



July 16, 2004

Jennifer J. Johnson
Secretary of the Board
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary, Attention: Comments
Federal Deposit Insurance Corporation
55 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Docket No. 04-12
Communications Division
Public Information Room, Mail Stop 1-5
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

RE: Proposed Statement on Complex Structured Transaction Activities

Dear Ladies and Gentlemen:

The Conference of State Bank Supervisors (CSBS)¹ is pleased to have the opportunity to comment on the interagency statement (Statement) describing internal controls and risk management procedures that will assist financial institutions that engage in complex

¹ CSBS is the national organization of state officials responsible for chartering, regulating and supervising the nation's 6,500 state chartered commercial and savings banks and over 400 state-licensed branches and agencies of foreign banks.

CONFERENCE OF STATE BANK SUPERVISORS

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structured finance activities to identify and address the risks associated with such transactions.

The Statement focuses on the critical role of a financial institution's board of directors (BOD). As these highly complex transactions can present substantial legal, reputational and other risks, CSBS fully agrees with the federal agencies that a participating financial institution should establish a board-approved, clear process for identifying the standards which define these complex structured transactions that involve heightened risks. The BOD is responsible for establishing the institution's risk tolerances for these complex structured transactions and ensuring that a strong risk control framework is in place to guide the actions of the financial institution's personnel. If heightened risk is identified by bank personnel, the institution's procedures should ensure these transactions receive an elevated and thorough review. In addition, as part of the financial institution's elevated review procedures of high risk transactions, it may be appropriate for the financial institution to either decline participation in the transaction or condition its participation upon the customer making express and accurate disclosures regarding the nature and financial impact of the transaction on the customer's financial condition. Continual review of both the actual products and their approval process by senior bank management and the BOD is also prudent.

The agencies note that the Statement would only apply to those institutions that advise, arrange or actively participate in these complex structured transactions. In that regard, currently only about 25 state chartered institutions were identified as entities that would be covered by this Statement. However, with the proliferation of structured finance transactions and a growing number of banks, both large and small, that are beginning to participate in more complex financial products, this Statement reiterates that a financial institution's BOD must play the key role in understanding the complexity of and risks associated with these products prior to any involvement. This Statement is generated from a basic risk-focused safety and soundness standard.

Conclusion

We would welcome opportunities to work with the Federal regulatory agencies to develop joint examination procedures and further guidance in this area. Thank you for your consideration, and we invite you to call on us if we can provide additional information on any of the state initiatives noted in our letter.

Best Personal Regards,

A handwritten signature in black ink that reads "Neil Milner". The signature is written in a cursive, flowing style.

Neil Milner
President and CEO