MANAGED/CLOSED-END BUY-SELL TRADE TRANSACTIONS
ATTORNEY OPINION LETTER

ANALYSIS AND VIABILITY REPORT

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PRIVATE PLACEMENT PROGRAMS, MANAGED BUY-SELL AGREEMENTS and THE PURCHASE AND SALE OF BANK-ISSUED DEBT INSTRUMENTS

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PRIVILEGED AND CONFIDENTIAL / ATTORNEY-CLIENT COMMUNICATION

This opinion letter is written to expound upon earlier conversations and is intended for internal use only.

Several names and acronyms are routinely employed:

- Private Placement Platforms (PPP)
- Platform Trading
- Managed buy-sell trades
- Bullet programs
- Trade Programs
- High-yield investment programs (HYIP)

The platform trade industry is the subject of much discussion and controversy.

As explained herein there are extremely divergent views on the legitimacy and efficacy of these supposed trade programs.

This paper attempts to present a balanced and objective analysis of selected published materials that comment on platform trading, MTN's, and project funding.

Conclusive findings will require additional and more extensive research and investigation.

NOTICE:

The contents of this document have been derived from numerous sources over several years and the comments herein do not necessarily represent the views of the author. The views presented herein are presented for informational purposes only and are not intended to serve as legal or financial advice.

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INTRODUCTION

This document will explain some of the obscure and unclear aspects of Private Placement Platforms (PPP's). PPP's are also known under other names such as Private Placement Investment Programs, High-yield investment Programs, Managed-Buy Sell Transactions, etc.

This study is the result of several years of personal study and and personal testimony, and is explained from the viewpoint of both a client and a broker.

This discussion includes basic concepts of money creation, money supply and credit, the issuance of debt instruments, discounting debt instruments, and the purchase and sale of debt instruments in arbitrage transactions.

CREATION OF CREDIT

When credit is needed within the US financial system the US Federal Reserve may cause funds to be put in the "System" by buying back US Treasury bonds, treasury notes and other debt instruments in the open market.

The US Treasury, fulfilling its responsibilities under the *Bretton Woods* Agreements, developed the Medium Term Note (MTN) by employing established European financing methods through which banks and financial institutions commonly finance long-term loans by selling Letters of Credit or Bank Notes of medium term to provide funding for loans.

In the post-World War II era the US Treasury and its affiliates adopted the protocols of the finance syndicates led by major European bank holding companies that would issue their Medium Term Notes guaranteed by a matching US Treasury Guarantee.

The Treasury and the Federal Reserve developed an instrument that may be traded to create new credit and that credit would be used in specific approved macroeconomic projects allowing such funds and credit to be applied in geographical areas requiring credit and cash infusions to survive and grow.

For example, if credit is needed for India then eligible projects in India may be approved and the credit may be created for the outlay of the approved project(s). The same goes for the Balkans, Africa, South America, for the United States, and in many areas where expertise and development are needed. Credit and cash would be made available to establish and/or expand job creation, education, health and humanitarian goals.

Principals who own and can show clean and clear cash funds and who wish to partake in this method of Private Placement Deposit Financing for Approved Project Financing can apply to participate in private placement programs designed for this end.

Credit is created when the US Treasury, or its European equivalent, the European Cental Bank (ECB), can make available to approved and pre-qualified Private Placement Depositors with qualifying funds on deposit, those Bank Instruments at a discount (*Primary Market Issue*).

For example, the US Treasury, or the US Federal Reserve, could issue 7.5% ten-year instruments (MTN's), at a price of 80% of the face value of the instrument. The market may sell these MTNs at 100% of face value so when $1,000 US Dollars of MTNs are purchased at 80% and sold at 100% there is new credit of 20% (per 1,000 dollars) or two hundred dollars ($200.00).

Such contracts to purchase and sell these trading instruments are managed and approved by the US Treasury which are administered by prime US and European bank syndicates.

The Treasury or the Fed may price these instruments at whatever price is necessary to provide the needed new credit in the geographical location or for the project they have been approved.

Not all applicants or projects are approved. Both the Applicant and the funds that will be used to purchase and sell the financial instruments must be screened according to US Patriot Act and anti-money laundering guidelines and their European equivalents.

Both US Dollars and EURO's may be used as the Private Placement Deposit. When the Private Placement Deposit is a Letter of Credit, Certificate of Deposit, Gold or a bond, these assets must be turned into cash as creation of credit trading is a cash-based process. To be eligible asset items must be sold in the open market for cash or a loan facility.

The contract for the Depositor usually states a minimum amount of earnings being available to the Depositor for the financing of their projects. The Depositor may be financing more than their own projects but all of the projects must be submitted and approved. Submittals must contain a full feasibility analysis and business plan and full disclosure of all parties involved.

When the earnings are generated they will be deposited in a Bank Project Trust Account. This Project Trust Account will hold the funds for the Approved Project and will make the necessary payments for financing each phase of the proposed project according to the cash requirements of the project.

In most instances, earnings are applied to the project on a 20/80% or 30/70% ratio.

These projects, in turn, generate earnings which are paid into a local Investment Development Trust so the initial funds can be replenished and reused or rolled over into additional new projects.

Generally there is but one Principal. That Principal is the owner of the Funds and the Principal is the applicant to the approved trading foundation. The "trade entity" or "trade foundation" must also have the approval to trade from the US Treasury or the US Federal Reserve.

UNDERSTANDING TRADE PROGRAMS

Private placement traders trade against non-depleting, tradeable lines-of-credit established on behalf of the client/investor.

Traders are generally licensed by European regulatory agencies and trades proceed according to strict procedural and legal guidelines. Under present rules, traders cannot use their own assets to trade.

The trader's lines-of-credit are derived from prime banks that offer credit facilities. These credit-issuing banks, however, are governed by the *Basil II* and *Basel III Accords* which became effective in September, 2006 and January 2010, respectively, which impose strict requirements on bank lending and borrowing. Most notably a bank's credit lines must be "capitalized" by an acceptable form of collateral (of sufficient value) held "in the care, custody and control" of the credit issuing facility.

This is the acid test of a trade program's viability. The controlling variable is whether or not the trade group's procedures satisfy the credit-issuing bank's "care, custody and control" standard for activating credit lines—the ***"control test",*** for short.

In other words, the trade program's procedures must meet the "control test" (ie. the procedures do not place the client's assets sufficiently under the "care, custody and control" of the credit issuing bank).

Now trade programs today come in all shapes and sizes, offering clients a wide choice of procedures. Some of the more common procedures referenced in the PPP market place are as follows:

"Pinging" of accounts,
"blocked/reserved" funds Letters,
internal (ledger-to-ledger) blocking, and
SWIFT MT 760's.

Which of these procedures satisfy the credit-issuing banks' strict "control test" set forth in *Basel II* and *Basel III*?

Additionally, successful trade programs, besides having unique access to established bank lines-of-credit, require the expertise of qualified traders capable of engaging in the purchase and sale of investment-grade bank debentures in the wholesale market. This trading operation is generally referred to as "controlled" or "managed" bank debenture trading because the supply side of the financial instruments and the exit buyer for the financial instruments have already been pre-arranged and the price of the instruments already contracted for. Hence, each and every completed trade should result in a net gain (and never a net loss) to the trader.

It is entirely true that the platform trade industry has become increasingly diluted in the last several years by a most varied assortment of illegitimate and unqualified parties who make uncorroborated and extravagant claims in hopes of capitalizing on unwary and ill-advised investors.

Rarely, if ever, do these illegitimate parties represent viable trade opportunities and these persons and/or groups of persons only serve to further convolute an already complex industry. As a direct result of the multitude of nefarious actors that have come forth, the *US Securities and Exchange Commission* (SEC) has issued an unequivocal statement disavowing these trade platforms as rife with fraudulent claims and misrepresentations.[1] The SEC and other regulatory agencies have filed suit in federal courts to enjoin many perpetrators and these court rulings are readily available on the internet. (See http://www.sec.gov/investor/pubs/investorfraud.htm.)

To state, however, that all managed buy/sell programs are scams or pyramid schemes is simply not true. Notwithstanding the many fraudulent offers in the market place today, actual private securities trading generates enormous amounts of money—legitimately—every day.

The *Federal Reserve Bulletin* for August 1993 provides insight and significant detail in an article entitled "Anatomy of the Medium-Term Note Market" where the economics of MTN's and corporate bonds are surveyed. (See attached Exhibit "A".)

Shortly thereafter, however, the Board of Governors for the Federal Reserve System and several other US law enforcement and regulatory agencies issued sharp rebukes against certain high-yield investment schemes. In an advisory letter entitled "Prime Bank and Other Financial Instrument Fraud Schemes" the Board of Governors states as follows:

> In 1993 and 1996, the Federal Reserve issued advisories concerning illegal schemes purporting to involve "prime bank" financial instruments.[1] In its alerts, the Federal Reserve advised banking organizations and the public that, among others things, it does not know of any legitimate use of any financial instrument called a "prime bank" note, guarantee, letter of credit, or debenture and that the Federal Reserve does not guarantee or enter into transactions with individuals and does not license anyone to trade "prime bank" financial instruments or act as the Federal Reserve's agent to sell or redeem such instruments.
>
> Since 1996, fraudulent schemes involving financial instruments have proliferated in the United States and abroad, and investors have lost significant sums of money. Federal and state law enforcement agencies, as well as the U.S. Securities and Exchange Commission, have investigated and prosecuted numerous individuals associated with supposed investment opportunities involving "prime bank" instruments or other financial instruments.

1 Fraudsters routinely trace through a convoluted narrative relating to the post-World War II *Bretton Woods* accords, "off-sheet" financing by the "Top 50" worldwide banks, and "guaranteed" or "risk-free" trading.

Fraudsters will also emphasize that there is "NO WAY" that you money can disappear, and that it will sit in your own bank account unmolested until your hundreds of millions arrive. They will tell you that you can make astronomical interest rates, such as 20% to 80% per week, and that exponentially your profits will skyrocket.

The Federal Reserve wants to again highlight the dangers associated with investing or participating in questionable transactions that promise unrealisticly (*sic)* high rates of return and involve other dubious characteristics. Over the past several years, Federal Reserve staff has reviewed numerous illicit transactions and provided assistance to U.S. and foreign law enforcement and securities regulators and, based on this experience, has identified the following hallmarks or "red flags" associated with many fraudulent financial instrument scams that can be used to avoid them:

- References to financial instruments issued by "prime banks," "top 100 world banks," "top 25 European banks," and similar references to categories or groups of banks that are not used in the banking industry.

- Promises of extremely high, unrealistic rates of return with little or no risk.

- Participation in an investment program often referred to as a "roll program (or programme)," "high yield investment program," or "bank debenture trading program."

- High rates of return are generated by repeatedly trading (or buying and selling) financial instruments (often over a 40-week period).

- Legitimate financial instruments, such as letters of credit, guarantees, and medium term notes, are bought and sold or traded in manners that are not realistic -- for example, standby letters of credit are bought and sold.[2]

- Transactions are overly complex and nonsensical.

- Terms that have no meaning in legitimate financial transactions are used repeatedly -- for example, "conditional SWIFT," "key tested telex," "pay order," "funds of good, clean, clear and non-criminal origin," "master commitment," "one year and one day," and "commitment holder."

- High degree of secrecy -- for example, the trading of financial instruments takes place on a secret market, your banker or investment adviser will not know about the investment opportunity because only a few special people around the world are aware of it or participate in the secret trading, or the investor is being allowed to participate in a secret trading program and, if he or she reveals any information about the program, the investor's participation will be terminated.

- The investor's funds are absolutely safe and cannot be lost -- for example, a bank has issued a guarantee or an attorney is holding the funds in a special escrow fund.

- Involvement of a well known governmental authority, such as the Federal Reserve, World Bank, or IMF.

- Investor's funds will be used for "humanitarian" projects

(See Federal Reserve Board Supervisory Letter SR 02-13, which can be found at www.federalreserve.gov/boarddocs/srletters/2002/sr0213.htm.)

Supervisory Letter SR 02-13 the Board of Governors specifically references its previously published article "*Anatomy of the Medium Term Note Market*" in its advisory and states that "…[t]he article was written by Federal Reserve economists and describes the use of this type of legitimate debt instrument by corporations and banking organizations and how they are underwritten and priced by the market."

The reference warns, however, that "[s]ince the publication of [the] article and the issuance of the Federal Reserve's 1993 "prime bank" advisory, which alerted the public to the non-existence of "prime bank" instruments, many illicit scams purport to involve the trading of "medium term notes" (often referred to as "MTN's") rather than "prime bank" financial instruments."

The Board's advisory concludes that "…wrongdoers involved with illegal financial instrument scams try to convince their victims that the Federal Reserve Bulletin article proves the existence a market where MTNs can be traded for enormous profits."

The advisory concludes that "[n]o such market exists."

<u>MANAGED "BUY-SELL" PROGRAMS</u>

Still others contend that such trade program do exist and that they are to be distinguished from those schemes and fraudulent machinations referenced by the Board and other law enforcement and government regulatory entities.

Managed, (Closed-End) "Buy-Sell" opportunities are distinguished from "trading programs" by emphasizing the mechanics of discount buying that allow arbitrageurs, or speculators, to capitalize on purchase and sale spreads.

Managed, (Closed-End) "Buy-Sell" opportunities operate without a "trader" **and** the client's funds are not pledged or blocked.

No credit facility or SWIFT MT 760 (or SWIFT MT 103) is used.

The client's funds are merely verified by the "Provider" prior to each "buy-sell" tranche in order to ensure that sufficient funds are available to permit a legal "buy-sell" transaction to take place.

ILLEGAL ARBITRAGE DEFINED

If funds were <u>not</u> sufficiently available to execute the proposed "buy-sell" transaction, the transaction can be deemed an illegal arbitrage - and this would hold true whether the client were buying and selling financial instruments or barrels of oil or shipments of grain.

MECHANICS OF "BUY-SELL" OPPORTUNITIES

These "Buy-Sell" Program opportunities are typically referred to as "controlled" or "managed" (or "closed-end") "buy-sell" operations because the supply side of the financial instruments and the exit buyer for the financial instruments have already been pre-arranged and the price of the instruments already contracted for.

Hence, each and every completed "buy-sell" tranche will result in a net gain (and never a net loss) to the client.

In this instance, the Provider will contract with the client to deliver financial instruments at a fixed price. As part of the same transaction, the Provider will also arrange for the client to contract with an exit buyer to purchase out the financial instruments at a higher fixed price - with the spread between the "buy price" and the "sell price" a targeted 30 points per tranche.

Once the transaction commences, the client's funds will be verified by the Provider prior to each scheduled tranche to avoid illegal arbitrage and then, as part of the pre-contracted for "buy-sell" transaction, the financial instruments will be sold on to the stipulated exit buyer at the pre-agreed higher price—contractually guaranteeing a net profit to the client—never a net loss.

One writer posts the following example:

> The Provider anticipates four "buy-sell" tranches a week, Monday through Thursday, with settlements on Friday.
>
> The spread between the "buy price" and the "sell price" - a targeted 30 points per tranche - will be remitted, in full, by the Provider to the client at the end of each week.
>
> The Provider's exit buyers are typically major, experienced buyers, in many cases, with assets in the billions, who, in turn, normally exit the paper to major pension funds and trusts around the world…[where] actual yield amounts may vary, depending on market conditions, regulations and pricing of financial instruments at the time of contract.
>
> All pricing, terms and conditions, however, will be set forth in the Master "Buy-Sell" Contract and agreed to by the client *prior to any transaction taking place*. And, of course, once agreements have been executed, the profit yield is contractually "locked in" for the term of the managed "buy-sell" transaction. (*Emphasis in original*.)

To contrast the managed buy-sell transaction from the “prime bank instrument fraud” the following procedural protocol is presented:

- Clients needn't transfer their funds
- Client’s funds are never touched (funds verification only)
- Targeted 30% yield per tranche net/net to clients (maximum allowable by authorities)
- Four tranches a week - with settlements on Friday
- No SWIFT MT 760's or SWIFT MT 103's
- No joint venture arrangements
- No asset management contracts
- No powers of attorney
- No "joint signature" accounts
- No surprises (clients sign the Master Buy-Sell Trading Contract)

Notwithstanding the distinctions, the managed buy/sell program is similar to the Private Placement Program in that both operate as a Secured Asset Management Program” where a third party (the client investor) puts a block on specific funds to assist in the capitalization of an investment program for a financial broker.

The funds are not directly at risk because the broker will use their own financing for the deal and the client investor is paid a percentage for the lock-down period, which is often quite short.

The crucial distinction, however, is that under a properly managed ”buy-sell” transaction the client investor does not transfer any funds to an intermediary trader nor are the funds required to be pledged or subjected to a lien.

The financial intermediary, or trader, acquires a specific financial bank instrument having already arranged a closing party wishing to purchase the fully negotiable and unencumbered instrument.

The instruments that are bought and sold under the managed “buy-sell” dynamic generate a yield spread that translates into a profit for the parties involved. This is the typical buy/sell spread that the financial intermediary/trader shares with the client/investor.

PROMINENCE OF THE MTN AS A DEBT INSTRUMENT

An MTN is a debt instrument similar to a bond usually issued by a corporate or increasingly a sovereign government where the issuer is authorized by the governing securities regulatory bodies to issue a limited amount of debt paper over a period of time and up to an authorized amount; each sporadic release can have a different maturity or yield and thus is highly flexible for the issuer allowing it to inject capital when it is most needed, rather than in one single large issue of bonds.

In addition, MTN's are not underwritten.[2] MTN's are offered by corporate firms agents (brokerage or investment banks) on a best-effort basis thus the MTN issuing agents earn a fee from the issuer, not from the investor, so the agents are compelled to negotiate the MTN's.

When a corporation decides to generate additional capital, outside of the daily meanderings of business, corporate officers take an inclusive survey of their financial affairs and begin the process of further growth by a certain process. This process of generating additional liquidity can be done by filing a shelf registration with the SEC. Upon acceptance, MTN programs can be further perused, pursued and implemented into their modus operandi. Once a MTN program is established, this corporation is queued up to either enter the MTN market with frequency or on an intermittent level at both sizeable and moderate offerings and levels. MTNs provide much more flexibility than those more traditional underwritten corporate bonds that are also issued from shelf registrations because the entire debt issue is not made all at once through a single maturity and coupon rate.

MTNs are primarily offered on an agency basis. While this is the standard protocol, most programs consider additional distribution means. As one example, agents of these MTN programs acquire notes for their own accounts, as well as for resale, at par or the standing market rates. It is also common to see MTNs sold on an underwritten basis as well.

When a corporation has arranged to play the role of agent to apportion the notes to investors, their registration filing usually incorporates a list of investment banks. With MTNs, most will see four or less agents since the inclusion of additional agents emboldens competition amongst investment banks and decreases financing costs.

Once a MTN program is established, an investor can enter the MTN market with frequency or on an intermittent level at both sizeable and moderate offerings and levels.

MTN's provide much more flexibility than more traditional underwritten corporate bonds that are issued from shelf registrations simply because the entire debt issue is not made all at once through a single maturity and coupon rate.

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[2] Title to the MTN's on the Primary MTN Market is exemplified by an MTN that is issued by, for example, JPM in Europe. These instruments are issued on a primary MTN market, not on the secondary market where such instruments are owned and sold.

MTN's are distinguishable from bank guarantees that are physical instruments. Primary market MTN's are electronic "shares" much like buying shares of stock in GM in the US.

No one "owns" the MTN outright as it is issued by JPM and put on European stock exchanges where a small number of "operators" can "tie it up under a call option" (an exclusive right to buy and sell it for higher than what "it optioned at") to be purchased by the payor of the option.

As such, "title" does not exist. The same i s true for shares of stock in GM, which are also not titled. Once paid for the instrument is "titled."

Instead, MTN's are primarily offered on an agency basis. While this is the standard protocol, most programs consider additional distribution means. For example, agents of MTN programs acquire notes for their own accounts, as well as for resale, at par or the standing market rates. It is also common to see MTN's sold on an underwritten basis as well, as this still substantiates the task at hand.

Agents, working together with their issuing MTN provider(s), post the offering rates through a range of maturities which could fall under the following classification: nine months to one year, a year to eighteen months, eighteen months to two years, and annually thereafter. It could also be a perpetual offering where it will remain 'open' for up to five (5) years at a time in certain scenarios. Many of these issuing MTN providers post rates as a yield spread over a US Treasury security with a comparable maturity rate.

The attractiveness of these posted yield spreads with maturities of three to five years indicate the issuers desire for fund raising at these maturity levels. When a corporation, or investor, shows willingness to perform on an MTN offering, the agent will then contact his issuer, gathering validation with regard to terms of the transactional contracts to be drafted. Within this maturity range, the corporation and/or investor can determine the end maturity of the note sale as long as it is acknowledged by the issuing company. The issuer will then lower its posted rates once it raises the desired amount of funds at a given maturity.

The issuer, for example, might lower its posted rate for MTN's with a five-year maturity to 40 basis points over comparable US Treasury securities after it sells the desired amount of debt at this maturity.

Bear in mind, issuers also change their offering rate scales in response to changing market conditions. Issuers may withdraw from the market by suspending sales or, alternatively, by posting narrow offering spreads at all maturity ranges.

The proceeds from primary trades in the MTN market vary considerably dependent on the size of the transactions. After the amount of registered debt is sold, the issuer may "reload" its MTN program by filing a new registration with the SEC.

Subsequently, the process begins again.

MTN MARKET IN FLUX

One writer comments that the MTN has evolved and is now the endangered species of debt instruments. He admits that in the MTN market "things are not how they used to be." His thesis is captured in the following text:

> There is so much confusion regarding the purchasing of MTNs. Yes, there are many who want things to be the way they used to be prior to the last platform (Deutsche Bank) being closed in December of 2006 [when] over 350 Commitment Holders lost their opportunities to purchase

> MTNs' and resell these instruments…Now it is all about project funding, and it is a very closed business.
>
> MTNs are tightly controlled now, very tightly controlled…[V]ery little business is being done at all, and that which is being done is for disaster relief, and it is very controlled.
>
> We have also been told that until the new banking system comes on line, [they] will not be releasing these instruments, and even then, it will still be highly controlled and very specific, but never again for the profiteers to make money on, only for approved project funding.

The unnamed writer offers a strongly worded admonition against "ill-informed, poorly connected brokers who spawn misinformation and provide hope where there is no reality." The writer's psychological profile of the subject matter and its actors lends a unique perspective on the subject. The first person narrative offers advice and holds back nothing:

> I am telling you more then you will ever hear anywhere else, and the specific reason is for your benefit and your… knowledge, and to inform the so many Investors who are running around chasing the impossible dream who are dealing with a bunch of ill-informed, poorly connected brokers who spawn misinformation and provide hope where there is no reality. Certain other groups also put out misinformation to keep the masses from ever getting close to a real transaction, because they do not have to monitor them or the proceedings while they are wandering in the massive desert of misinformation in this business. But when they really get close, then there is a real need for monitoring and much has to be done, and those who really do monitor this business are few in number and poorly funded. There go another reason why there is so much misinformation put out there to keep the confusion amongst the broker world and the Investors running wild. As everyone is chasing the impossible dream, i.e. MTN contracts, and entrances with no real connection to one of the four groups that can actually perform, there is little that really needs to be done, it is all very frustrating and confusing, and most drop out after a few attempts or years of trying without success.

Of the many who publish their views on the subject, this unnamed writer seems to project most forcefully. This writer's advice seems more precise and insightful than most of what is available on the subject. His "no-nonsense" tone is suggestive of something more than just technical commentary or editorial dicta. His passing references to Tier 1 (T1) and Tier 3 (T3) are either the fruit of creative disinformation campaigning or just reflexive allusions to the power brokers that manage the markets.

Because the piece is undated we cannot know for sure how the MTN market place might be different today from when the piece was authored. Despite these vagaries, certain insight may be gleaned from the unnamed writer's text which concludes as follows:

> Tier 1 (T1) is the first answer to achieve project funding. Funding from T1 is very project specific, as T1 funds to fulfill the needs of the project requirements. There is little (1% for larger projects up to 4% on smaller projects) for life-style (profits) and administration on a T1 project funding, again, T1 funding is for project funding.
>
> The minimum requirement is 500M for an entrance. If you can qualify for a T1 entrance, you will be doing business at the top of the financial world. Everything emanates from T1, plus, you will be a part of the new banking system, having a system account. At this level, you are doing business with the premier of all financial systems. Much can be done at this level to protect your assets, and you are always in control of your assets.
>
> You will no longer be at the mercy and whims of the bankers and the governments who currently try every means to control your assets. T1 is enforcement over Central Banking in Europe. T1 controls the release of MTNs. You will be entered into a Managed Buy Sell, from which your projects will be funded. They control the instruments, they have the banking relationships, the settlement desks, they do they leveraging and control all the exits, they do everything in the process and you get your projects funded.
>
> Tier 3 (T3), is option number two. Tier 3 is geared for commercial funding, wherein asset enhancement and project funding is done by fulfilling contracts that Tier 3 already has in existence. T3 is licensed, authorized and approved to purchase instruments from certain banks they have relationships with (platforms). The Tier 3 Funder negotiates the paper for the Managed Buy Sells that they control, having the banking relationships in place to send the instruments to for the settlement and resell to the final exits. Through many years of experience and successful business transacting, they have complete knowledge of and relationships with those who can deliver at all levels. They

control the reselling of the instruments also, in order to achieve the profits required to fulfill their existing contractual obligations and their contractual agreements with the Investor…

This is the manner in which this business is done in today's world. Through one of these two options, an Investor can achieve what [he or she desires] to accomplish.

VELOCITY, LEVERAGE, COMPOUNDING

It is well-settled that trading, when done right, invokes the fundamentals of purchasing at a discount and then selling at a premium. The “managed” aspect of the trade is predicated on the condition that any purchase is preceded and conditioned on a confirmed prearranged exit buyer that will purchase at a premium what the trader acquired at a discount.

One interesting analysis of the trade platform industry identifies three variables that work together to generate the high yields that characterize PPP trades. The three variables are velocity, leverage and compounding. The relevant portion of the article reads:

> **Velocity**
>
> The speed with which deals happen makes a massive difference to the overall annual return. A worst case scenario is a savings account which pays say, 4% per annum - in this example the velocity of money is annual.
>
> Let’s say that you borrow money for a business. You buy stock and turn it over four times a year – the capital is now used more efficiently. If you made 12% net profit on the stock each time you sold it, you would make 48% return per year on your capital. Way better than a savings account. In this example the velocity of money is every three months.
>
> Our third example is trading in a major market; let’s say the Forex market which is the biggest in the world. Good traders can routinely make 5% a week on the money that’s at stake. If they reinvest the profits, at the end of the year the return will be 1100% of the capital employed. Now it starts to get interesting. This profit would return to the investor their original capital, plus eleven times more! In this example the velocity of money is weekly.
>
> For my fourth example let’s take a money-lender in a poor third-world country. He has just $100 available to lend. He lends money in a market to women buying and selling fruit and vegetables. His deal is that his loan has to be repaid at the end of the trading session, either morning or afternoon, and he gets back his capital plus $5. This is a completely real example that happens thousands of times every day in exactly these circumstances.
>
> Do the math. Every day the money-lender makes $10 on his $100 capital. That’s 10% a day. Suppose he works 5 days a week, that’s 70% profit a week (compounded daily). Now reality diverges, because the money-lender uses his profit to live on, so his capital doesn’t grow much or indeed at all. But, what if he left his profit in the

deal for a year – compounding his returns? The money he would have at the end of the year is astronomic, it runs into the billions! This is simply because the velocity of money is very high – we are turning over our cash on a daily basis.

Leverage

For many investors the concept of leverage is easy to understand, particularly by reference to business deals, or real estate. Many business owners typically borrow up to 60% of the total capital from a bank, matching the 40% or so that they contribute. All this money is used to make profits, and the lion's share goes to the business owner.

With real estate, leveraging has historically reached very high levels – specifically in mature growing markets. In the recent past we have seen leveraging at 90% for many first time buyers in the US & Europe. This is a 9:1 leverage. All it needs is a 10% growth in the asset over a 12-month period, and the investor's return is 100%!

You may think that leverage of 9:1 is very good, but it is dwarfed by our next example. You can go online right now, as a private individual, and open an account with a Forex brokerage who will allow you to trade with a leverage of 200:1, some even at 400:1, on your money.

To put this in context, open a trade with just $1,000 and the money placed on the market will be either $200,000 or $400,000. This is not secret; anyone can do it. What it means is that a miniscule 0.5% move in the currency in a 24-hour period, means either a 100% or a 200% gain on your Leverage.

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That's why the currency, and other markets, are so dynamic and fast moving – you have both velocity – trading multiple times a day – and leverage, up to 400:1.

Compounding

The third concept is compounding. Put simply, don't remove your weekly profits. Leave them to increase the amount of cash available for your investment activity. We have shown that just $100, compounded at 70% a week, turns into billions at the end of one year. The power of compounding is simply enormous, provided you leave your cash for long enough to have an effect.

Compounding follows a geometric progression, which means that your money doesn't grow in a straight line.

The beauty of a Private Placement Trade Platform

A PPTP utilizes all three concepts – velocity, leverage and compounding – within a unique financial environment in a Top 25 bank to create an incredibly powerful vehicle that can generate exceptional returns with no risk to your investment capital.[3]

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[3] http://forum.reserve-bank.com/viewtopic.php?p=1815

CONCLUSION

This paper has attempted to present both sides of the argument dealing with the character and supposed mechanics of "platform trading."

This paper will conclude, however, with the advice generally given to those investors that brave what may appear to be unchartered waters. The final paragraphs are written from the point of view of a prudent counselor who wishes to impart words of caution, but also of encouragement, similar to the words of our unnamed writer referenced above.

> Of course, any prudent investor will want to fully corroborate any trader's past performance and verify full compliance with all applicable licensing and legal requirements that would allow him to transact in a secure and compliant trade environment. Though this is to be desired, it may not always be possible due to the nature of the industry that does not permit open or direct solicitation. Additionally, the subject matter is not easily verifiable through open source documents or databases. Both the investor and the trader need to strike a delicate balance between full transparency and complete disclosure, which investors prefer, and the trader's need to protect information that is often deemed highly sensitive and proprietary.
>
> Once a formal relationship is established between the trader and investor/client, however, the investor/client can request greater transparency and insight into the intricacies of any proposed trade transaction. The investor/client can then take necessary steps to confirm full regulatory compliance and strict adherence to any and all financial reporting requirements.
>
> Investors are equally advised at all times to operate with the highest standards of disclosure and to provide in full the information and documentation required to enable their funds/assets to be evaluated.
>
> Most genuine Traders and Trade Organizations have the flexibility and capability to accommodate the Investor's preferences across the full spectrum of available procedures. Most Traders have the flexibility to discuss a range of alternative structures & procedural arrangements.
>
> Investors should therefore not only be prepared to provide full due diligence/compliance information concerning themselves and their funds/assets, but also be prepared to discuss, in good faith, their own preferences to establish a

mutually acceptable arrangement based on their preferences and those of the Trader.

Respectable traders have reputations to maintain and no trader who wishes to continue in business will do anything damaging to their reputation or to harm their relationships with their trading banks compliance departments, or the compliance and oversight departments of law enforcement and government regulatory agencies.

To be successful, traders are required to operate within clearly established parameters and the banks and financial institutions will not allow traders to operate outside of these parameters.

As in any commercial transaction an Investor must take all reasonable steps to satisfy himself that the proposed transaction meets his personal requirements and he or she should avail himself of any legal or financial advice as is considered necessary and appropriate.

EXAMPLE

An example of an MTN offering with its attendant procedures for settlement is provided below. The authenticity of the offer could ***not*** be verified.

BANK INSTRUMENT DESCRIPTION

Instrument:	*Medium Term Note - Cash Backed*
Term:	*Ten (10) Year*
Issuing Bank:	*Barclays*
Age :	*Slightly Seasoned*
Currency:	*European Community Currency (EURO)*
Contract Amount:	*EURO FIFTY BILLION (€50,000,000,000.00) with Rolls and Extensions*
Invoice Price:	*(67 %) Plus 1% or better*
Coupon Rate:	*Seven and One Half Percent (7.5%)*
Commission:	*One Percent (1%) of Face Value*
First Tranche:	*Five Hundred Million Euros (€500,000,000.00 Million)*
Price:	*67+1*
Subsequent Tranches:	*To be mutually agreed upon*
Mode of Payment:	*BRUSSELS EUROCLEAR, EUROCLEAR and Screen Block and Pay after receipt of Corporate Invoice.*
Settlement:	*BRUSSELS EUROCLEAR, EUROCLEAR*
Delivery :	*Hardcopy to be delivered via Bank-bonded courier within four (4) banking days*

TRANSACTION PROCEDURES

1. Buyer submits this Letter of Intent to MTN Seller/Provider with full-banking details.

2. Seller accepts signs and returns the LOI.

A) CUSIP, ISISN AND Custodial Safekeeping Receipt Numbers.

B) Medium Term Note showing text, terms, denomination, issuing bank, dates of issue

and maturity and beneficiary with complete address.

C) Access Code and pertinent data necessary for Buyer's Bank to authenticate and validate data of Invoiced Instrument via Euroclear or Brussels Euroclear.

D) Guarantee of Seller's Bank to deliver the Invoiced Bank Instruments

3. After EUROCLEAR or BRUSSELS EUROCLEAR screen authentication, verification and validation of the MTN's, within Four (4) International Banking Hours, and instruct their Bank to send full payment of the First (1) Tranche to the Seller's Bank.

4. Within Two (2) international banking hours of clear funds, Seller's Bank will electronically deliver the MTN's via Swift MT 760, followed by the delivery of the Originals within four (4) international banking days to the Buyer's Bank via Special Bank Courier.