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April 26, 2010

By Email and Federal Express

Thomas Krebs, Esq.
Assistant Director and Deputy General Counsel
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Suite 800
Washington, DC 20006-4614

Financial Crisis Inquiry Commission ("Commission") April 18, 2010 Letter

Dear Tom:

On behalf of JPMorgan Chase & Co., I write in response to the Commission's April 18, 2010 letter, which seeks responses to interrogatories. We provide below responses to Interrogatory Nos. 2 and 7. We reserve the right to supplement, amend, modify or correct the responses provided below, which are based on our current understanding of the matters described herein.

* * *

1. **Interrogatory 2:** Please describe in narrative Bear Stearns' use of and exposure to the commercial paper (CP) and Repurchase (Repo) markets to finance its business from 2005 through March 14, 2008. Please include a description of Bear Stearns' general practices (including but not limited to moving to shorter borrowing periods), and any changes in practices or philosophy relating to Bear Stearns' use of and

exposure to the repo and CP funding markets. In particular, please describe the shift in 2007 to rely less on the unsecured CP market and more on the secured repo market. Please include in your description the timing of this shift, the magnitude in dollars of this shift and the reasons for this shift.

Response: Beginning in late 2006, Bear Stearns made a deliberate decision to adopt a funding strategy aimed at reducing the firm's exposure to short-term unsecured funding, including CP, and further diversifying its funding sources. This initiative was undertaken as a measure of prudent liquidity risk management, in recognition of the confidence-sensitive nature of unsecured borrowings and based upon the wide-spread belief that secured funding based on high quality collateral was inherently less credit sensitive and therefore a more stable form of funding. Although secured funding was more expensive to the firm than unsecured funding at that time, Bear Stearns nonetheless made the change to what it considered a more conservative, sensible funding strategy.

As part of this effort, the firm increased its collateralized borrowing through repurchase agreements ("repos"), and also introduced substantially greater amounts of longer tenor funding into the repo and bank loan portions of its secured funding mix. Bear Stearns sought to match the tenor of its repo facilities with the perceived liquidity of the assets that the facilities were intended to finance—for example, short-term overnight repo was used for high quality liquid securities, while longer-term repo was used for less liquid assets. Bear Stearns made other improvements to its funding structure at this time as well, including significant expansion of the size and scope of its liquidity pool from approximately $2 billion to over $17 billion and increasing the target for net cash capital, which measures the surplus of longer-term funding sources against longer-term funding requirements.

By the end of fiscal year 2007, Bear Stearns had decreased significantly its unsecured funding to approximately $10 billion (about $4 billion of which was CP) from approximately $22 billion (about $20 billion of which was CP) at the end of fiscal year 2006. Although the market environment in 2007—particularly from August 2007 through the end of the year—made it difficult for Bear Stearns to maintain the tenor of its funding commitments, including commitments for secured funding such as repos, it continued aggressively to seek longer-term funding and was able to secure a material amount of such funding.

2. **Interrogatory 7:** Describe the Securities and Exchange Commission's oversight of Bear Stearns pursuant to the Consolidated Supervised Entities Program from 2004 through August 2007. In your description, please include a description of any SEC on-site inspections, documents or reports produced to the SEC CSE program, and the frequency and nature of SEC CSE personnel contact with Bear Stearns during the relevant time period.

<u>Response</u>: Bear Stearns formally applied to the Securities and Exchange Commission ("SEC") to qualify as a Consolidated Supervised Entity ("CSE") in May 2005. Subsequently, in late July 2005, the SEC began a formal, comprehensive examination of Bear Stearns' global activities in connection with that application, focusing broadly on the Company's accounting, corporate governance, liquidity and risk management controls. The CSE examination involved teams from multiple divisions of the SEC, including representatives from the Northeast Regional Office, the Office of Compliance Inspections and Examinations ("OCIE"), and the Division of Market Regulation (later renamed the Division of Trading and Markets ("TM")). From July 2005 through the end of October 2005, the SEC staff participated in meetings and presentations – both on-site at the Company and at the SEC's offices – with Bear Stearns personnel from various departments. OCIE focused primarily on a comprehensive accounting examination of Bear Stearns, while TM performed a more risk-based review. Both divisions were evidently satisfied with Bear Stearns' final CSE application, and the application was approved by the SEC effective December 1, 2005.

After Bear Stearns became a CSE, its regular examiners were TM staff. In the course of TM's supervision of Bear Stearns, Bear Stearns hosted TM for monthly in-person meetings in which Bear Stearns personnel would submit and present to TM a "Market and Credit Risk Overview," which included extensive quantitative detail on topics relating to risk management. The materials regularly incorporated, among other things, risk summaries segregated by trading desk, VaR and stress test reports, data on global credit and credit risk management, new product reviews, and any subjects for which TM specifically requested information beforehand. TM and Bear Stearns personnel would also frequently communicate during and after these meetings to address any of TM's questions and related information requests.

In addition to the monthly risk management-focused meetings, TM came to Bear Stearns' offices on a quarterly basis from April 2006 through January 2008 to discuss the Company's financial results and related matters. At these quarterly meetings, Bear Stearns personnel presented a "Price Verification Quarterly Update" to TM, in which they would report on a number of topics including, but not limited to, significant price adjustments for the quarter, changes to major pricing reserves, and price verification results. In addition to price verification, the meetings contained a detailed quarterly review of the financial results, business by business. These meetings also frequently generated follow-up discussion to respond to any questions from TM and provide additional information it requested about the firm's business. TM also met with members of Bear Stearns' Corporate Treasury group on a quarterly basis to discuss the firm's funding and liquidity.

In addition to the regularly scheduled reporting on the Company's risk management, financials, and liquidity, TM supervised Bear Stearns on a more informal basis as needed. Bear Stearns personnel had regular conversations with TM staff for the duration of Bear Stearns' involvement in the CSE program, and TM was given effectively unlimited access to Bear Stearns' executives and other key employees. The frequency of this informal contact varied depending on what was going on with the firm and the markets at a given time. For example, in August 2007, following a rating agency change in outlook on Bear Stearns from stable to negative, TM staff monitored Bear Stearns' liquidity through daily phone calls. From August 2007 until March 2008, the contact with TM was often daily or multiple times per day but at least weekly.

* * *

Pursuant to our conversation with you, we understand that this letter and the information contained herein will be maintained in strict confidence by the Commission and be used solely for purposes of the Commission's inquiry. Accordingly, this letter has been marked "Confidential Treatment Requested by JPMorgan," and JPMorgan is providing the information herein pursuant to this understanding.

The letter concerns customarily non-public, confidential, and privileged business, commercial, and/or personal information regarding JPMorgan, and/or its personnel, as well as those with which JPMorgan has done or is doing business. The Confidential Materials are thus not "agency records" within the meaning of the Freedom of Information Act, 5 U.S.C. § 552(b) ("FOIA"), and/or the Privacy Act of 1974, 5 U.S.C. § 552a ("Privacy Act"). Further, the Confidential Materials are exempt from disclosure under various provisions of FOIA; the Privacy Act; the Trade Secrets Act, 18 U.S.C. § 1905; and/or other applicable provisions of law, regulations, and statutes.

Any production of information herein that is subject to a claim of attorney-client privilege, attorney work product, or any other ground upon which production of such documents or information should not be made to the Commission, is inadvertent. JPMorgan requests that any such production in no way prejudice or otherwise constitute a waiver of, or estoppel as to, any claim of privilege, work product, or other ground for withholding production to which JPMorgan would otherwise be entitled. If a claim of inadvertent production is made with respect to information then in the custody of the Commission, JPMorgan requests that the Commission promptly return such information to JPMorgan and not use such information for any purpose.

If any person not a member of the Commission or its staff (including, without limitation, any government employee) should request an opportunity to inspect or copy the letter, or if you or any member of the Commission or its staff contemplates disclosure of the letter or its contents to any other person, JPMorgan requests that the Commission promptly notify Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, NY 10019 (attn: Brad S. Karp) and JPMorgan, 270 Park Avenue, New York, NY 10017 (attn: Stephen M. Cutler).

* * *

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Eric S. Goldstein

cc: Gary Cohen, Esq. (General Counsel)
Donna Norman, Esq. (Senior Counsel)