



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-3-2007
January 11, 2007

COMPLEX STRUCTURED FINANCE ACTIVITIES

Interagency Statement on Sound Practices for Activities With Elevated Risk

Summary: The FDIC, along with the other federal banking agencies and the Securities and Exchange Commission, is issuing the attached final Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities (Final Statement). The Final Statement describes the types of internal controls and risk-management policies and procedures that the agencies have found to be useful in identifying, managing and addressing the potentially heightened legal or reputational risks that may arise from certain complex structured finance transactions.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Financial Officer
Chief Accounting Officer
Chief Risk Officer

Related Topics:

Internal Controls
Risk Management Policies and Procedures
Legal and Reputational Risks

Attachment:

Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities

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Note:

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Highlights:

The attached Final Statement:

- Focuses on complex structured finance transactions designed to achieve specific legal, tax or accounting objectives of a particular customer in a novel or complex manner that often elevate an institution's exposure to various forms of legal or reputational risk.
- Illustrates the types of complex structured finance transactions that warrant increased review by the institution's senior management and board of directors.
- Describes the types of internal controls and risk-management procedures that the agencies believe should enable a financial institution to identify, monitor and control the heightened legal and reputational risk associated with various types of complex structured finance transactions.
- Generally does not apply to products with well-established track records that are familiar to participants in the financial markets. These include standard public mortgage-backed securities transactions, public securitizations of retail credit cards, asset-backed commercial paper conduit transactions, and hedging transactions involving "plain vanilla" derivatives and collateralized loan obligations.
- Applies primarily to large financial institutions, generally not to smaller institutions.

