

## Executive Summary

**Financial Strategy Group, Ltd. (FSG)** is an International Banking Entity (IBE) in the St. Thomas - St. John District, incorporated in the U.S. Virgin Islands and wholly-owned by Mr. Jeffrey Epstein. FSG's sole office and headquarters are located at American Yacht Harbor, 6100 Red Hook Quarter, St. Thomas, U.S. Virgin Islands. FSG will be providing the following lines of business and services while ensuring that, except as specifically indicated below, none of the financial undertakings are granted to domestic persons (i.e., residents of the U.S. Virgin Islands):

1. FSG may make, arrange, guarantee, secure, bond or service loans or other financial undertakings.
2. FSG may engage in financial and business management services;
3. FSG may make commercial loans in excess of \$1,000,000 to U.S. Virgin Islands borrowers that (i) have been rejected, or not approved within 30 days from submission, by any U.S. Virgin Islands financial institution; or (ii) bear interest at an interest rate of not less than five percentage points above the Federal Home Loan Mortgage Corporation's posted yield on the last business day of the month on a thirty-year standard conventional fixed rate mortgage;
4. FSG may make capital contributions in excess of \$1,000,000 to U.S. Virgin Islands business entities in the U.S. Virgin Islands;
5. FSG may carry out banking transactions permitted by this chapter in the currency of any country, or in gold or silver, and participate in foreign currency trade;
6. FSG may underwrite, issue, distribute, and otherwise deal in securities, notes, debt, instruments, drafts, and bills of exchange, issued by FSG, or by a foreign person, for final purchase by a person outside of the U.S. Virgin Islands;
7. FSG may buy and sell securities and non-life insurance annuities for clients outside the U.S. Virgin Islands, and provide investment advice in relation to such transactions or separate therefrom, to such persons, and in addition offer these services and products to the Government of the U.S. Virgin Islands and any of its instrumentalities, agencies and investment vehicles;
8. FSG may organize, manage and provide management services to international financial entities, such as investment companies and mutual funds, on the condition that the stock or participation in the capital of such companies is not distributed directly by the IBE to domestic persons; and with prior authorization from the Director, provide to other IBEs or to foreign persons or entities outside of the Virgin Islands, those services of financial nature, as these are defined and generally accepted in the banking industry of the United States and the U.S. Virgin Islands.

FSG may initially focus on the following lines of business:

1. Insurance of non-Virgin Islands risk;
2. Financing of swap transactions and collateralized loan obligations;
3. Other derivative type transactions;
4. Venture capital;
5. Merchant banking; and
6. Wealth management

### **Industry Analysis**

Effective September of 2012, U.S. Virgin Islands entities engaging in bank-like activities are eligible for broad tax exemptions similar to those offered to companies through the Economic Development Authority. IBEs do not take deposits but engage in bank-like activities. To date, the Division of Banking and Insurance has not issued a license to any entity to commence the business of international banking in the Territory. FSG has been issued a Permit by the Division of Insurance and Banking and would be the first existing IBE in the United States Virgin Islands.

International banking entities have established trading facilities and they generally trade foreign exchange products for their own account. Two major features that distinguish international banking entities from domestic banks are the types of deposits and the loans and investments offered. International banking entities borrow and lend in the Eurocurrency market.

An international banking entity may participate in the underwriting of Eurobonds and foreign bonds. International banking entities frequently provide consulting services and advice to their clients in the areas of foreign exchange hedging strategies, interest rate and currency swap financing, and international cash management services. Not all international banking entities provide all services. Banks that do provide a majority of these services are known as universal banks or full service banks.

International banking entities have been an important component of a broad financial globalization and assimilation. Historically, they have expanded together with international trade and performed key functions for the business of international firms. In addition, the local operations of foreign banks have stimulated the expansion of financial systems in new markets and helped to ease information problems by having close and lasting customer relationships. The demand for financial services from multinational corporations and rapidly growing emerging markets has shaped the international banking industry and its contribution to economic growth.

The role of international banks in the global economy is closely related to that of international financial markets. As they perform complementary functions, both forms of financial intermediation are indispensable, together with a resilient market infrastructure, for the healthy functioning of the financial system. International capital markets often ease the funding constraints of large corporations when local bank credit contracts. Financial intermediation is an activity in which an entity incurs liabilities on its own account for the purpose of acquiring financial assets by engaging in financial transactions on the market; the role of financial intermediaries is to channel funds from lenders to borrowers by intermediating between them. By