PPP's Explained

By Anonymous

EXPLANATION OF PRIVATE PLACEMENT PROGRAMS

Ultra High-Net-Worth clients will better understand the reason and overview of the operations in a private placement program of trading. This is NOT an offer to sell or solicit: It is for informational purposes only.

EXPLANATION OF PRIVATE PLACEMENT PROGRAMS

INTRODUCTION

This document explains some of the obscure or unclear aspects of Private Placement Opportunity Programs (PPOPs). PPOPs are also known under other names, such as Private Placement Programs (PPPs) or Private Placement Investment Programs (PPIPs). This study is the result of several years of expert personal experience and testimony, and is explained from the viewpoints of both an client and a broker.

TOPICS

Before tackling the topic of Private Placement Opportunity Programs, it is important to discuss the basic reasons for the existence of this business. This discussion includes the basic concept of what money is and how it is created, controlling the demand for money and credit, and the process of issuing a debt note, discounting the note, and selling and reselling the note in arbitrage transactions.

THE BASIC REASONS FOR PPOPS

MONEY CREATION

First and foremost, PPOPs exist to "create" money. Money is created by creating debt.

For example: You as an individual can agree to loan $100 to a friend, with the understanding that the interest for the loan will be 10%, resulting in a total to be repaid of $110. What you have done is to actually create $10, even though you don't see that money initially.

Don't consider the legal aspects of such an agreement, just the numbers. Banks are doing this sort of lending every day, but with much more money. Essentially, banks have the power to create money from nothing. Since PPOPs involve trading with discounted bank-issued debt instruments, money is created due to the fact that such instruments are deferred payment obligations, or debts. Money is created from that debt.

Theoretically, any person, company, or organization can issue debt notes (again, ignore the legalities of the process). Debt notes are deferred payment liabilities.

Example: A person (individual, company, or organization) is in need of $100. He generates a debt note for $120 that matures after 1 year, and sells this debt for $100. This process is known as “discounting”. Theoretically, the issuer is able to issue as many such debt notes at whatever face value he desires – as long as borrowers believe that he's financially strong enough to honour them upon maturity.

Debts notes such as Medium Terms Notes (MTN), Bank Guarantees (BG), and Stand-By Letters of Credit (SBLC) are issued at discounted prices by major world banks in the amount of billions of USD every day.

Essentially, they "create" such debt notes out of thin air, merely by creating a document.

The core problem: To issue such a debt note is very simple, but the issuer would have problems finding buyers unless the buyer "believes" that the issuer is financially strong enough to honour that debt note upon maturity. Any bank can issue such a debt note, sell it at discount, and promise to pay back the full face value at the time the debt note matures. But would that issuing bank be able to find any buyer for such a debt note without being financially strong?

If one of the largest banks in Western Europe sold debt notes with a face value of €1M EURO at a discounted price of €800,000, most individuals would consider purchasing one, given the financial means and opportunity to verify it beforehand. Conversely, if a stranger approached an individual on the street with an identical bank note, issued by an unknown bank, and offered it for the same sale price; most people would never consider that offer. It is a matter of trust and credibility. This also illustrates why there's so much fraud and so many bogus instruments in this business.

LARGE DEBTS' INSTRUMENTS' MARKET

As a consequence of the previous statements, there is an enormous daily market of discounted bank instruments (e.g., MTN, BG, SBLC, Bonds, PN) involving issuing banks and groups of exit-buyers (Pension Funds, large financial institutions, etc.) in an exclusive Private Placement arena.

All such activities by the bank are done as "Off-Balance Sheet Activities". As such, the bank benefits in many ways. Off-Balance Sheet Activities are contingent assets and liabilities, where the value depends upon the outcome of which the claim is based, similar to that of an option. Off-Balance Sheet Activities appear on the balance sheet ONLY as memoranda items. When they generate a cash flow they appear as a credit or debit in the balance sheet. The bank does not have to consider binding capital constraints, as there is no deposit liability.

NORMAL TRADING VS. PRIVATE PLACEMENT

All trading programs in the Private Placement arena involve trade with such discounted debt notes in some fashion. Further, in order to bypass the legal restrictions, this trading can only be done on a private level. This is the main difference between this type of trading and "normal" trading, which is highly regulated. This is a Private Placement level business transaction that is free from the usual restrictions present in the securities market.

Usually, trading is performed under the "open market" (also known as the "spot market") where discounted instruments are bought and sold with auction-type bids. To participate in such trading, the traders must be in full control of the funds, otherwise they lack the means buy the instruments and resell them. Also, there are fewer arbitrage transactions in this market, since all participants have knowledge of the instruments and their prices.

However, in addition to the open market there is a closed, private market wherein lies a restricted number of "master commitment holders". These holders are Trusts with huge amounts of money that enter contractual agreements with banks to buy a limited number of fresh-cut instruments at a specific price during an allotted period of time. Their job is to resell these instruments, so they contract sub-commitment holders, who in turn contract exit-buyers.

These programs are all based on arbitrage transactions with pre-defined prices. As such, the traders never need to be in control of the client's funds. However, no program can start unless there is a sufficient quantity of money backing each transaction. It is at this point the clients are needed, because the involved banks and commitment holders are not allowed to trade with their own money unless they have reserved enough funds on the market, comprising unused money that belongs to clients, never at risk.

The trading banks can loan money to the traders. Typically, this money is loaned at a ratio of 1:10, but during certain conditions this ratio can be as high as 20:1. In other words, if the trader can "reserve" $100M, then the bank can loan $1B. In all actuality, the bank is giving the trader a line of credit based on how much money the trader/commitment holder has, since the banks won't loan that much money without collateral, no matter how much money the clients have.

Because bankers and financial experts are well aware of the open market, and equally aware of the so-called "MTN-programs", but are closed out of the private market, they find it hard to believe that the private market exists.

ARBITRAGE AND LEVERAGE

Private Placement trading safety is based on the fact that the transactions are performed as arbitrage transactions. This means that the instruments will be bought and resold immediately with pre-defined prices. A number of buyers and sellers are contracted, including exit-buyers comprising mostly of large financial institutions, insurance companies, or extremely wealthy individuals.

The issued instruments are never sold directly to the exit-buyer, but to a chain of clients. For obvious reasons the involved banks cannot directly participate in these transactions, but are still profiting from it indirectly by loaning money with interest to the trader or client as a line of credit. This is their leverage. Furthermore, the banks profit from the commissions involved in each transaction.

The client's principal does not have to be used for the transactions, as it is only reserved as a compensating balance ("mirrored") against this credit line. This credit line is then used to back up the arbitrage transactions. Since the trading is done as arbitrage, the money (“credit line”) doesn't have to be used, but it must still be available to back up each and every transactions.

Such programs never fail because they don't begin before all actors have been contracted, and each actor knows exactly what role to play and how they will profit from the transactions. A trader who is able to secure this leverage is able to control a line of credit typically 10 to 20 times that of the principal.

Even though the trader is in control of that money, the money still cannot be spent. The trader need only show that the money is under his control, and is not being used elsewhere at the time of the transaction.

This concept can be illustrated in the following example. Assume you are offered the chance to buy a car for $30,000 and that you also find another buyer that is willing to buy it from you for $35,000. If the transactions are completed at the same time, then you will not be required to "spend" the $30,000 and then wait to receive the $35,000. Performing the transactions at the same time nets you an immediate profit of $5,000. However, you must still have that $30,000 and prove it is under your control.

Arbitrage transactions with discounted bank instruments are done in a similar way. The involved traders never actually spend the money, but they must be in control of it. The client's principal is reserved directly for this, or indirectly in order for the trader to leverage a line of credit.

Confusion is common because most seem to believe that the money must be spent in order to complete the transaction. Even though this is the traditional way of trading - buy low and sell high – and also the common way to trade on the open market for securities and bank instruments, it is possible to set up arbitrage transactions if there is a chain of contracted buyers.

This is why client's funds in Private Placement Programs are always safe without any trading risk.

HIGH YIELD

Compared to the yield from traditional investments, these programs usually get a very high yield. A yield of 50%-100% per week is possible.

For example: Assume a leverage effect of 10:1, meaning the trader is able to back each buy-sell transaction with ten times the amount of money that the client has in his bank account. In other words, the client has $10M, and the trader is able to work with $100M. Assume also the trader is able to complete three buy-sell transactions per week for 40 banking weeks (one year), with a 5% profit from each buy-sell transaction:

(5% profit/transaction)(3 transactions/week) = 15% profit/week

Assume 10x leverage effect = 150% profit...PER WEEK!

Even with a split of profit between the client and trading group, this still results in a double-digit weekly yield. This example can still be seen as conservative, since first tier trading groups can achieve a much higher single spread for each transaction, as well as a markedly higher number of weekly trades.

CLIENTS

The involved clients (program clients) are not the end-buyers in the chain. The actual real end-buyers are financially strong companies who are looking for a long term, safe investment, like pension funds, trusts, and insurance companies. Because they are needed as end-buyers, they are not permitted to participate "in-between" as clients. The client who participates in a PPOP is just an actor in the picture along with many other actors (issuing banks, exit-buyers, brokers, etc.) who benefit from this trading. Usually, the client does not interact with others involved in the process.

PROGRAM STRUCTURE

Normally, a trading program is nothing more than a pre-arranged buy/sell arbitrage transaction of discounted banking instruments. Theoretically, an client with a large amount of funds (on the level of $100-500M USD) could arrange his own program by implementing the buy/sell transaction for himself; however, in this case he needs to control the entire process, initiating contact with the banks and the exit buyers at the same time. This is not a simple task, considering the restrictions in place.

For a client it is much simpler (and usually more profitable) to enter a program where the trader and his trading group have everything in place (the issuing banks, the exit buyers, the contracts ready for the arbitrage transaction, the line of credit with the trading banks, all of the necessary guarantees/safety for the client, etc.). The client needs only to agree with the contract proposed by the trader, disregarding any other underlying issues.

It is further advantageous for the client to enter a program with a substantially lower amount of money and benefit from the line of credit offered by the trading group.

NON-SOLICITATION AND NON-DISCLOSURE

As a direct consequence of the PPOP's environment where this business has to take place, a non-solicitation agreement has to be strictly followed by all parties involved. This agreement strongly influences the way the participants can interact with each other. Sometimes non-solicitation agreements foster scam attempts, due to the fact that at an early stage it is often difficult for the clients to recognize reliable sources to be in contact with.

There is another reason why so few experienced people talk about these transactions: virtually every contract involving the use of these high-yield instruments contains very explicit non-circumvention and non-disclosure clauses forbidding the contracting parties from discussing any aspect of the transaction for a specified number of years. Hence, it is very difficult to locate experienced contacts who are both knowledgeable and willing to talk openly about this type of instrument and the profitability of the transactions in which they figure. This is a highly private business, not advertised anywhere nor covered in the press, and is closed to anyone but the best-connected, most wealthy entities that can come forward with substantial cash funds.

HOW BANKS AND BROKERS CAN PROFIT

Banks are not allowed to act as clients in such programs. However, they are able to profit indirectly in different ways. This fact permits some private brokers, trading groups, and clients to take part in this process that otherwise would be a banking matter only. The assets coming from private clients are necessary to start the process. These private, large funds are the mandatory requirement for the buy/sell transactions of banking debt instruments. Brokers are necessary to introduce the clients to the trading groups. Thus, each of the involved parties takes their part in the sharing of the benefits, commissions for banks and brokers and proceeds for trading groups and clients).

PROJECTS

The purpose of this type of trading is to finance projects, not generate tremendous profits for the client. These may be for-profit or non-profit and can be funded as a result of this trading.

Since this type of trading generates such large amounts of money on the market, measures must be taken to keep the inflation low. One way to do this is to adjust the interest rates, but this usually has little or no effect. A better way to minimize inflation is to let some of the profit be used for different projects that need funding, such as rebuilding infrastructure in regions of the world that have experienced catastrophes or war.

PROCESS SYNTHESIS

The complete process involving the issuing of debt-notes, the arbitrage transactions, the programs, and the projects is a result of combined market forces. Banks have a method of increasing their revenues and profits, clients are able to finance different ventures, and borrowers are able to access loan funds. There is a supply and demand for such instruments, and as long as the supply and demand exists then also this kind of trading will exist.

PROCESS SUMMARY

The following is a summary of the process involved for entering a PPOP:

A client with a minimum of €100M applies for a Private Placement Opportunity Program.

This business is entirely private. To get access to these investment programs, the client needs to send his preliminary documentation to a broker whom the client trusts to be in direct contact with the trading group. That means a Client Information Sheet, a copy of their passport, and a bank statement showing the balance of funds being committed for trade. It is generally required that the bank statement be signed by two authorized bank officers to make it full bank responsibility. There is no other way for the client to get contact with the trading group.

After the client has sent his own paperwork (their Passport, Client Information Sheet, and recent bank statement showing cash), the trading group will investigate the applicant. If the response is positive, the program manager in the trading group will contact or meet with the client. If the investigation is not favourable, the program manager will contact the broker and tell him that the client did not qualify.

During the contact with the client, the trader will explain the program terms/conditions to the client, and outline the guarantees and requirements to start the program. The client will get instructions to open a new sole signatory bank account at the trading bank for transferring the funds there.

The client will receive a contract which states the total gross yield, the percentage of the gross profit reserved for projects, the percentage for the trading group and the percentage for profit participation fees to be deducted for brokers/intermediaries. The net return to the client will be wired to another account that can be located in any bank worldwide. If the client accepts the contract, the contract is signed and the program is ready to start.

The trader is now able to leverage the client's reserved money 10 times, and is now able to back up the arbitrage transactions with that money, a credit line that remains in the bank account that is screened before each arbitrage transaction. Trading now continues, and the profit is paid out per the contract terms to the client.

The programs work with cash only or gold bullion. This fact means that the client will only be accepted with liquid funds. Recent rulings by the G20 prohibit the use of an asset other than cash or gold bullion in a bank vault. A line of credit must be established and drawn down into an account at a bank, where it is lodged and blocked.

ANALYSIS OF RISK INVOLVED IN PPOP CONTRACTS

Finalizing PPOP contracts with clients can be a stressful process because of problems encountered along the way.

FROM THE CLIENT'S SIDE

The applicant client will not be able to meet directly with the trader in this business. The main reason why there's a broker-intermediary chain is because the people in the trading groups have no time or interest in meeting all the people who are just fishing for information, and/or who fail to qualify because they don't have enough money, or have useless bank instruments.

If you're a qualifying client, truly connected intermediaries/brokers should be able to place you in contact with a performing trading group. Don't attempt to find a trader on your own: Most so-called traders in the financial world are not involved in this kind of trading and are not educated to their existence. Those few traders who are keep a low profile and would never talk with a client who hasn't been cleared. In fact they cannot until the client passes the international KYC (Know Your Customer) compliance.

When it comes to cases of non-performance, the problem is usually on the client side. The client doesn't qualify for a variety of reasons; he doesn't have enough money, the bank is too small or is located in the wrong country, he cannot move his funds, etc.

Oftentimes deals are killed because the broker and/or intermediary don't understand the process, and inject themselves, more concerned about a fee than about allowing the two principals (Client and Trader) to interact without interference.

Some of the most common reasons why clients are never able to enter this kind of trading are:

- They don't have enough money or workable assets.
- They don't have the money in an acceptable bank.
- They don't have full control of the money (or of the bank instruments).
- They don't have a good explanation of the origin of the money.
- They do not follow the required procedure.
- They do not collaborate enough with the Trading Group.

- They delay the delivery of documents or send fake or non-confirmed documents.

- Their identity cannot be confirmed.

- They are blacklisted or under investigation.

Remember that the trading group does not have to give any explanation why the client doesn't pass through the clearance.

Clients should understand what is required to qualify:

- A minimum of $100 Million EURO or USD in cash located in a major bank in Western Europe, USA, Canada, Hong Kong, Singapore or Australia. Additionally, the money needs to be traceable with a non-criminal history.

- The client, or company if one is represented, should be clearly identified.

- Once cleared, clients are invited to the table, but their acceptance is never guaranteed, regardless of their assets or prominence.

- The client himself must be the one and only person that the trading group deals with. He is not allowed to let his lawyer or any other person perform or act on his behalf, brokers included. If the client does not speak English and needs assistance, then he must sign a Limited Power of Attorney for a translator. The LPOA will only be accepted for communication purposes, and the must still sign all the documents.

Clients who have the least amount of money are always placed last in the queue. A client with €100M will get more attention than an client with €10M. Clients who have assets other than cash or AU bullion in a bank vault will also always be placed last in the queue, if they are accepted at all. Assets other than cash or gold bullion must be monetized to provide cash for the trading account.

It is difficult for any client to ensure that he meets the right people; those few intermediaries and brokers who know the process and who are working with a performing trading group. The best he can do is to educate himself and not be lured by those who claim that their program will give the highest yield. He must also be patient, and trust the legitimate intermediary or broker. There is no way that the client will directly meet with the trade group before he has been cleared.

If for any reason the client is dissatisfied with the broker and/or intermediary, then another one can be obtained.

These are some of the main risks the client can meet:

- Nothing will come out of the trade; no contract and no profit, just frustration after weeks/months of waiting.
- Clients or their intermediaries and/or brokers are "shopping around" with client documents, which sooner or later will result in blacklisting.
- The client is told that he must move his funds out of his own control; to an escrow account, etc.
- The client is told that he must buy or lease a bank instrument for his money. In the worst-case scenario this instrument is a fake, or impossible to use.
- The client is told that he must pay upfront fees, because a leverage of his funds must be done, or some bank instrument must be discounted, or banking fees must be paid, etc. The upfront fees paid are lost, and nothing more will happen.

FROM THE BROKER'S AND INTERMEDIARY'S SIDE

There is a common misuse of such terms as brokers, intermediaries, and facilitators. The fact is, these are not official terms in banking or finance, but such terms are used within trading groups and in their communication between each other. Although a broker or an intermediary can claim that they are in direct contact with a person carrying that title, it is not a guarantee of anything. Any person can fraudulently call himself a trader, or a commitment holder, or whatever. And since such positions cannot be verified (at the first stage), such titles can be meaningless as seen from the clients' point of view.

There is almost always a chain of trading group, a broker and intermediary, and client. This is for two reasons. Firstly, trading groups, brokers, and intermediaries are not allowed to solicit; the Client must start by asking for information.

Secondly, this protects all parties involved with the trading group. Brokers may work through several intermediaries, and vice versa intermediaries. A chain of more than one or two intermediaries connected directly between the two Principals, in general, is not acceptable to some program providers.

A good broker should also screen the potential clients, filtering the most promising applicants and at the same time collecting from them the proper documentation. In this way, the trading group receives workable documentation from the broker.

The most common risks or problems that a broker, an intermediary or a facilitator can meet with in this business are:

- They may need to investigate dozens of clients before finding a qualified applicant.

- They may discover the assets of client to be unworkable after weeks or months of processing.

- They may have difficulty qualifying themselves with new clients because they cannot show any past performance or past contracts. The relationship with the client is just a matter of trust at an early stage.

There could be several levels involved for the intermediaries. The closest one to the trading group (sometimes called also facilitator) is the most important person. This person should have a direct contact with the trading group. Any other broker beneath the facilitator has a lower value in the hierarchy. The broker and/or the intermediary can have problems showing the client his level in the hierarchy at an early stage.

From time to time you may hear about scams (or potential scams) in the High Yield Investment Programs arena. One of the conditions that facilitate scams in this business is due mainly to the non-solicitation environment and the private approach required that forces information to remain as pure whispered gossip ready to be expressed aloud at any time. That fact facilitates a diffuse level of ignorance in this matter where scammers are in their element.

Possible scams include:

- The intermediary asks for up-front fees (in a real situation no one will ask for up-front fees to the client).

- You are asked to transfer the money into an escrow account not in full control of the client.

- You are asked to buy a bank instrument against the funds to start the program (that later will be discovered to be of no value).

- You are asked to pool the funds together with other little clients.

The internet is now full of different money-making opportunities that promise to return a high yield on the small client's money. In most cases such programs are Ponzi schemes (pyramid schemes). And even if a few might be managed by honest people who are trying to aggregate enough funds in order to enter this kind of trading, they are doomed to fail. First there is the problem with pooling a €100M minimum. In many countries, it is illegal to pool money with promises of a high return. Factor in the problems with high numbers of participants being managed, the trust factor, and clearance issues, trading may never begin...

However, the main scams are usually made or attempted with small clients that never will qualify as PPOP clients. Usually, it is very rare that an honest client with €100M can fall into this kind of trap. Larger clients are investment savvy and can utilize the knowledge of other financial experts to drive the deal on a "safety road".

USE OF LAWYERS FOR ADVICE AND GUIDANCE

It is the writer's opinion that lawyers and accountants are engaged to serve as people who execute agreements or financial reports between the principals in support of the client's business decision made between two parties. In most general cases, their advice is solicited, however, it is rare to find an attorney who is intimately familiar with PPOP's. As a result, almost always, the client is poorly advised by practicing attorney's who are not sufficiently educated in this arena. Would you go to a podiatrist to get advice on having brain surgery?

Too often, because of their well-deserved achievements to become a legal or accounting professional, they are additionally asked to guide and direct the client's decisions. Whilst they are trained professionals in their respective fields, they are not the ones who should be in charge of or direct the client's ultimate business decision. As a result, typically ill-advised input comes from a lack of understanding in this arena, and many clients who otherwise would have benefited well are told to stay away by their 'advisors'. Even though they will believe or state they are 'protecting the client', the lost opportunity because of that advice is extraordinarily costly. Both have their place, but should not be guiding a decision in this world if they are not experts. The final decision rests with the client.

WARNING ON SCAMS

It is very common to find so-called "Official Reports" warning the public that this business does not exist and any of these offers are scams.

The reports in question could have been written by the SEC, FBI, ICC or any other regulatory authority. You should be aware that official documents like the "Commercial Crime Services' Special Report on Prime Bank Instruments Frauds" by the ICC Commercial Crime Bureau are widely spread and used as a reference by banks, accountant firms, lawyers, SEC, FBI, and other authorities around the world. So, if the ICC says that this is a scam, and your accountant says that this is a scam, and your banker says that this is a scam, is it a scam?

Understand, most people working at banks, securities houses, and accountant firms have no insight into this kind of trading. So, if the SEC, FBI, and others say that this is a scam, then they believe it to be so.

CONCLUSION

Obviously, it would not be a good idea to reveal everything regarding this type of trading in this writing, or on any other public conference or forum. This kind of trading can only continue because it is unknown to the public and traditional clients. The professionals in this business must be extremely cautious when it comes to sharing information.

Learn and understand monetary history and banking, and it will become clear why this type of trading can – and does – work.