



Arbitrage Compliance Services

For tax-exempt bond issuers and conduit borrowers who need to meet the arbitrage requirements of the Tax Reform Act of 1986, BNY Mellon Corporate Trust delivers arbitrage compliance services designed to help maximize allowable investment returns on bond funds and minimize or eliminate a client's arbitrage liability.¹

When BNY Mellon is the trustee and/or paying agent for tax-exempt bonds, we simplify the process and provide *seamless* arbitrage reporting and information.

BNY Mellon: The Right Choice

BNY Mellon Corporate Trust professionals provide arbitrage services to a diverse client base of more than 600 issuers, including local government agencies, not-for-profit institutions and private activity bond issuers. Located in Dallas, Memphis and Charlotte, our dedicated team of professionals provides arbitrage compliance services to meet the specific needs of each issuer.

As a result of our diverse client base and the extensive experience of our professionals, we are familiar with complex tax-exempt bond structures, including:

- Interest rate hedge transactions
- Commingled fund allocations
- Guaranteed investment contracts
- Transferred proceeds calculations

We have computed thousands of bond yields for both fixed and variable yield issues, and are familiar with:

- Serial bonds
- Term bonds
- Capital appreciation bonds
- Supplemental interest coupons
- Various modes of variable rate bonds
- Auction rate securities

With the professionals on our specialized team providing arbitrage compliance services, you are free to concentrate on other key strategic elements of your debt issuance.

People, Partnership and Performance

When BNY Mellon is engaged to perform arbitrage compliance services, we first review various documents relating to the bond issue. This review provides us with an understanding of the structure of the financing and the basis for determining, among other things, which funds are subject to the arbitrage requirement, whether any relevant elections were made or if any exceptions to the arbitrage requirement may apply.

Then we work with you to obtain all of the information necessary to compute the arbitrage amount. We utilize work programs and comprehensive checklists to address the quality of the calculation process and to identify complex technical issues.

The review is simplified when BNY Mellon is the trustee and/or paying agent and the investment records and asset summaries used to prepare the rebate computation are readily available to our specialized arbitrage compliance team.

The Right Calculation Approach

With several versions of regulations and numerous amendments and technical corrections to those regulations, there is often more than one way to compute a client's arbitrage liability. Moreover, different calculation approaches may be permitted within one set of regulations. Examples include commingled fund allocations, spending exceptions, security valuations and bond yield calculations. The selected method can have a significant impact on the arbitrage amount.

Our extensive experience and research-oriented approach enable us to recognize and apply different methodologies permitted by the arbitrage regulations, often minimizing or eliminating a client's arbitrage liability.

Checklists

Our internal checklists address available tax law elections and enable us to determine which available methodology will benefit you the most.

Arbitrage Rebate Calculation Software

Arbitrage Rebate Calculation Software (ARCS), our proprietary arbitrage calculation software, handles the complexities associated with arbitrage regulations and allows for timely preparation of arbitrage calculations and reporting.

ARCS has separate modules for both fixed- and variable-rate bond structures and contains modules for the calculation of:

- Transferred proceeds associated with a refunding issue
- The allocation of commingled funds
- The application of the universal cap rules

ARCS calculates and reports on:

- Yield on the entire investment portfolio, each fund and each investment
- Arbitrage amount generated by each investment

Review Process

Each arbitrage compliance computation is subject to a multi-level quality review process to verify the arbitrage amount prior to the release of the arbitrage report.

Arbitrage Report

Our arbitrage report contains:

- A summary of the definitions and computational assumptions used in the calculations
- Detailed bond yield calculation schedules
- Investment schedules
- Rebate computation schedules

Tracking Deadlines

We have developed a sophisticated arbitrage management system to track IRS deadlines and other important data for each bond issue. To help you avoid late filing penalties and/or interest, we monitor internal reports so that you are notified of upcoming IRS deadlines.

IRS Form 8038-T

If an arbitrage liability is found to be due to the United States Treasury, we assist you in completing the IRS Form 8038-T and provide filing instructions for the payment.

Analyzing Impact of Proposed Transactions

In addition to preparing arbitrage compliance computations, we can assist you in analyzing the arbitrage compliance implications of proposed financing transactions, including the impact of potential refundings, bond structures and investment structures.

IRS Audits

Our professionals have substantial experience representing clients before the Internal Revenue Service (IRS) during audits and have been proactive in securing refunds of arbitrage payments previously made by clients.

We have assisted clients during examinations of their bond issues, have defended clients' positions with the IRS, and have assisted clients in entering into voluntary closing agreements with the IRS.

Who's Helping You?

As a proven securities services leader and the world's foremost corporate trust provider, we have in-depth knowledge of specialized products and services in local markets worldwide, and vast global capabilities.

These attributes, combined with our ability to work collaboratively with clients, enable us to define and develop solutions that address each client's unique needs.

So no matter who you are, or what your debt financing requires, our corporate trust specialists have the distinct focus and depth of expertise to provide you with an unparalleled perspective on today's financial markets.

Who's helping you succeed in the world's financial markets? Turn to BNY Mellon.

To learn more about Post-Issuance Compliance Services or our other Corporate Trust services, please call 212 815 6329 or contact your relationship manager.

www.bnymellon.com/ct/arbitrage

¹ In October 2009, BNY Mellon acquired Pinnacle Arbitrage Compliance LLC, one of the largest independent providers of arbitrage compliance services in the United States.