
From: Ross, Steven
Sent: Tuesday, December 21, 2010 2:52 PM
To: Chris Seefer
Cc: Prober, Raphael
Subject: Magnetar

Chris--You asked about a \$4.5 million amount Magnetar received in connection with the Norma CDO transaction. From approximately September 2006 through March 2007, funds advised by Magnetar invested in the equity and lower debt tranches of subprime mortgage CDOs. Magnetar sought to negotiate the best price for these investments, including seeking various forms of discount to increase the effective yield for investors in the Magnetar funds.

One type of discount was in the form of a rebate set against Magnetar's purchase price. Magnetar proposed to a variety of dealers that Magnetar receive in the neighborhood of 30 basis points of the notional amount of a CDO transaction. The payment may have been referred to variously as a commitment fee, an upfront fee, or a sourcing fee.

No matter the label, the amounts were simply a discount in the form of a rebate to the purchase price of long positions taken by Magnetar funds, and they were consistently treated that way by Magnetar. Magnetar always allocated, booked, and treated the amount as a discount in the form of a rebate to the long CDO positions that its funds purchased. Magnetar was only an investor in the CDO transaction and did not provide any goods or services for this amount. Because the discounts were not payments in return for any goods or services, the Magnetar funds did not take them into income and appropriately accounted for the amounts as a reduction of the basis of the funds' investments.

As far as Magnetar was aware, the dealers fully understood that Magnetar intended the amounts to be discounts. Magnetar does not know how others described or accounted for the amounts on their books and records.

Specifically in connection with the closing of the Norma CDO, Magnetar received \$4,500,000 on March 1, 2007. This payment represented the previously agreed amount of 30 basis points of the notional value of the CDO. Magnetar applied the \$4,500,000 amount as a discount to the basis of the Norma securities it purchased.

I hope this information is helpful to the Commission.

Steve Ross

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