

**Statement  
Of  
Jeffrey I. Greenstein,  
Chief Executive Officer  
of the  
Quellos Group, LLC**

**Before the Permanent Subcommittee on Investigations of the  
Senate Committee on Homeland Security and Governmental Affairs**

**August 1, 2006**

**Chairman Coleman, Senator Levin, and Members of the Subcommittee:**

**My name is Jeff Greenstein, I am the chief executive officer of the Quellos Group, LLC, and am appearing here voluntarily.**

**Quellos is an investment management firm founded in 1994 and headquartered in Seattle, Washington. Globally, we employ 270 people and manage more than \$15 billion in assets for financial institutions, private and government employee pension plans, university and other endowments, foundations and private clients, through both onshore and offshore investment funds.**

**For several months, Quellos has cooperated with the staff of this Subcommittee during its review of a tax-advantaged strategy called POINT. Quellos employees voluntarily participated in interviews, and we provided tens of thousands of pages of documents to the staff. Yesterday, the staff of this Subcommittee issued its report. We believe the report is unfair, one-sided, and inaccurate. I apologize in advance if I seem frustrated, but from my position, and I am neither a lawyer nor a tax expert, the Report seems to have glossed over or omitted several basic facts.**

**Unfortunately, I do not have the time in my opening statement to address all the mistakes and errors in the report. In my limited time, I want to describe briefly the POINT transaction and then highlight some of the more fundamental errors.**

**Six POINT transactions were executed 5-6 years ago by Quellos Custom Strategies, a small and now dormant subsidiary of the firm. The transaction combined a popular**

**investment strategy with a tax strategy frequently executed in the United States by major investment banks.**

**This Committee should be aware of certain fundamental facts about POINT.**

- **The handful of POINT transactions were all executed in 2000 or 2001.**
- **These few transactions were executed based upon extensive consultations with leading tax lawyers, several of whom gave tax opinions approving the transactions.**
- **Each transaction had substantial opportunity for economic profit, and, indeed, the report acknowledges that millions of dollars in gross trading profits were earned in several of the transactions.**
- **Every client consulted his or her own professional advisors regarding the strategy – in fact, several including Messrs. Saban and Johnson, directed us to communicate with their chosen advisors, upon whom they were relying.**
- **From the outset, we told the government about POINT by registering it with the IRS.**

**Let me now address several glaring problems with the staff report.**

**First, the report indicates inaccurately that the POINT transaction is a “black box” that Quellos and others sought to hide from the U.S. Government. Nothing could be further from the truth. Almost six years ago, we registered the POINT transaction with the IRS as a tax shelter. We maintained and shared with the IRS information required by its disclosure regulations. As a result, the IRS is reviewing these transactions. Thus, as opposed to being a “black box,” POINT was disclosed by us to the federal government early on.**

**Second, the report suggests that the POINT transaction did not offer an opportunity for a profit. In fact, POINT gave investors the potential either to earn profits or incur losses based solely on market fluctuations. For the report to suggest otherwise is flat wrong.**

**Third, the report erroneously characterizes book entry transactions as “fake.” But every day, trillions of dollars of securities, commodities and treasury obligations are traded on a book entry basis. Over-the-counter derivative and swap transactions, which involve trillions of dollars, are simply contracts that obligate parties to pay certain amounts based on market movements in the underlying security or commodity involved. Because we believed these were real portfolios with real opportunities for profit and loss, we – and the clients or their advisors – closely followed these portfolios.**

**Fourth, the report criticizes our involvement with offshore entities. However, we worked with and relied on the European American Investment Group on POINT because of the reputation and broad experience of its principals in the over-the-counter markets. Euram assured us about its ability to establish the portfolios; Euram, not us, selected the offshore entities, Barnville and Jackstones, and Euram, not us, vouched for the ability of those entities to engage in the transactions. In every case, Barnville and Jackstones satisfied their financial obligations to the partnerships, including the payment of millions of dollars and the delivery of shares of stock when requested.**

**Fifth, contrary to the report, clients who invested in POINT had their own professional advisors review this transaction and participate in its structuring and**

**execution. As a result of this involvement, the six different transactions had significant differences.**

**Quellos is a well-regarded investment advisor. It has not implemented POINT or any similar transaction since 2001. Quellos has established an independently advised transaction review committee to review transactions with tax aspects. We take these issues and our reputation seriously. I hope these remarks have put these matters in better perspective.**

**Mr. Chairman and Senator Levin, thank you again for giving Quellos the opportunity to speak here today.**

(final-long)