THE WALL STREET JOURNAL.
WSJ.com

MARKETS | APRIL 11, 2013, 7:00 P.M. ET

Wall Street to Revise Note Disclosures

By TELIS AMOS and AARON LUCHETTI

Wall Street banks selling structured notes, debt-related investments that often carry a higher interest rate than other products, have agreed to make changes in their offering prospectuses after the Securities and Exchange Commission questioned some of their disclosures.

The changes come out of regulators' review of the banks' structured notes, which are typically sold as bonds with a derivative component that links them to changes in assets such as stocks, commodities or currencies. In 2011, the SEC and the Financial Industry Regulatory Authority issued an alert, warning that such notes, despite offering some protection of principal, "are not risk-free."

Issuance of the notes has boomed in recent years, with some banks issuing more than $10 billion of the debt.

At least seven banks received letters in April 2012 from the SEC's Division of Corporate Finance, which asked for additional information about how the notes are priced, traded and named. The SEC asked the banks to revise their offering documents to include information about the risks that investors could lose their principal.

Following the banks' responses, the SEC in February asked them to comply with a series of new guidelines, including adding risk factors such as the possibility that the notes may be worth less in the secondary market than what they were originally priced at, and the extent to which investors are exposed to the bank's own creditworthiness.

The SEC's letters and the banks' responses were disclosed this week. The banks that received letters included Bank of America Corp., BAC_-0.82% BarclaysBARC.LN_-1.17% PLC, Credit Suisse Group AG, CSGN.VX_+0.42% Goldman Sachs Group Inc., GS_+0.03% J.P. Morgan Chase JPM_-0.61% & Co. and Morgan Stanley MS_-2.06% .

In letters to the SEC, the banks said they were working to comply with the guidance, and in some cases had already begun.

Goldman Sachs said in a response to the SEC last year that it would "begin disclosing the difference between the public offering price and our estimated value of the note."

A spokeswoman for Goldman said: "We think transparency is good for the industry and good for investors."

Many banks are expected to update their disclosure on the structured notes in the next two to three months, according to one person familiar with the situation.

Earlier this week, Richard Ketchum, chairman of Finra, said in a speech at the National Compliance Outreach Program for Broker-Dealers in Washington, that "we continue to see problems with suitability and supervisory violations" in the sale of complex products, including structured notes.

"Though firms may market these products to retail customers based on attractive initial yields…they often have cash-flow characteristics and risk-adjusted rates of return that are uncertain or hard to estimate," Mr. Ketchum said.

—Liz Moyer contributed to this article.

A version of this article appeared April 12, 2013, on page C3 in the U.S. edition of The Wall Street Journal, with the headline: Disclosures Are Revised For Structured Notes.