

MEMORANDUM

TO: File No. S7-14-11

FROM: Lulu Cheng
Special Counsel
Office of Structured Finance
Division of Corporation Finance
U.S. Securities and Exchange Commission

RE: Meeting with ICI representatives

DATE: January 8, 2014

On December 19, 2013, Katherine Hsu, Arthur Sandel, David Beaning and Lulu Cheng of the Division of Corporation Finance; Sean Wilkoff, Igor Kozhanov and Sean Bauguess of the Division of Economic and Risk Analysis; and John Cross and Cori Shepherd of the Office of Municipal Securities, participated in a meeting with the following TOB representatives of the Investment Company Institute (“ICI”): Sarah Bessin of ICI; Sarah Sullivan of Citi Global Markets, Inc.; Sean Saroya of J.P. Morgan Securities, Inc.; Dennis Tupper of Deutsche Bank Securities, Inc.; Bill Gray and Margaret Sheehan of Ashurst LLP; Cadmus Hicks of Nuveen Asset Management; Charles Davi and Todd M. Smith of BlackRock, Inc.; Leslie Norwood of the Securities Industry and Financial Markets Association; and Hannah Sullivan and John Vetter of Fidelity Investments.

The following staff of other federal regulators also participated: Benjamin McDonough and David Alexander (by telephone) of the Federal Reserve Board; and Elliot Pinta, Kathleen Russo (by telephone), Jacob Doyle (by telephone), Suzanne Clair (by telephone) and Gene Pocase (by telephone) of the FDIC.

The participants discussed topics related to the Commission’s August 28, 2013 joint proposed rules regarding credit risk retention. Handouts are attached to this memo.

Attachment

Cash Flows on a Hypothetical TOB Trust Prior to Trust Termination

Residual Interest holders receive all of the residual cash flows from the TOB Trust (interest earned on the underlying assets less the interest paid to the Tender Option Bond holders & Trust fees) and retain the full market risk on the underlying assets.

- Residual Interest holders receive all of the residual income from the TOB Trust, calculated by subtracting the interest paid on the Tender Option Bonds and all trust fees from the coupon on the underlying assets.

Sample Structure: 75% Leverage on \$10mm Beverly Hills Wtr Revs, 5.00% of 6/1/2037; Current Market Value of 3.91% / 107.892

Cash Flow	Rate	Reference Amount	Par / Notional	\$Per Annum
Underlying Asset Coupon	5.00%	Underlying Asset Par	\$10,000,000	\$500,000
(-) Tender Option Bond Rate	0.15%	Tender Option Bond Par	\$7,500,000	\$11,250
(-) Liquidity Fee	0.40%	Tender Option Bond Par	\$7,500,000	\$30,000
(-) Remarketing Fee	0.10%	Tender Option Bond Par	\$7,500,000	\$7,500
(-) Trustee Fee	0.01%	Underlying Asset Par	\$10,000,000	\$1,000
(=) Residual Interest Income				\$450,250

- Residual Interests are subject to the entire mark-to-market movement on the underlying assets.

Residual Interest Price Computation on the same 75% Leverage Trust Funding the \$10mm Beverly Hills Wtr Revs, 5.00% of 6/1/2037; Current Market Value on the bonds of 3.91% / 107.892

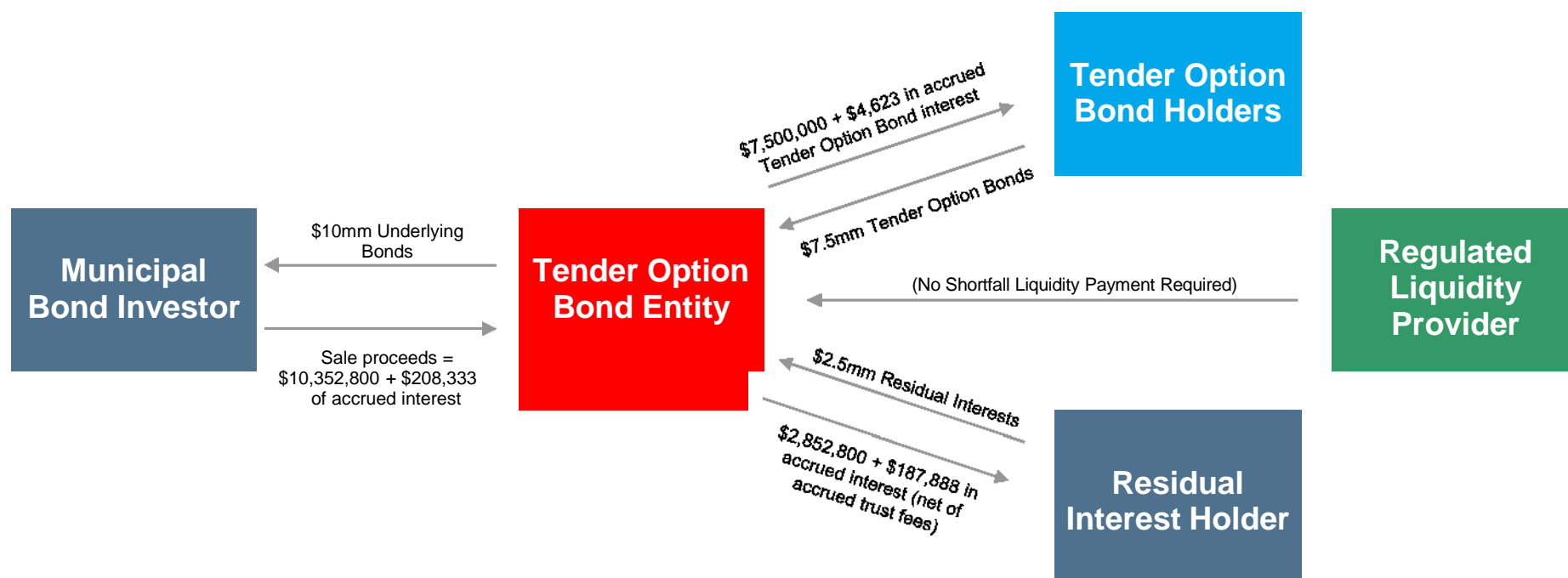
Security	Proportion	Par / Notional	Price	Market Value
Tender Option Bonds	75%	\$7,500,000	\$100.000	\$7,500,000
Residual Interests	25%	\$2,500,000	\$167.184	\$3,289,200
TOTAL	100%	\$10,000,000	\$107.892	\$10,789,200

Termination of the Hypothetical TOB Trust Pursuant to a Non-TOTE Event

- Upon any TOB Trust ("Tender Option Bond Entity") termination that is triggered by a non-TOTE event, the TOB Trust is unwound as follows: – Underlying assets are sold from the Trust
 - Liquidity Provider is obligated to pay to the Trust any shortfall between the par value of the Tender Option Bonds + accrued interest thereon and the proceeds generated from the sale of the underlying assets (the "Shortfall Liquidity Payment")
 - Accrued Trust fees are distributed to the Trustee, Remarketing Agent and Liquidity Provider
 - Tender Option Bonds are returned to the TOB Trust; the Tender Option Bonds holders receive, in exchange, the par value of their Tender Option Bonds + accrued interest thereon + gain share, if any
 - Residual Interests are returned to the trust and, in exchange, the balance of the proceeds generated from the sale of the underlying assets (after the distribution of accrued trust fees and payments to the Tender Option Bonds holders) is paid to the Residual Interest holders

Example: The assets of the sample Trust described on the previous page of this Appendix are sold out of the Trust at a price of 4.50% / \$103.528

- All market risk is borne by the Residual Interest holder: the value of the Residual Interests has declined to \$2,852,800

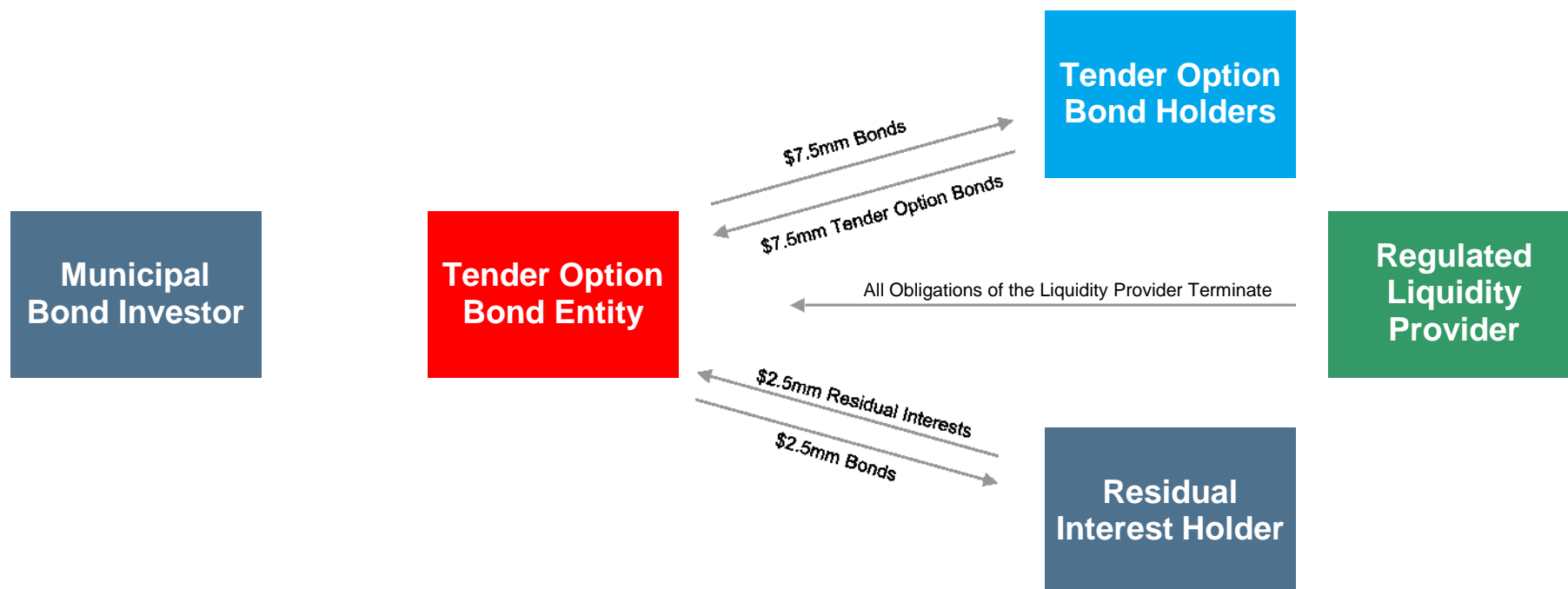


Termination of the Hypothetical TOB Trust Upon the Occurrence of a TOTE

- Upon the occurrence of a Tender Option Termination Event (a “TOTE”), –
 - All obligations of the Liquidity Provider terminate immediately
 - The TOB Trust is unwound and the underlying assets or the proceeds from the sale of the underlying assets are distributed to the Tender Option Bond and Residual Interest holders on a pari passu basis

Example: The assets of the TOB Trust described on the preceding pages of this Appendix are distributed upon the occurrence of TOTE as follows:

- Tender Option Bond holders receive 75% of the notional amount of the underlying assets of the Trust
 - Calculated by dividing the Tender Option Bond Par / (Tender Option Bond Par + the Residual Interest Par) = 75%
- Residual Interest holders receive 25% of the notional amount of underlying assets of the Trust
 - Calculated by dividing the Residual Interest Par / (Tender Option Bond Par + the Residual Interest Par) = 25%
- Thus, the risk borne by the Residual Interest Holder equals 25% of the credit risk of the total TOB Trust assets



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