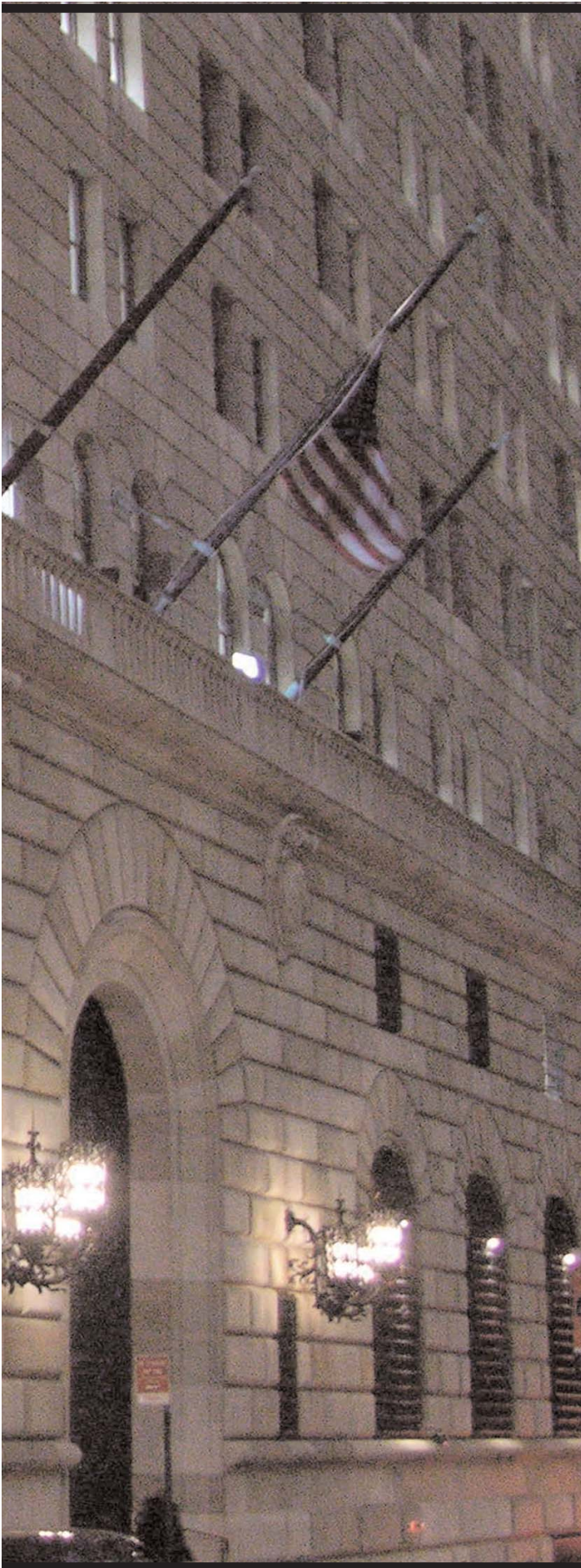


# LEGAL FUNCTION RESUME

Federal Reserve Bank of New York



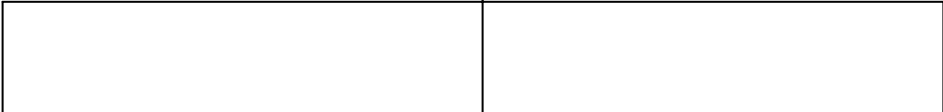
2008





Federal Reserve Bank of New York  
Legal Function

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Financial Services and Automation

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## Overview

The Federal Reserve Bank of New York (the "Bank") is a key component of the Nation's central bank and a major participant in financial markets. Given this role, we provide unusual opportunities for attorneys who want to work in a challenging and stimulating environment. The Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the U.S. Treasury, and, of course, the Bank itself are just a few of the organizations that we serve.

The Legal Function, as a captive law firm serving all of the needs of a unique client, is actively involved in the Bank's diverse activities, which include supervising some of the world's largest banking organizations. This responsibility has become particularly interesting in light of the consolidation of the banking industry that is now taking place through mergers and acquisitions. As an example, the attorneys participated in the review of expansion proposals by a major banking organization during a period of scrutiny and restraint imposed by Governors on that institution's expansion and the regular monitoring and review of its implementation of enhanced compliance and control programs.

Other Bank activities supported by the Legal Function include implementing monetary policy and operating key components of the Nation's payments mechanism. (The Bank handles more than \$4 trillion of funds and securities transfers each day.)

The Bank also acts as correspondent bank to foreign governments and other central banks. In support of the Bank's role as fiscal agent for the U.S. Treasury, the Legal Function often participates in international financial transactions on behalf of the Treasury. In that regard, the attorneys provide expertise and advice with payments issues and in the drafting of anti-money laundering regulations by the U.S. Treasury and policy statements from international organizations.

The Bank, and in turn the Legal Function, is frequently asked to play important roles in critical situations. The Legal Function was involved in (1) negotiating the Mexican peso bail-out plan which included doing much of the legal work necessary to arrange a \$20 billion loan to the Mexican Government; (2) coordinating the drafting of the "Principles and Practices for Wholesale Financial Market Transactions," which define appropriate practices for private sector derivatives trading; and (3) pursuing enforcement and supervisory actions, i.e. issuing cease-and-desist orders, where appropriate.

Our litigation practice is diverse and exciting. The Legal Function handles not only a wide variety of commercial and employment matters where the Bank requires representation in Federal court, but also special litigation unique to a central bank. The Legal Function attorneys and investigators collaborate with the staff of the Federal Reserve Board, other Federal Reserve Banks, the U.S. Attorney's Office, the Federal Bureau of Investigation, and other Federal and State agencies as necessary in conducting investigations. The resolutions of matters by the Federal Reserve Board and

criminal authorities have led to the imposition of some of the largest fines levied against financial institutions.

Lawyers in the Enforcement and Bank Supervision Divisions also work closely with the Bank Supervision Group to review questions concerning the structured finance businesses of several financial institutions and whether participation by these banks in structured finance transactions have any concerns from a credit risk, reputational risk, or legal risk standpoint.

The size of the Legal Function is small enough to permit a collegial atmosphere but large enough to handle highly sophisticated legal work. Our administrative resources support a thriving and cutting-edge practice. The Law Library is an information center that offers on-line database access and professional assistance. The Records Staff maintains an archive of the precedent-setting work product of the Legal Function for reference purposes. Our attorneys have the latest in PC technology with desktop Internet access, BlackBerries, and on-site, personal automation support. The Legal Function uses both automated document management and electronic imaging systems to manage its information and reduce paper volume.

The junior members of the Legal Function have contact with the Bank's senior management and attorneys frequently work closely with other professionals in the Bank. Attorneys also gain satisfaction from working in the public interest. Although the Bank is a corporation that is not part of the Federal Government, it fulfills an important public trust. Thus, attorneys have the challenge of a New York corporate law

practice, work of national and international significance, and the satisfaction of making a personal contribution to public goals.

### **Organizational Structure**

The Legal Function is organized into three divisions that correspond roughly to the organizational structure of the Bank: Bank Supervision and Markets; Financial Services and Automation; and Enforcement, Litigation, Protection, Investigations, and Corporate Affairs. The General Counsel administers the work of the Legal Function through three deputies who are each responsible for a Division. Within each Division, team leaders oversee attorneys at various stages of their careers. Attorneys are assisted by a large support staff that includes office and budget administrators, executive assistants, paralegals, librarians, records analysts, and computer specialists.

### **Career Development and Training**

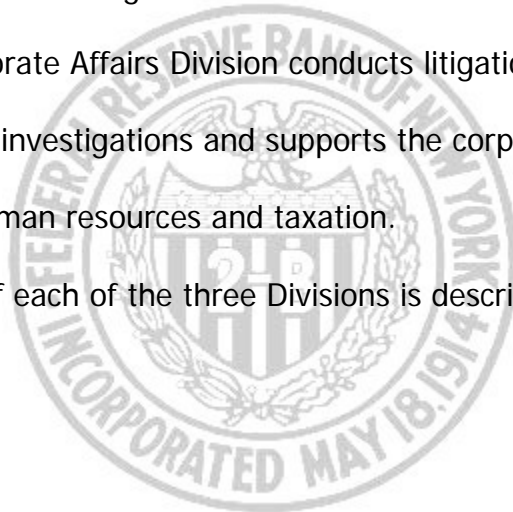
Attorneys are required to continue their education via continuing legal education, mandated by New York State law. Attorneys are also encouraged to supplement their continuing education requirements throughout their careers at the Bank through professional conferences and seminars. The Bank also offers a comprehensive tuition reimbursement program.

### **Legal Practice**

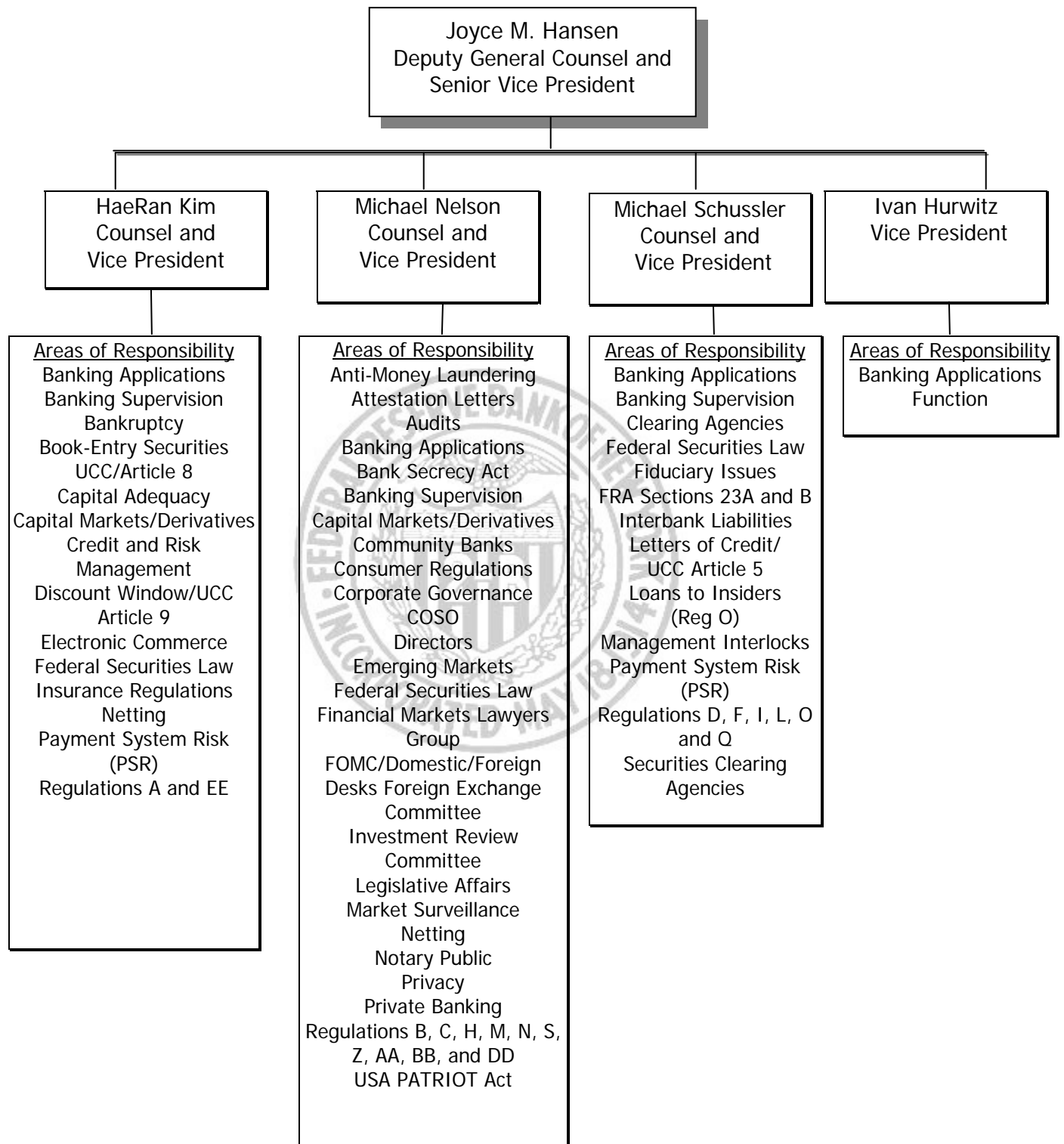
While the Legal Function serves as a complete legal resource for its clients, the daily practice of each of its three Divisions is distinct. The Bank Supervision and Markets Division provides legal support in the areas of bank and bank holding

company regulation and supervision, capital markets, and the developing law of domestic and international payments. Due to a recent organizational restructuring, the senior officer of the Bank Supervision and Markets Division now also has management responsibilities over the newly established Bank Applications Function, previously structured under the Bank Supervision Group. The Financial Services and Automation Division provides legal support for the Bank in its role as provider of payment services, fiscal agent of the U.S. Treasury, and correspondent for foreign central banks, foreign governments, and international organizations. The Enforcement, Litigation, Protection, Investigations, and Corporate Affairs Division conducts litigation and regulatory enforcement actions and investigations and supports the corporate activities of the Bank in areas such as human resources and taxation.

The work of each of the three Divisions is described more fully in the following pages.



## Bank Supervision and Markets Division



**Capital Markets**

The Bank follows developments in the domestic and international capital markets. Lawyers are exposed to newly developed financial techniques and assist in evaluating the impact of these new instruments and developing policy guidance related to those developments. In this regard, the Bank's lawyers work with domestic and foreign banks, broker/dealers, and financial futures regulators.

The Government securities market is a critical tool for implementation of monetary policy. At the direction of the Federal Open Market Committee ("FOMC"), the Bank uses trades with major securities dealers to influence the level of reserves available to the banking system. Attorneys opine on issues relating to the management of the System Open Market Account through which these trades are made. Attorneys participate in the policy development related to new types of FOMC investments and tools in response to financial market developments.

Lawyers in the Function also have an active role in general matters affecting the operation of the foreign exchange market, including drafting the model master foreign exchange contracts and a model foreign exchange netting agreement, and proposing changes in the regulatory structure of the over-the-counter market for forwards, futures, and options in foreign exchange.

**Regulation of Banks and Bank Holding Companies**

All major U.S. banks are controlled by holding companies (domestic or foreign). In addition to bank subsidiaries, these holding companies typically own subsidiaries that are engaged in a variety of nonbanking activities such as brokering

and dealing in securities, brokering futures, merchant banking, insurance, and leasing personal and real property. The Bank Holding Company Act vests supervision and regulation of bank holding companies and of their nonbanking subsidiaries in the Federal Reserve System. The Bank participates in the supervision and regulation of the worldwide activities of domestic bank holding companies headquartered in the Second Federal Reserve District (New York and parts of New Jersey and Connecticut). Because New York is this country's premier financial center, a large number of the world's important financial institutions are either headquartered or present in New York. Accordingly, the Bank has a significant role in developing U.S. supervisory and regulatory policy for banking organizations.

The legal issues that arise in this area are at the center of the current debate on the proper role of the various types of financial institutions that operate in the United States and on the consolidation of banks, insurance companies, and securities firms. A variety of issues are reviewed concerning the shifting lines that separate the banking business from the securities, insurance, and real estate businesses.

### **International Banking Regulation**

The Federal Reserve regulates the activities of foreign branches of U.S. banks and U.S. offices of international banking organizations. Bank lawyers have considered the kinds of investments that U.S. banks are permitted to make when converting foreign government debt into equity investments. The Legal Function plays a major role in the periodic revisions of international banking regulations.

The Bank's regulation of the domestic activities of foreign banks that have offices in the Second District relates to the establishment, examination, and supervision of foreign bank operations in the United States whether conducted through branches, agencies, or representative offices.

### **Other Regulations**

Bank lawyers work with reserve requirements (the amount of money a bank must maintain on deposit with a Federal Reserve Bank), margin regulations (credit that may be extended to purchasers of registered securities), consumer regulations (Truth-in-Lending, Truth-in-Savings, Electronic Fund Transfers, Equal Credit Opportunity, Community Reinvestment), and regulations governing financial transactions between a bank and insiders or affiliated entities. The Bank has also been involved in the development of risk-based capital guidelines that have been negotiated with regulators worldwide.

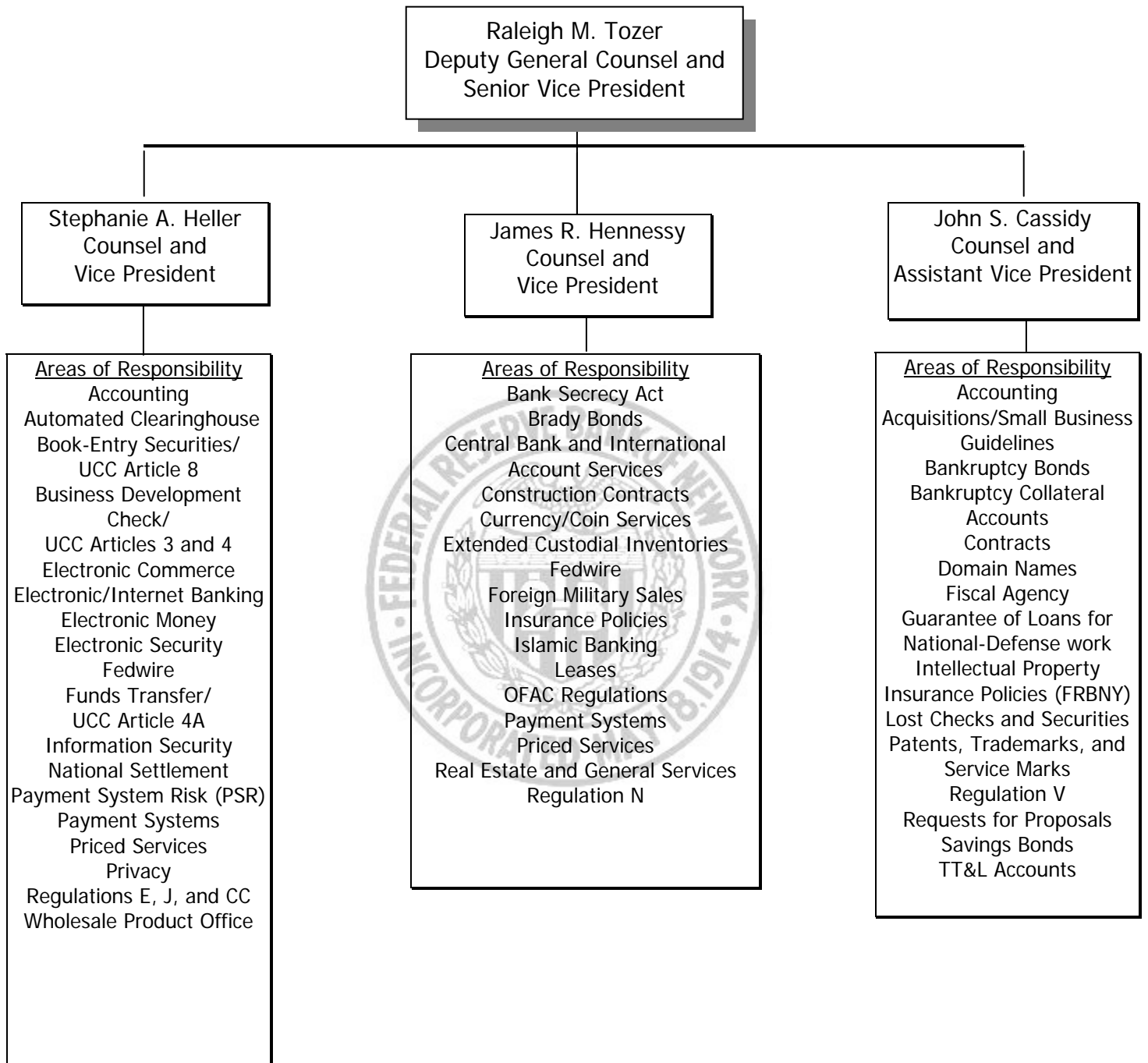
### **Discount Window**

The Discount Window is the Bank's lending facility, which generally provides short-term (usually overnight) financing to banks and other depository institutions. As the lender of last resort, the Reserve Banks provide an important measure of stability to the banking system. Advances made at the Discount Window may assist banks in meeting unanticipated shortfalls (such as the \$23 billion overnight advance to a bank that had computer problems and could not process electronic payments) and can prevent or ease problem bank situations. The loans are secured,

raising a host of interesting legal questions under laws governing bankruptcy, insolvency, and secured transactions.



## Financial Services and Automation Division



### **Payments Mechanism**

The Bank is a vital component of the Federal Reserve System for handling the Nation's enormous volume of payments. Electronic transfers of funds and book-entry securities across the Bank's books now routinely exceed \$4 trillion each day. The Bank also manages check and automated clearinghouse payments, a same-day net settlement service, and the distribution of currency and coin. As a result, Bank lawyers must regularly deal with questions arising under Articles 3, 4, 4A, and 8 of the Uniform Commercial Code, the Federal Reserve Board's Regulations CC, E and J, and a variety of other governing authorities.

Our attorneys have assisted in developing the law governing the payments mechanism, particularly in efforts to adapt payments law to the electronic age, such as the Uniform Electronic Transactions Act. One senior member of the Department served on the drafting committee that developed Article 4A of the Uniform Commercial Code. Other members of the Function have played a vital role in the drafting and implementation of legislation modernizing the check clearing process. The Function seeks international cooperation through its contacts with foreign central banks and through its participation in initiatives by a variety of international organizations.

### **International Distribution of U.S. Currency**

There is approximately \$783 billion in U.S. currency in circulation. Two thirds of this currency circulates outside the United States and is distributed through foreign central banks and a system of international currency exchanges operated by the

Bank. The Bank's attorneys play a vital role in the operation of this international distribution system.

### **Government Securities Market**

The Government securities market is a critical tool for implementing monetary policy and financing the Federal debt. The Bank acts as fiscal agent for the U.S. Treasury and numerous Federal agencies and international organizations such as the World Bank. As fiscal agent, the Bank handles the development, issuance, transfer, and payment of debt securities. As the Government's financing needs have grown, the types of securities and related legal issues have become more complex. The Legal Function has participated extensively in the creation of instruments designed to tap new capital sources for the public sector. Those instruments include U.S. Treasury and Federal National Mortgage Association STRIPS, Federal agency foreign-targeted securities, and global obligations for the World Bank.

Most of the debt handled by the Federal Reserve System is issued and transferred exclusively in electronic (book-entry) form. As currently structured, the system raises interesting questions regarding the appropriate roles for Federal and State law. Our attorneys have been instrumental in developing the legal framework through which the book-entry system operates dealing with issues involved in the implementation of the revised Article 8 of the Uniform Commercial Code.

### **Foreign Accounts**

The Bank maintains deposit and custody account relationships with nearly 175 foreign governments, central banks, monetary authorities, and international

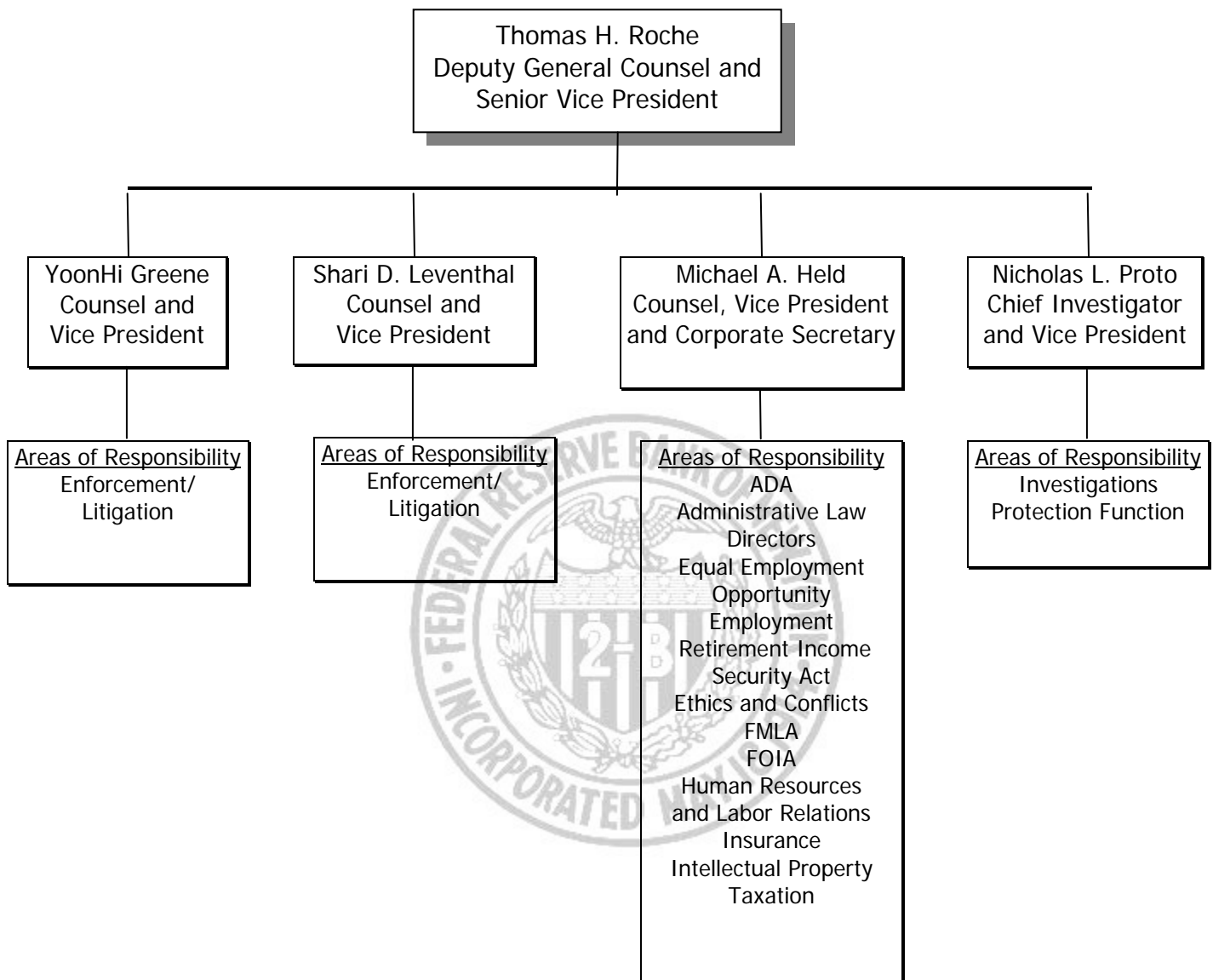
financial organizations such as the International Monetary Fund. The Bank maintains over \$2 trillion in assets pursuant to these account relationships and the Function provides legal support for transactions related to these assets, especially investments, bailouts, and debt restructurings. In addition, the Bank undertakes foreign exchange transactions to implement foreign exchange rate policy. For purposes of the assessment of customs duties, exchange rates for certain currencies are certified to the Treasury Group.

In its capacity as fiscal agent of the U.S. Treasury, the Bank's attorneys have important responsibilities with respect to special purpose international Treasury transactions and the interpretation and enforcement of blocking orders associated with international sanctions. Pursuant to their responsibilities, the Bank's attorneys have played important roles in numerous bailouts and debt restructurings in which the U.S. Treasury participated; the establishment and operation of international funds; the consolidation and distribution of assets; and the compensation transactions for errant U.S. military operations.

### **Contracts**

The Bank's attorneys and contract specialists perform contract negotiation, review, drafting, execution, and tracking services for tens of millions of dollars of Bank acquisitions of goods, services, and real estate dealings.

Enforcement, Litigation, Protection, Investigations, and Corporate Affairs



**Regulatory Enforcement and Investigations**

The regulatory enforcement work represents a unique aspect of the Bank's legal practice. Our lawyers conduct investigations into possible violations of banking laws and regulations by financial institutions and affiliated parties subject to the jurisdiction of the Federal Reserve System. Investigations are often conducted in partnership with other regulatory and law enforcement agencies, both in the United States and abroad. Our lawyers also prosecute their cases by preparing and bringing formal and informal enforcement actions against those financial institutions and their employees. The Division has also been given the responsibility for conducting investigations internal to the Bank.

The Division attorneys and investigators also monitor suspicious activity reports filed by banks that the New York Fed regulates and participate in investigations that may be initiated in response to criminals, especially cyber criminals, who invoke the name of the Federal Reserve to deceive the public.

In one common scheme, scam artists claim to be Federal Reserve personnel seeking "account" information from victims in order to obtain personal information to facilitate identity theft and unauthorized debits from their accounts. Criminals may request that potential victims forward certain personal information at fictitiously created web sites attempting to impersonate the Federal Reserve.

In other instances, fraudulent investment "programs" are presented as legitimate investment vehicles being offered by "invitation only" by the "U.S. Federal Reserve Bank". These "high yield" investment programs or "capital enhancement programs"

purport to be highly secretive and very lucrative involving investments in various financial instruments, such as medium term notes, standby letters of credit and "prime bank" guarantees. Fictitious documents are often used to convince targets that the programs are legitimate and that in order to participate they must provide the scam artist with verification of large (usually multi-million dollar) deposits in a personal bank account, in addition to personal information. Scam artists provide worthless "guarantees" that the money will remain in the target's account, under his or her sole control, throughout the term of the program even though the funds are actually siphoned for illicit purposes.

### **Litigation**

The litigation practice is extremely varied; its core is providing representation in connection with the Bank's day-to-day operations. While the Bank is not litigious, a certain number of disputes with vendors, counterparties, and employees are inevitable. When a dispute occurs, the Bank's litigators handle it.

In addition to representing the Bank in routine commercial, labor, and banking law matters, our lawyers get involved in litigation peculiar to a central bank. We are also periodically involved in amicus work related to banking issues in which the Federal Reserve System has a particular interest. The distinguishing factor in connection with our litigation practice is that our lawyers handle the litigation "in house".

**Corporate Counsel**

Bank attorneys provide advice regarding personnel policies, employee benefits (including tax issues), corporate governance, ethical matters, conflicts of interest, and other employment law related issues.

