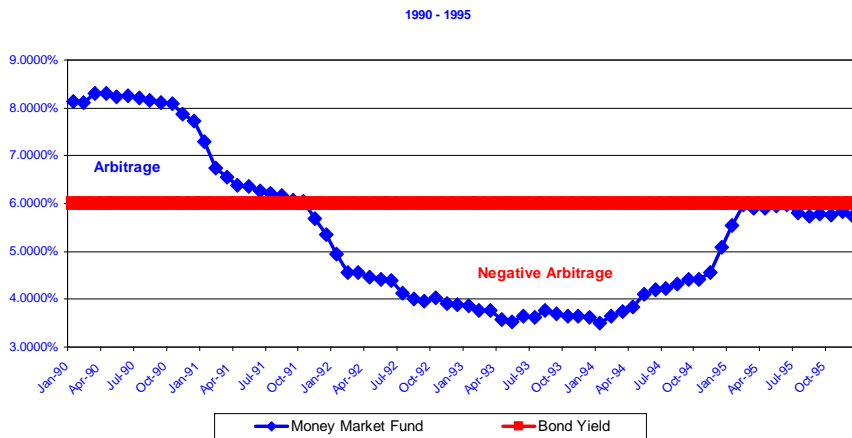




# Arbitrage Roundtable



**Marycarol C. White**  
**Director of Financial & Management Services**  
**York County, Virginia**

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# Vocabulary - Arbitrage

- Merriam-Webster's. "The nearly simultaneous purchase and sale of securities or foreign exchange in different markets in order to profit from price discrepancies."

*Merriam-Webster's Collegiate Dictionary,  
10th Edition (1993)*



# Vocabulary – Arbitrage

In the Context of Tax-Exempt Bonds:

- The use of proceeds of an issue of tax-exempt obligations to acquire higher-yielding taxable investments.

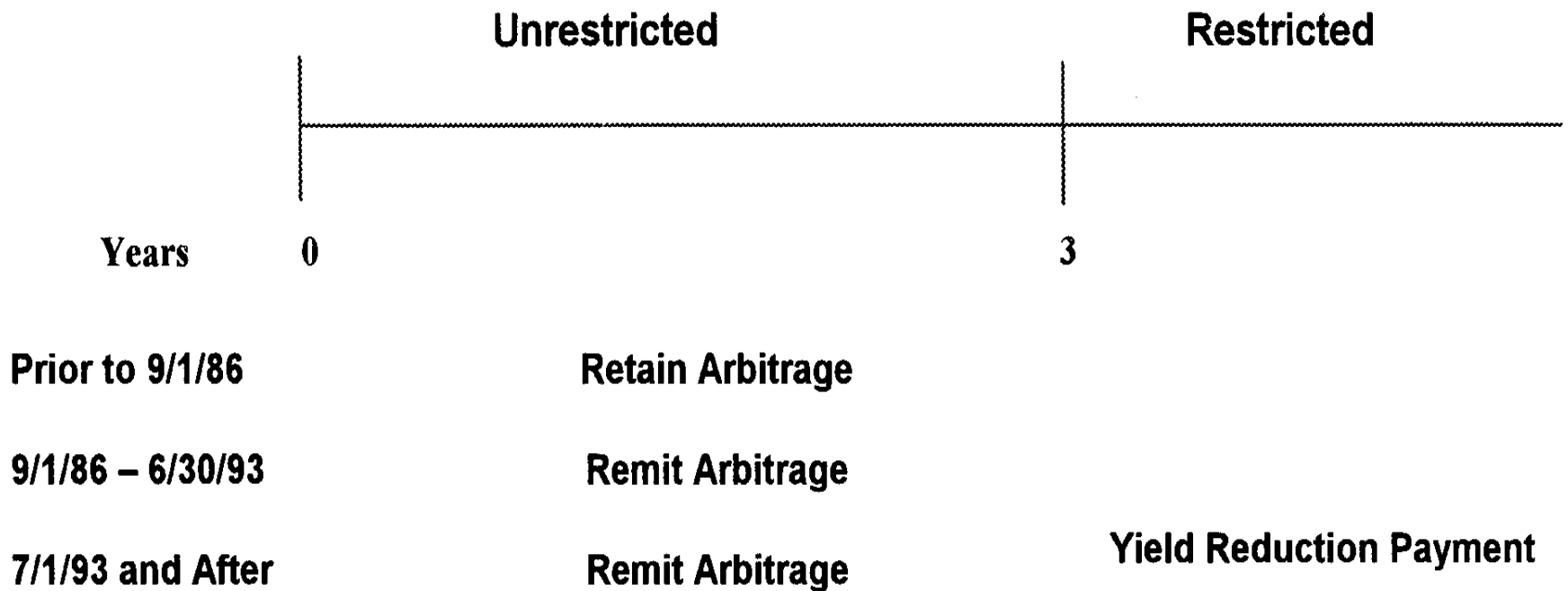


# Yield Restriction – Required Calculations

- For post temporary period calculations, a deemed contribution is calculated at the end of the temporary period and subsequent cash flows are FV at the materially higher yield.
- RRR funds are tested to see if they exceed the 10% test.
- Escrows are verified at inception.



# Yield Restriction – Application by Regulation





# Consequences of Yield Restriction

- No credits are applied to the required YRP.
- Must pay 100% of the YRP amount.
- Possible to pay YRP and not have an arbitrage liability.
- YRP paid amounts are treated as payments for rebate purposes.



# Government Entities Sector

- Government Entities Section monitors compliance for:
  - Tax-exempt bonds
  - Federal, State and Local governments
  - Indian Tribal governments
- Approximately 300 employees are assigned to the Government Entities Sector



# IRS Enforcement Program

- Random audits
- Issues identified by third parties
- Issues with possible abuses (GICs, Escrows, etc.)
- Correspondence audits
- Issuer refund requests (refund only)
- Coordination with the SEC
- Form 8038-T questions



# www.irs.gov

Information for the Tax Exempt Bond Community - Windows Internet Explorer

http://www.irs.gov/taxexemptbond/index.html?navmenu=menu1

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### Information for the Tax Exempt Bond Community

**Tax Exempt Bond Community Topics**

- [TEB Community Update](#)
- [Exempt Bond FAQ's](#)
- [TEB Statistics](#)
- [TEB Work Plan](#)
- [More Topics ...](#)

**IRS Resources**

- [Compliance & Enforcement](#)
- [Contact My Local Office](#)
- [e-file](#)
- [Forms and Publications](#)
- [Newsroom](#)
- [Frequently Asked Questions](#)
- [Taxpayer Advocate Service](#)
- [Where To File](#)

**About TEB - A Closer Look**

Tax Exempt Bonds (TEB) provides specialized information and services to the municipal finance community, including tailored educational programs which focus on bond industry segments; pro-active education and outreach products which address non-compliance trends; and compliance programs devised to foster voluntary resolution of tax law infractions.

**IRS Releases Guidance on ARRA Bond Provisions**

The latest guidance, forms and information on bond provisions enacted by the American Recovery & Reinvestment Act of 2009.

**IRS Announces New Clean Renewable Energy Bonds Allocations**

The IRS announced the allocation of the volume cap to public power providers, cooperative electric companies, and governmental bodies under the new CREBS program.

**IRS Announces Tribal Economic Development Bonds Allocations**

Tribal Economic Development Bonds allocation schedule announcement.

**IRS Launches Compliance Check on Governmental Bond Financings**

Focus is on post-issuance compliance and record retention practices of governmental issuers.

**TEB Current Developments**

The latest guidance and information for the Tax Exempt Bond Community.

**IRS Report on Tax-Exempt Charitable Financings Compliance Project**

Compliance check report on post-issuance bond compliance by 501(c)(3) organizations.

**After the Bonds are Issued: Then What?**

This informational paper is from the sixth report of the Advisory Committee on TE/GE.

**Recently Enacted Legislation of Interest to the Bond Community**

Recently enacted legislation involving bond financing and related guidance items.

http://www.irs.gov/taxexemptbond/index.html



# Administering an Arbitrage Compliance Program

- Develop an Arbitrage Policy
  - Define bond year
  - Create a rule for determining when bond proceeds are spent
  - Identify investment rules for bond proceeds
  - Determine when bond proceeds are invested with other funds of the governmental unit



# Administering an Arbitrage Compliance Program

- Define rules for establishing accounts
  - Construction proceeds
  - DSF
  - DSRF
- Management of deposit of tax receipts
- Management of joint projects
- Use of a Rebate Agent



# Administering an Arbitrage Compliance Program

- Read and negotiate your no-arbitrage certificate. Does it include:
  - Description of any private use
  - Temporary periods
  - DSRF and DSF
  - Issue price and yield
  - Use of interest earnings
  - Rebate compliance
  - Definition of bond year



# Administering an Arbitrage Compliance Program

- **Develop a L--O--N--G T--E--R--M Calendar:**
  - Define your bond year
  - Mark each payment calculation date
  - Mark when data will be available for calculation
  - Mark when filing must be sent to IRS
  - Determine if you are going to calculate liability annually or only on the fifth year



# Administering an Arbitrage Compliance Program

- Develop and Implement a Record Retention Policy:
  - Identify records to be kept
  - Identify who keeps each set of records – Is it centralized or decentralized?
  - Identify how records are to be kept and retrieved: tape, disc, hard copy.
  - How are the records organized?
  - How long are records kept?