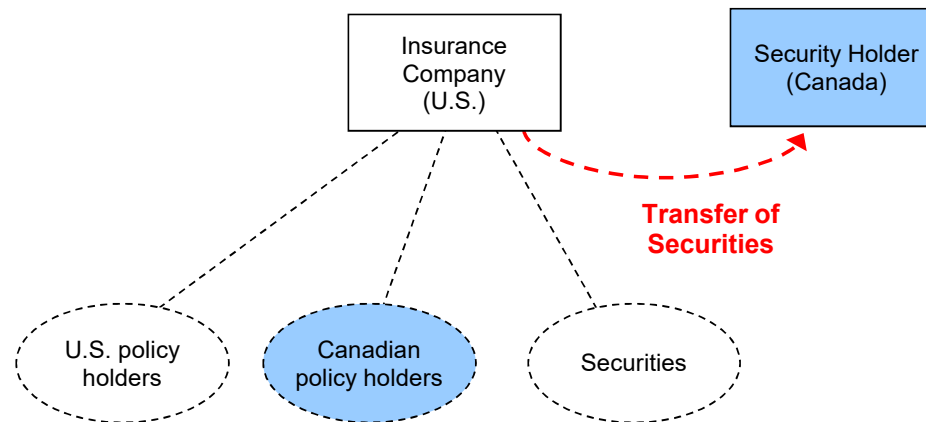


**Transfer of Assets to Canadian Holder Was a Security Arrangement and Not a Trust**

The taxpayer, a domestic corporation, provides retirement and insurance benefits to staff members of colleges and universities, including policyholders in Canada. Canadian law requires foreign insurance companies doing business in Canada to maintain assets in Canada of an amount at least equal to its liabilities to policyholders in Canada. In satisfaction of this requirement, qualifying assets may be deposited with a Canadian security holder.



Pursuant to the security agreement, the taxpayer will be recognized as the owner of the securities so deposited and, as long as the assets in Canada do not fall below the value required under the terms of the Act, the taxpayer will be entitled to exchange securities at its discretion and shall be entitled, at any time, to require the security holder to sell or dispose of any security on deposit. Only when acting under the written direction of persons authorized by the taxpayer will the security holder have full authority to transfer, sell, or exchange the securities held by it. In addition, the security holder shall turn over to the taxpayer all income from the securities on deposit when collected.

Reg. 301.7701-4 provides, in part, that, generally speaking, an arrangement will be treated as a trust if it can be shown that the purpose of the arrangement is to vest in trustees responsibility for the protection and conservation of property for beneficiaries who cannot share in the discharge of this responsibility. Here, the taxpayer retains complete control over the securities on deposit so long as the assets in Canada do not fall below the value required. The security holder does not possess discretionary power to deal with the securities on deposit. Furthermore, the taxpayer is entitled to the income from the securities. This arrangement between the taxpayer and the security holder does not create a trust, but rather a mere security arrangement.