

From: Ada Clapp <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Cc: Eileen Alexanderson <[REDACTED]>
Subject: Re: Art Rental
Date: Wed, 18 Dec 2013 15:29:00 +0000

Hi Jeffrey,

Below is an email to Eileen summarizing my conversation with Paul Provost at Christies last July. I reached out to Alan in July to try to schedule this meeting but he has yet to give me a date. I will put this back to the top of the agenda for 2014 if you wish.

On Jul 17, 2013, at 12:21 PM, Ada Clapp <[REDACTED]> wrote:

I spoke with Paul Provost at Christies today.

He indicated that they were indeed providing fair market rental appraisals but that it was still somewhat of a work in progress. That is, they have only provided one of such appraisals (for a collection of valuable works) in final form. They have several others in the works that are not yet final.

Paul has offered to come in and speak with us about the process (or have us come to Christie's). He has had extensive meetings with McDermott and other law firms about their methodology of determining fair market rental so he could get their feed back and would love to walk us through the process. He also wants to get Alan Halperin's feedback (Alan has been on his list) so I may try to schedule a joint meeting. In short, the fair market rental appraisal process would work as follows:

- Christie's meets with the client and his/her advisors to discuss the client's expectations and the state of the art rental market.
- Christie's coordinates a "fair market value for rental planning" appraisal of the artwork to be leased by the client. They get senior staff members to meet and "sign off" on the draft appraisal with the understanding that it is being provided for purposes of the client leasing the art from an estate planning entity.
- Christie's then internally assesses the artwork in relation to a number of subjective factors and arrives at a recommended rental rate (calculated as a percentage of the work's fair market value to be paid by the lessor on an annual basis) and provides a final appraisal. The rental value is provided in a separate document so Christie's would be basically providing an appraisal of the work and their advice as to the rental value.

After studying the commercial art market rentals, Christie's has concluded that for valuable works of art (valued in excess of \$30,000 and up to \$1 million, annual rental value would be somewhere around 1% of the value of the piece). Based on their discussions with Carlyn on this approach, they are recommending that the AFR be a floor for the rental value (which may become problematic as the short-term AFR creeps up past 1%).

They are considering running their methodology past a gentleman at the IRS who is in charge of reviewing art rental values in connection with an issue that has come up regarding income from foreign trusts (Carlyn knows who this is as she does a lot of foreign trust work). Paul did not want to bring this project to Ruth Vriend, the Director of Appraisal Services, as he is concerned that she will bring too much "art market baggage" into the review process. He really wants the IRS to just comment on the methodology Christie's is proposing. Paul is also concerned that Ralph Lerner may have "soured" Ruth and the art panel on the concept of art rentals as Ralph has been a little too vocal about saying a rental market does not exist (it does exist--just at a slightly different level).

Would you like to be part of the meeting with Paul?

Ada Clapp

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