

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

May 26, 2004

**BANKING SUPERVISION AND REGULATION:
COMPLEX STRUCTURED FINANCE ACTIVITIES
AND SECURITY LAW VIOLATIONS**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

**Agencies Request Comment on Statement Concerning Complex Structured Finance Activities
(OP-1189)**

Five federal agencies are requesting public comment on a proposed statement describing internal controls and risk management procedures that the agencies believe will assist financial institutions that engage in complex structured finance activities to identify and address the risks associated with such transactions.

As recent events have highlighted, a financial institution may assume substantial reputational and legal risk if the institution enters into a complex structured finance transaction with a customer and the customer uses the transaction to circumvent regulatory or financial reporting requirements, evade tax liabilities, or further other illegal or improper behavior.

The interagency statement describes the types of internal controls and risk management procedures that should help financial institutions effectively manage and address the reputational, legal and other risks associated with their complex structured finance activities and operate in accordance with applicable law. The statement, among other things, provides that financial institutions engaged in complex structured finance activities should have effective policies and procedures in place to:

- Identify those complex structured finance transactions that may involve heightened reputational and legal risk
- Ensure that these transactions receive enhanced scrutiny by the institution
- Ensure that the institution does not participate in illegal or inappropriate transaction.

The statement also emphasizes the critical role of an institution's board of directors and senior management in establishing a corporate-wide culture that fosters integrity, compliance with the law, and overall good business ethics.

Comment on the interagency statement is requested on or before June 18, 2004.

**SEC Guidance on the Potential Liability of Financial Institutions for Securities Law Violations
Arising from Deceptive Structured Finance Products and Transactions (SR 04-7)**

The Federal Reserve is issuing an SR letter to provide regulated financial institutions with a copy of the attached letter from the Division of Market Regulation at the Securities and Exchange Commission (SEC) to the Federal Reserve and the Office of the Comptroller of the Currency, dated

December 4, 2003. The letter includes a memorandum that discusses the principal types of Federal securities law violations that may arise when a company uses structured finance products in a deceptive manner. The memorandum also discusses the SEC's views regarding when a financial institution's participation in a structured finance transaction may create liability for the institution under the Federal securities laws and the statutory bases for such potential liability.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about proposed statement, please contact our Banking Supervision and Regulation Department at (415) 974-3206.

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Attachments:

[Docket OP-1189](#)
[Principle Types of Federal Securities Law Violations](#)