

Statement

of

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Chief Executive Officer

Quellos Group, LLC

Before the

Permanent Subcommittee on Investigations

of the

Senate Committee on Governmental Affairs

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Mr. Chairman, Senator Levin, and Members of the Subcommittee:

My name is Jeff Greenstein. I appreciate the opportunity to appear before this Subcommittee. I am the chief executive officer of the Quellos Group, LLC, based in Seattle, Washington. Since our founding in 1994, we have focused on providing asset management services to institutional and individual clients.

We understand and very much respect the Subcommittee's responsibilities in this area and its interest in ascertaining whether there is a need for a change in public policy.

You have asked me to address tax-advantaged investment strategies with names including BLIPS, SC2, FLIP and OPIS. With respect to BLIPS and SC2, we have no experience with these structures whatsoever, and, therefore, I am not in a position to comment on them. I am able to discuss investment and structural aspects of the latter two strategies with the Subcommittee today, although I do not have tax expertise and thus am unable to provide meaningful insights into the tax aspects of either of those strategies. In addition, we have not worked for years with any accounting firms on tax strategies such as those being discussed today.

As you have heard, prior to our involvement, the international accounting firm of KPMG developed FLIP in the 1990s to provide its clients with a tax-saving investment strategy. In the course of many conversations and meetings, KPMG advised us that its senior tax experts, many of whom had Treasury or IRS experience, had carefully researched the existing statutes and regulations, and that KPMG's national tax office had concluded that these transactions would likely yield favorable tax treatment for its investors under the Internal Revenue Code.

By way of history, our introduction to KPMG occurred in 1995, in a matter completely unrelated to what we are here to discuss today. We were working with a client of

ours to restructure a portion of an investment portfolio in order to meet its investment objectives. Given the importance of analyzing any investment portfolio on an after-tax basis, our client asked us to review our portfolio recommendations with its tax advisors at KPMG. At the client's request, I spoke with its advisors at KPMG.

As a result of this prior interaction, KPMG later contacted us to see if we would apply our investment expertise to assist it with a series of securities transactions related to one of its tax strategies. This strategy later came to be known as FLIP. In particular, KPMG asked us to execute an investment strategy consistent with a set of pre-defined criteria that they had designed and provided to us. KPMG told us that if these transactions met their pre-defined criteria, certain favorable tax consequences would likely be achieved.

Our role as investment advisor was to identify, analyze and implement the specific stock and option transactions that were required to execute the KPMG FLIP strategy, so that investors would have a reasonable prospect of earning an economic profit. Indeed, they did have such a prospect, which was in fact realized by a number of FLIP and OPIS investors. This profit potential was directly linked to the gradual appreciation of the publicly-traded shares of one of the world's major financial institutions. KPMG specifically approved the stock and option transactions after it had determined that the transactions met its criteria for obtaining favorable tax treatment for its clients.

A 1997 agreement between KPMG and Quadra memorialized our different roles. In the agreement, KPMG confirmed its responsibility for the tax aspects of the strategy, while agreeing that Quadra only had responsibility for providing investment advice. KPMG was, and remains, an international accounting firm with an excellent reputation, and we relied on its tax analysis and advice. A prominent national law firm concurred with KPMG's tax analysis.

KPMG began introducing FLIP to potential investors during late 1996.

Subsequently, the accounting firm of Coopers & Lybrand – now PricewaterhouseCoopers or PWC – developed a similar strategy with similar tax attributes, and also sought and received our assistance in providing investment-related advice and execution services. PWC provided a detailed tax opinion, which was consistent with KPMG's earlier conclusion that the Internal Revenue Code likely afforded favorable tax treatment.

In late 1998, we were approached again by KPMG with respect to a variation of the FLIP transaction known as OPIS. It was our understanding that KPMG had been offering that strategy to clients through another investment advisor, The Presidio Group, but that The Presidio Group had exhausted its capacity for implementing transactions. KPMG then requested our assistance with executing the OPIS strategy. In this instance, all of the investment and structural aspects of the strategy were fully developed by KPMG before we were contacted, and the nature of the financial instruments and securities transactions had been fully specified. We implemented the trades and executed the documents required, as prescribed by KPMG.

In summary, I want to reiterate that our focus historically, and today, has been to assist our clients in meeting their financial and investment objectives, using thoughtful, sophisticated, disciplined, and well-researched portfolio management. This core competency presented us with the business opportunity to work with some of the most respected professional services firms in the world. Neither KPMG nor any other party looked to us to provide a tax opinion on the KPMG tax strategies. To the contrary, with regard to the appropriate tax treatment of the transactions, we relied on the judgment of multiple unrelated and well-respected tax experts.

As professional investment advisors, we have only provided investment services in connection with transactions that we concluded, after careful analysis, offered investors a reasonable opportunity to earn profits. We have always focused on helping our clients meet their investment and financial objectives, and pride ourselves on the work we do.

Mr. Chairman and Senator Levin, this concludes my prepared remarks. I would be pleased to answer any questions you may have.

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