

June 15, 2006

Ms. Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Proposed Policy Statement:
Interagency Statement on Sound Practices Concerning
Elevated Risk Complex Structured Finance Activities
Commission File No. S7-08-06**

Dear Ms. Morris:

We are pleased to comment on the proposed Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities (the “Statement”). The use of structured finance transactions in both the U.S. and global economies has increased since the initial proposal in May 2004. At the same time, regulatory actions related to financial statement misstatements have reminded market participants of the risks attached to such transactions. It remains essential that financial institutions design and maintain internal control infrastructures to identify and appropriately address those risks. Therefore, we reiterate our support of the Commission’s and the Banking Agencies’¹ (collectively “the Agencies”) objectives in providing this guidance and continuing to strengthen internal controls in these areas.

We are providing comments and suggested improvements for the Agencies’ consideration. Our comments and recommendations are discussed in detail below under the related heading in the Statement.

Scope and Purpose of the Statement

Clearly, financial institutions of all sizes that participate in complex structured finance transactions (“CSFTs”) would benefit from an enhanced focus on related controls and risk management. In Section II of the Statement, the Agencies note that it likely will not affect or apply to the vast majority of financial institutions, including most small institutions that do not participate in CSFTs with heightened risk profiles. However, Section III first addresses the controls that a financial institution should establish for all CSFTs, and then goes on to further address how to identify an elevated risk CSFT. We believe the first two paragraphs of Section III would be relevant for all financial institutions participating in CSFTs. We suggest renaming

¹ Proposal also made by the following Banking Agencies: the Office of the Comptroller of the Currency, Docket No. 06-06; the Office of Thrift Supervision, No. 2006-20; the Board of Governors of the Federal Reserve System, Docket No. OP-1254; and the Federal Deposit Insurance Corporation.

Section III (for example, as “Identification and Review of Complex Structured Finance Transactions”) and indicating it would be applicable to all financial institutions. The Statement could then note the more limited applicability of the remaining guidance to those financial institutions with elevated risk CSFTs of a new Section IV (for example, “Identifying, Evaluating and Managing Elevated Risk Complex Structured Finance Transactions”).

Identification and Review of Elevated Risk Complex Structured Finance Transactions

We suggest that additional emphasis be placed on the need to establish controls to identify when a new CSFT product has been created through minor changes or modifications to a previous transaction structure. This would apply whether or not the original CSFT was considered an elevated risk transaction, and regardless of the size of the financial institution. Under the complex accounting principles that are often involved in structured finance transactions, small changes may have a significant impact on the accounting conclusions, such that the accounting for the new transaction would not be the same as that for the original transaction. Management at the financial institution, including those responsible for the institution’s own financial reporting, should be mindful of the changes being made in a transaction that is seemingly similar to a previous transaction.

A. Identifying Elevated Risk CSFTs

The criteria for identifying a potential elevated risk CSFT appropriately focus on situations where some component of the transaction appears inconsistent with the broader context of the transaction (for example, compensation that is disproportionate to the risk, any terms that are undocumented, or elements that are inconsistent with market norms). However, the Agencies should consider adding a criteria requiring consideration of the overall complexity of the structure (for example, number of counterparties, complicated provisions for the allocation and sharing of risk, numerous contingent features), which might also indicate a CSFT with elevated risk.

B. Due Diligence, Approval and Documentation Process for Elevated Risk CSFTs

Due Diligence

In our comment letter on the Agencies’ initial May 2004 proposal, we expressed concern that a financial institution might be deemed to take responsibility for the accounting and disclosure of its customer. We agree with the Agencies’ removal of the language that might imply such responsibility. However, we still question the rationale behind the warning in the third paragraph that a financial institution carefully consider whether it would be appropriate to rely on opinions or analyses prepared by or for its customer concerning any significant accounting, tax or legal issues associated with an elevated risk CSFT. This again might imply that the financial institution has some responsibility for the customer’s accounting. We suggest that the warning be reworded or clarified.

Approval Process

The guidance in the first paragraph states that the designated approval process should include representatives from client management. Given the context of approval process at the financial institution for a transaction, it would not seem appropriate to include the involvement of a customer's management. If the Agencies are expressing an expectation that the financial institution understand who at the customer has initiated and approved the transaction, which we believe is an appropriate control, we suggest the Statement more clearly address that concept. If "client management" was meant to identify the member of the financial institution's management responsible for managing the customer relationship, we again suggest the Statement be more clearly worded.

C. Other Risk Management Principles for Elevated Risk CSFTs

Monitoring Compliance with Internal Policies and Procedures

The Statement notes that management should conduct periodic independent reviews of the CSFT activities to verify the policies and controls are operating effectively. We could foresee a financial institution incorporating this review, or components of this review, into the processes under Section 404 of the Sarbanes Oxley Act of 2002 ("Section 404"). While some components of the internal controls over CSFT might also be internal controls over financial reporting, we believe most controls will be compliance related and thus not subject to Section 404 testing by management or consideration by the auditors under the Public Company Accounting Oversight Board's Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements* ("AS2"). To avoid any confusion associated with the application of Section 404 or AS2 for a financial institution, we recommend that the Statement clearly indicate that the related controls are not necessarily part of a financial institution's internal control over financial reporting, and therefore would not fall within the scope of the reports issued under Section 404 and AS2 (or, when applicable, for reports issued under the Federal Deposit Insurance Corporation Improvement Act of 1991).

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We support the Agencies' coordinated effort to continue to improve the control infrastructures of financial institutions for complex structured finance transactions. We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst & Young LLP