WE THINK of ourselves as being in the conundrum resolution business. Over the last couple of years, we have worked closely with hedge fund providers to evaluate and structure appropriate platforms and vehicles to be used in connection with the issuance of principal-protected bank owned life insurance ("BOLI") policies. BOLI is a single premium variable life insurance contract that, if appropriately structured, may provide tax-advantaged returns to banks. In particular, premiums received on variable life insurance contracts may be invested on a tax-deferred basis if the insurance contracts comply with special federal income tax rules. In order to qualify, the investment must be "adequately diversified" within the meaning of the federal tax laws and the contract owner generally must not have direct or indirect control over the investment or have other indicia of ownership in the investment. Hedge fund providers seeking this class of investors structure their funds in a manner to comply with these tax rules.

In addition to corporate, securities and tax advice, BOLI transactions involved close collaboration with our bank regulatory lawyers and input from the Office of the Comptroller of the Currency to ensure that its supervisory standards are complied with since the policies will be held by regulated entities. For example, one structure we worked on required that the investment be principal protected to comply with certain bank regulatory criteria. The structure ultimately made it possible to implement an innovative strategy that involved investing in a fund that was diversified for federal income tax purposes and that also provided the requisite principal protection through the use of an embedded structured note and an external stable value wrap. One more conundrum went into the resolved bin.