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6

July 14, 2004

→ Office of the Comptroller of the Currency
Office of Thrift Supervision
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Securities and Exchange Commission

c/o Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Ladies and Gentlemen:

RE: OCC: Docket No. 04-12
OTS: No. 2004-27
Board: Docket No. OP-1189
FDIC: Comments/OES
SEC: File No. S7-22-04

KPMG LLP is pleased to provide our comments on the interagency statement entitled, *Policy Statement: Interagency Statement on Sound Practices Concerning Complex Structured Finance Activities* (Policy Statement), issued jointly by the Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Board of Governors of the Federal Reserve System (Board), Federal Deposit Insurance Corporation (FDIC), and the Securities and Exchange Commission (SEC) (collectively, the "Agencies"). KPMG supports the Agencies' proposal to require that financial institutions offering complex structured finance transactions maintain internal controls and risk management procedures designed to identify and address the financial, reputational, legal, and other risks associated with such transactions.

The Policy Statement includes, among other recommendations, the following guidance related to financial institutions' procedures for reviewing the accounting and disclosure by customers for complex structured finance transactions:



July 14, 2004

Page 2

The financial institution's policies also should address when third party accounting professionals should be engaged to review transactions. Moreover, there may be circumstances where the financial institution or the third-party accounting professionals it engages will wish to communicate directly with the customer's independent auditors to discuss the transaction. Independent monitoring of the approval process (discussed below) should ensure that personnel adhere to established requirements for obtaining a review by third party accountants or communicating with the customer's independent auditor.

The above guidance undoubtedly will lead financial institutions offering complex structured finance transactions to request that public accounting firms report on the application of accounting principles by potential parties to such transactions pursuant to Statements on Auditing Standards No. 50, *Reports on the Application of Accounting Principles* and No. 97, *Amendment to Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles* (so-called "SAS 50 letters"). Ordinarily, SAS 50 letters are issued to the party for whom the specific accounting guidance is relevant. We do not believe that SAS 50, as amended by SAS 97, contemplates the issuance of reports on the application of accounting principles to financial intermediaries. SAS 50, as amended, specifically prohibits accountants from rendering a written report on the application of accounting principles to a hypothetical transaction (i.e. not involving facts and circumstances of a specific entity).

As a practical matter, we have adopted internal policies that prohibit the issuance of SAS 50 letters to financial intermediaries. KPMG will consider issuance of a SAS 50 letter to an entity only when (1) that entity is a principal party to the transaction being reported upon and (2) the letter addresses only the entity's own accounting for the transaction. Moreover, the issuance of such SAS 50 letters is governed by specific Firm policies and approval requirements. We do not anticipate any changes to KPMG's policies as a result of the Policy Statement.

The Policy Statement implies that the financial institution should, under certain circumstances, employ third party accounting professionals to review transactions contemplated by potential customers. We believe that the guidance should be amended to recommend that the financial institution's procedures include verification that its customers have engaged accounting professionals, where necessary and/or appropriate, to evaluate the appropriate accounting and disclosure for the subject transaction. The financial institution's procedures also should ensure that, as an integral part of that process, the customer's external auditors have been consulted on a timely basis regarding the accounting and disclosure proposed for the subject transaction.



July 14, 2004
Page 3

We would be pleased to discuss our comments with you at any time. Please call
Craig W. Crawford at (212) 909-5536 if you have any questions.

Very truly yours,

KPMG LLP