	\$13,500	7½ to 1	\$7,000	7¾ to 1
August	\$14,000	7¾ to 1	\$7,250	7 to 1
September	\$14,500	7 to 1	\$7,500	6¾ to 1
October	\$15,000	6¾ to 1	\$7,750	6½ to 1
November 1-24	\$15,500	6½ to 1	\$8,000	6¼ to 1
Nov. 25 - Dec. 7	\$16,000	6¼ to 1	\$8,250	5¾ to 1
December 8 - 28	\$17,500	5¾ to 1	\$9,000	5½ to 1

The margin requirements are higher toward the end of the year due to increased administrative, marketing and trading costs. Because of the higher year end volume, it is sometimes necessary to trade in unpredictable and difficult markets, such as precious metals. This type of trading requires a staff increase to handle the heavier trading capabilities. The above margin reductions are made in order to encourage investment earlier in the year when markets are more predictable and the volume requirements lower in order to reduce the pressure on our traders and our staff.

Mailed or Wired Funds may be made payable to:
FEDERAL BANK & TRUST CO. LTD. (Account No. 1055106)
 and sent to:
 1st Bank of Oakland Park
 P.O. Box 9207
 Oakland Park, Florida 33310
 Or: Funds may be wired or mailed in accordance with the instructions
 on pages 25 and 26.
 Remember wired Funds to Federal Bank & Trust Co. Ltd. will result in
 speedier transactions.

*This margin sheet is dated 5/1/79 and supercedes the margin requirement sheet of 1/1/79.

Date: _____

BANK INSTRUCTION ORDER FOR WIRED FUNDS

To: _____
Name of your Bank

_____ Country

Gentlemen:

You are hereby instructed and authorized to:

Transfer U.S. \$ funds by wire to Landmark First National Bank, Fort Lauderdale, Fl. for Acct. No. 90-212-8119, Transcontinental Trust Co., Ltd., escrow account.

AMOUNT

U.S. \$ _____ Write in amount _____ Amount in numbers U.S. dollars

and charge my/our Account No. _____ with your bank.

_____	_____
<small>Name (type or print)</small>	<small>Name of co-owner, if any</small>
_____	_____
<small>Signature</small>	<small>Signature of co-owner, if required</small>
_____	_____
<small>Address</small>	<small>Address</small>
_____	_____

The Landmark First National Bank is acting only in the capacity of a depository for Transcontinental Trust Co., Ltd., and as a depository is not in a position to receive telephone calls and other requests for references either for the Trust Co. or for Federal Bank & Trust Co., Ltd.

First Bank of Oakland Park is also acting only in the capacity of a depository for Federal Bank & Trust Co., Ltd. and as a depository is not acting as an agent nor is the Oakland Park bank in a position to receive telephone calls or other requests for references on Federal Bank & Trust Co., Ltd.

Revised 5/15/79

See reverse side for instructions, if mailing funds

Date: _____

BANK INSTRUCTION ORDER FOR MAILED FUNDS

To: _____
Name of your Bank

Street Address/P.O. Box

City, State and Zip Code Country

Gentlemen:

You are hereby instructed and authorized to:

Issue a cashier's check payable to Transcontinental Trust Co.,
Ltd., escrow Acct. No. 90-212-8119

_____ then deliver same to the bearer of these instructions for onward
transmission to Transcontinental Trust Co., Ltd.

or

_____ mail directly to the Landmark First National Bank, P.O. Box
5367, Fort Lauderdale, Fl. 33310 for deposit to the escrow
account of Trancontinental Trust Co., Ltd.

In the amount of

U.S. \$ _____ U.S. dollars
Write in amount Amount in numbers

and charge my/our Acct. No. _____ with your bank.

and charge my/our Acct. No. _____ with your bank.

Please mark cheque with my/our name as REMITTER(s).

Name (type or print)

If joint bank acct., name joint owner

Signature

Joint signature, if required

Address

Address

City State Zip Code

City State Zip Code

SECTION II

DISCLOSURE OF RISK STATEMENT

In connection with the opening of my trading account, I am aware that trading in U.S. Government Treasury Bills and Ginnie Mae Certificates is a speculative activity involving substantial risks/ I realize that the market prices change rapidly and trading in those markets is highly leveraged. I am also aware that price movements in such markets are subjected to sharp upward and downward swings and these price fluctuations may result in a substantial loss of my capital as well as the possibility of realizing profits. I realize that markets are often unpredictable and are highly sensitive to national and international news.

I UNDERSTAND THAT THERE IS A POSSIBILITY OF LOSING MY ENTIRE CAPITAL INVESTMENT AND ALSO BEING LIABLE FOR ADDITIONAL SUMS OF MONEY OR A DEBIT BALANCE.

I am able to assume the financial risks of trading and represent that an account is suitable for me and meets my financial objectives.

In consideration for carrying my account, I agree that I will in no way hold Federal Bank & Trust Co., Ltd. or its employees responsible for any losses incurred through following its trading recommendations or suggestions.

SECTION III

TRADING ACCOUNT LIMITED DISCRETIONARY AUTHORIZATION

Dear Sirs:

The undersigned hereby authorizes Federal Bank & Trust Co., Ltd. (hereinafter called F.B. & T.) as his agent and attorney in fact to buy, sell (including short sales) and trade in various markets on margin or otherwise in accordance with F.B. & T.'s terms and conditions for the undersigned's account and risk and in the undersigned's name or number on F.B. & T.'s books, it being understood that any such transaction may be effected with F.B. & T. as agent, broker or principal.

Anything to the contrary herein contained notwithstanding, I shall have personal liability to pay any deficiencies that could arise in connection with the trades carried out on my behalf. Conversely, the assets and profits of this account may be pledged or hypothecated at any time and be retained or may be liquidated by F.B. & T. to credit my account for any costs incurred by F.B. & T. until all transactions are closed out and/or until such time as no current or potential liabilities exist.

In all such purchases, sales or trades, F.B. & T. is hereby authorized to follow the instructions of the trader employed by it in every respect concerning the undersigned's account with F.B. & T.; and the trader is authorized to act for the undersigned and in the undersigned's behalf in the same manner and with the same force and effect as the undersigned might or could do with respect to such purchases, sales or trades as well as respect to all other things necessary or incidental to the furtherance or conduct of such purchases, sales or trades.

The undersigned hereby ratifies and confirms any and all transactions with F.B. & T. heretofore or hereafter made by the aforesaid agent or for the undersigned's account.

This authorization and indemnity is in addition to (and in no way limits or restricts) any right which F.B. & T. may have under any other agreement or agreements between the undersigned and F.B. & T.

I am aware that commissions shall be charged to my account at appropriate rates for transactions reflected in my account for brokerage. In every case in which loans are made by F.B. & T. against credit balances, it will be entitled to receive and charge interest in accordance with the usual custom.

To revoke this authorization at any time, the undersigned hereby agrees to submit a written notice addressed to F.B. & T. and delivered to F.B. & T.'s office but such revocation shall not affect any liability in any way resulting from transactions initiated prior to such revocation. This authorization and indemnity shall enure to the benefit of F.B. & T. and of any successor corporation(s) irrespective of any change or changes at any time in the personnel thereof for any cause whatsoever, and of the assigns of F.B. & T. or any successor corporation.

In the event of my death, the authority granted herein shall be binding upon my personal representatives, heirs, assigns or successors.

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