

JPMORGAN CHASE & CO.

Adam M. Gilbert
Managing Director

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel, Switzerland

baselcommittee@bis.org

JPMorgan Chase & Co. (JPMC) is pleased to provide comments on the documents: "Strengthening the resilience of the banking sector" and "International framework for liquidity risk measurement, standards and monitoring" (the proposals) recently issued by the Basel Committee on Banking Supervision (the Committee).

JPMC supports the Committee's objectives to strengthen global capital and liquidity standards. The proposals, if properly designed, would enhance key aspects of prudential regulatory policy. However, JPMC is concerned that the combined impact of the current proposals, if implemented as drafted, together with other regulatory reform efforts, are likely to force financial institutions to significantly reduce the availability of credit. The effect of this contraction in lending is likely to be compounded by materially higher interest rates due to increased pressure for term contractual funding and shrinking supply resulting from these and other regulatory initiatives. The cost of credit will rise for retail, wholesale and public sector customers. In addition, reduced returns to equity investors could make efforts to raise equity and debt to meet higher standards more difficult. The effect of the proposals would be to push financial activity to the unregulated sector, significantly decreasing transparency and increasing systemic risk.

Based on JPMC research, the impact of current proposals could result in a sharp drop in global banks' return on equity from 13.3% to 5.4% in 2011, affecting both wholesale and retail banks.¹ Under these conditions, it would be difficult to attract private capital, if necessary, to meet higher regulatory standards and to fund growth. To maintain the same level of profitability, pricing on products (retail banking, commercial banking and investment banking) would have to increase by 33%.²

The rising cost and decreased supply of financial services could have significant negative implications for the global economy. JPMC research estimates U.S. GDP declines \$30

¹ "Global Banks — Too Big to Fail? Running the Numbers", J.P.Morgan Global Research, February 17, 2010, p. 1.

billion for every \$100 billion reduction in bank lending.³ We expect that bank lending will decline by a multiple of \$100 billion with a concomitant effect on the economy. In regions outside the U.S., where bank lending accounts for a larger proportion of credit, the impact could be magnified. Lowering of GDP due to these and other effects will also have a significant impact on tax revenue. For these reasons, JPMC recommends that the Committee ensure that the official and private sectors study the potential impact of these proposals and make appropriate modifications.

JPMC recognizes that the key elements of the proposals as drafted, including numerical minimum standards, are not yet specified or may be revised after the initial calibration analysis of the Quantitative Impact Study (QIS). JPMC believes it is vital for the Committee to conduct extensive consultation on the subsequent detailed proposals before they are finalized, which may necessitate an additional QIS. Further consultation will be essential as it is difficult to assess the proposals without an indication of the standards against which that assessment should be made.

Due to the comprehensive nature of the proposals, the cost of imperfect design and calibration of the requirements is potentially very large. There are substantial interactions among the liquidity, leverage and capital requirements, as well as with evolving accounting standards and new regulatory changes, such as the July 2009 market risk rules. Even modest mis-calibration could produce outsized, unintended and undesirable consequences and severely diminish the ability of financial institutions to employ resources productively in providing credit to society while sustaining liquid markets.

Among the proposals JPMC finds most concerning are:

- The restrictive definition of liquid assets for the liquidity ratios;
- The assumptions regarding cash outflows for liquidity purposes;
- The inclusion of all off-balance sheet assets and commitments, including cancelable credit lines, with no netting in the calculation of the leverage ratio;
- The restrictive nature of Tier 1 capital other than common equity, which effectively exclude Mortgage Servicing Rights (MSRs) and Deferred Tax Assets (DTAs) from Tier 1 Common Equity;
- The recognition of unrealized losses related to available-for-sale (AFS) securities without consideration of banks' intent in holding these securities; and
- The inappropriate representation of risk in the approach outlined to incorporate market risk capital for Credit Valuation Adjustment (CVA).

More detailed comments on these and other aspects of the proposals follow.

² Ibid, p. 1.

³ "US: the paradox of bank lending," J.P.Morgan Global Research, December 18, 2009, p. 1.

Liquidity Proposals

General Comments

JPMC recommends that the Committee take an approach similar to the Advanced Internal Ratings Based (A-IRB) approach used to calculate Basel II minimum capital requirements. Through a Basel II-like supervisory review process to ensure adherence to foundational principles, firms could incorporate their own and industry experience in run-off assumptions, term funding factors and other key parameters. The resulting liquidity metrics would be a far more appropriate and accurate depiction of that firm's liquidity as a stand alone institution. This would effectively create a much more consistent application of the framework's principles across a broad range of institutions with varying business mix, tax, accounting and other jurisdictional or idiosyncratic differences. However, should the Committee decide to retain its current proposed approach, JPMC provides observations and recommendations on the prescribed factors below.

The proposals introduce two standard liquidity measures: a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR). The LCR measures the amount of high quality liquid assets a bank holds to offset an acute short-term (30-day) stress scenario. The NSFR measures the amount of longer term, stable sources of funding employed relative to the liquidity of the assets funded and the potential for calls of funding liquidity from off-balance sheet commitments and obligations over a one-year horizon.

JPMC agrees that the recent crisis demonstrates the importance of ensuring that internationally active banks are resilient to liquidity stresses. While JPMC agrees conceptually with many of the principles embodied in the proposal, the definitions and assumptions are too extreme and bear no resemblance to our actual experience through numerous stress events.

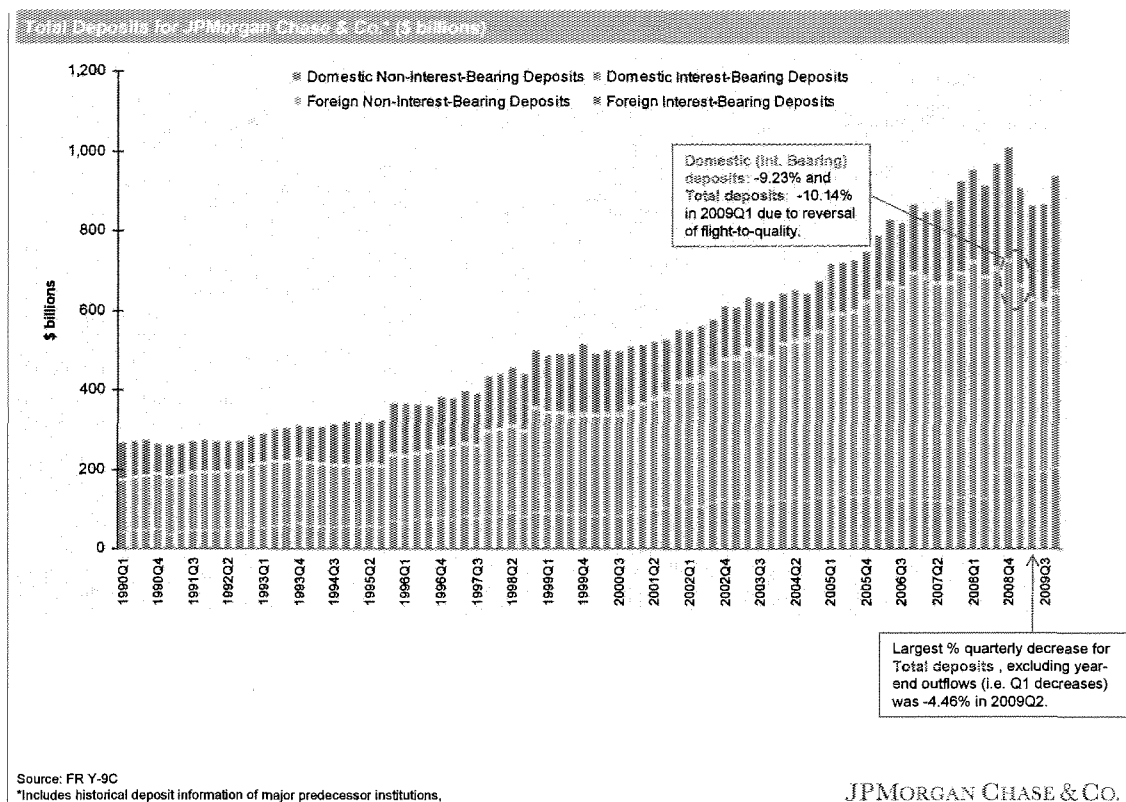
Key concerns related to the LCR include:

- Exclusion of other liquid assets, including unencumbered U.S. Agency and U.S. Agency Mortgage Backed Securities (MBS), from the definition of high quality liquid assets;
- Extreme deposit run-off assumptions such as 15% of non-core retail deposits and 75% to 100% of non-operational wholesale deposits;
- Exclusion of all sources of short-term secured funding with collateral other than government (or equivalent) securities; and
- Assumption of 100% draw on a significant portion of committed liquidity and credit facilities.

In addition, the term funding requirements of the NSFR are extreme, such as 100% for U.S. Agencies and U.S. Agency MBS and 50% for gold and equities.

JPMC believes that the approach taken by the Committee to define prescribed factors for assessing liquidity metrics is too rigid and does not adequately differentiate among firms with significantly different liquidity profiles. JPMC's deposit outflow experience (see chart below) during several periods of idiosyncratic and market stress (e.g., U.S. Savings and Loan crisis, Asian and Russian crises and Long Term Capital Management rescue) suggests that the characteristics of a large, diversified financial institution are significantly different than that of a less diverse institution. Differences in business strategy, liquidity and capital position will influence customer and market reaction to a stress event.

Total Deposits since 1990



JPMC recommends that the Committee broaden the eligibility of high quality liquid assets in the LCR to include a wider range of assets as liquid, with haircuts as appropriate. We also believe that deposit run-off and commitment draw assumptions should be revised to reflect more realistic conditions, based on empirical data.

The Committee does not appropriately recognize differences in the ability of a bank to convert financial assets to cash within 30 days (LCR) versus within one year (NSFR). Assets such as major market securities and many fixed-income securities that have realizable value over longer time horizons are not properly treated in the NSFR.

JPMC believes the following NSFR general assumptions should be revised:

- Asymmetrical assumptions made for draws on unused contingent credit and liquidity facilities versus the bank's assumed total inability to draw upon facilities in its favor; and
- The assumption that wholesale funding will not be renewed may be properly conservative over a short-term horizon, but is not plausible over a one-year horizon.

JPMC believes the standards should require appropriate liquidity resources for a solvent institution to withstand a substantial but plausible idiosyncratic shock and a modest systemic shock without central bank support. The critical role of central banks should not be ignored under a severe systemic risk scenario. The NSFR, in particular, is calculated under extreme scenario assumptions including a lack of foreign exchange markets and no secured-funding markets for assets other than those of the highest quality. JPMC disagrees with the exclusion of many central bank facilities, including those intended to mitigate the effects of system-wide stress. Perception of the ability to sell or pledge in return for cash (liquidity) is deeply shaped by central bank eligibility and support for such assets. As such, many of the assets accepted as collateral at the Discount Window should be included in the definition of available term funding with appropriate haircuts.

The liquidity proposals, as drafted, could produce a number of severe, undesirable outcomes which could be avoided under a more flexible approach, including:

- Increased concentration in the sources of bank liquidity due to the narrow definition of eligible assets. These effects of the liquidity requirements and leverage ratio could be dramatic. These effects require additional study and should be considered to properly evaluate the full impact.
- Repriced bank financing for corporate, financial and public sector commitments including, but not limited to, commercial paper backup lines, interbank lines and trade letters of credit.
- Crowding out of available credit to non-sovereign customers as banks add high quality liquid assets in the form of sovereign exposure, potentially shifting non-sovereign lending to less regulated entities.
- Narrowed investor base for bank paper which will limit capacity and drive pricing higher for customers.

More specific comments on various aspects of the liquidity proposal are noted below.

Specific Comments

Definition of Liquid Assets (Par. 26-40)

JPMC does not believe that the proposed definition of high quality liquid assets is inclusive enough to capture all relevant high quality liquid assets, and, as such, is

inconsistent with the experience of those firms that were well funded throughout the recent crisis. The high quality liquid asset definition, as written, only includes cash, central bank reserves and sovereigns that are assigned a 0% risk-weight under the Basel II standardized approach. This is inconsistent with other published regulatory pronouncements and commonly accepted definitions of liquid assets by central banks. Most concerning is the exclusion of U.S. Agency and U.S. Agency MBS from the definition of high quality liquid assets. Such a limited definition will require a shift in portfolio composition for the top financial institutions as many large banks manage the structural interest rate risk resident in their mortgage origination books by hedging with U.S. Agency MBS.

Section 820 of the Accounting Standards Codification establishes a fair value hierarchy that classifies assets based on the market transparency of the asset's pricing. Assets that qualify as Level 1 assets have unadjusted quoted prices in active markets that the firm can access. An active market is defined as one in which an accurate daily price can be obtained from multiple reliable sources and a fair value measurement (exit price) may be arrived at without adjustment or the use of a model. Making the definition of a high quality liquid asset consistent with the definition of a Level 1 instrument would expand the pool of securities considered high quality liquid assets (such as U.S. Agencies, U.S. Agency MBS and exchange-traded equity securities) while maintaining the principle of promoting the short-term resiliency of an institution's liquidity risk profile. Where appropriate, haircuts could be applied, perhaps using existing central bank facility guidelines.

Maintaining the proposed definition of liquid assets will require financial institutions to shift their portfolio composition from consumer, mortgage and corporate assets into cash and sovereigns. This will create a large reduction in credit availability, loss of liquidity and an increase in cost to corporations, public sector entities and consumers. The 19 largest U.S. banks alone (those who participated in the Supervisory Capital Assessment Program) hold \$1 trillion of U.S. Agency and U.S. Agency MBS on their balance sheets. The reduction or portfolio shift across these banks would have a massive adverse effect on MBS-related yields, mortgage availability and mortgage pricing to consumers.

Deposit Outflows (Par. 41-44)

JPMC recognizes the regulatory intent to provide a higher buffer against idiosyncratic risk. However, the excessive deposit run-off assumptions imply worst case outcomes across all products, markets and individual banks at the same time. No empirical basis is provided for these assumptions. Many of the proposed outflow factors are multiples of JPMC's experience (see previous chart) during significant idiosyncratic and market stress events. The use of such extreme assumptions will require banks to radically change their balance sheets by shifting away from traditional credit and liquidity products. Banks will either have to shrink their balance sheets or replace deposit funding with expensive long-term funding, inevitably increasing the cost of credit and decreasing the supply of available credit for businesses and consumers.

The LCR assumes that every bank in a system will lose deposits and every bank will be drawn on at the same time. However, as noted by the Senior Supervisors Group in a recent paper, some banks will benefit from such flows.⁴ During the recent market crisis, JPMC and several of its peers experienced significant deposit inflows as money remained within the system.

JPMC suggests that the Committee undertake a study to better calibrate deposit run-off assumptions using empirical data that includes the experiences during the recent financial crisis. Customers had faith in the deposit insurance provided by the Federal Deposit Insurance Corporation (FDIC), which is funded by the banks themselves, and these customers behaved accordingly. The FDIC system works in the U.S. as an effective confidence builder. Deposits covered by such a robust deposit scheme should receive a 0% run-off factor.

Loss of Funding on Asset-Backed Commercial Paper (ABCP), Conduits, Securities Investment Vehicles and Other Such Financing Facilities (Par. 64, 66 and 69)

A bank that administers an ABCP conduit will typically provide a number of liquidity and credit enhancement facilities, which may under certain circumstances require the bank to repay the commercial paper (CP) issued by the conduit. However, collectively the bank will never have to repay the CP more than once. The committee's proposal would require a bank to hold liquid reserves against a typical ABCP program structure that are a multiple of the legal maximum it could ever be called upon to fund / purchase. For example, the proposal requires a bank that administers an ABCP conduit to hold 100% liquid assets against each of: i) the cash outflow (CP maturities of less than 30 days) of the ABCP; ii) committed liquidity facilities; iii) letters of credit (which are often used as program-wide credit enhancements); iv) uncommitted liquidity facilities; v) CP purchases by a bank; and vi) CP repurchases by an affiliated dealer with maturities greater than 30 days.

At a minimum, JPMC believes that liquidity requirements for an ABCP conduit program should be set not to exceed the legal maximum a bank could be called upon to fund / purchase. In establishing liquidity requirements JPMC urges the Committee to take a holistic approach to ABCP conduit programs that considers and recognizes the overlapping nature of various commitments and enhancements, as well as the liquidity performance of these programs during times of financial stress.

Using Moody's ABCP Query tool, during the third quarter of 2008, the most stressed liquidity period for the conduit industry, the increase in customer requests for ABCP funding relative to bank commitments in September was only 1.0%. In October 2008, usage of conduit facilities only increased 2.9%. Based on industry data, it appears highly

⁴ "Risk Management Lessons from the Global Banking Crisis of 2008", Senior Supervisors Group, October 21, 2009, p.9.

unlikely and overly conservative to assume that all customers would completely draw down on the unused portion of their liquidity facilities. JPMC believes that the requirement to hold liquid assets against 100% of committed liquidity facilities is excessive and that a more appropriate empirically based coverage percentage should be applied to ABCP conduit exposures.

In addition, we believe the Committee should consider for ABCP conduits the interaction between the NSFR calculation and the LCR, as maintaining liquidity under the LCR for the ABCP conduit CP effectively already covers the underlying assets captured by the NSFR. JPMC recommends that the Committee address this redundancy by setting the required stable funding (RSF) factor for ABCP conduit assets and undrawn committed and uncommitted LOC facilities to 0%.

Undrawn Commitments Cash Outflow (Par. 66)

JPMC agrees with the Committee's proposal to include a portion of contractually irrevocable commitments in the calculation of potential cash outflows, as some commitments may be utilized to a higher degree in times of stress. JPMC believes, however, that assigning a 100% draw to all facilities issued to financial, sovereign and public sector institutions and all liquidity facilities is excessive and will have a negative impact on JPMC's ability to support certain sectors of its client base. This is likely to increase borrowing costs for certain public sector clients and severely contract the availability of credit support provided by banks to short-term variable rate debt issued by these entities. This would force these public sector clients to issue a higher proportion of their debt on a more costly long-term fixed rate basis.

In reviewing utilization rates over the past two years, JPMC notes that its overall 30-day change in utilization rate did not exceed 2%. When broken down by type, the increase in utilization on credit and liquidity facility commitments to non-financial corporate clients was consistently between 1% and 3%. The increase in utilization to financial and sovereign clients spiked at 6% to 9% with an average monthly rate below 4%. JPMC reiterates that the Committee should undertake a study and base the outflow factors on empirical data. JPMC's experience suggests that draw downs on committed credit and liquidity facilities to retail and non-financial corporate customers is more appropriately set at or below 5% and draw downs to other customers to no more than 10%. Draw downs on committed credit facilities to public sector entities are very rare, averaging historically below 0.5%.

Secured Funding Run-Off (Par. 57-65)

In the proposal, the only short-term (30 day maturity or less) secured funding transactions which qualify for a 0% run-off factor are those involving government debt issued in domestic currencies or marketable securities representing claims on or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks. All other forms of short-term secured funding transactions are assigned a 100% run-off

factor. We believe this should be modified so that other forms of secured funding, with appropriate haircuts, will be supported, not discouraged.

NSFR Definition (Par. 78-91)

JPMC agrees that the concept of an NSFR may encourage firms to seek more reliance on medium and long-term funding. However, the NSFR does not appropriately recognize mitigating actions that could be taken by a bank to deleverage its balance sheet by selling assets and extending less credit within the one-year time horizon. In addition, the RSF factors assigned to certain asset types are excessively conservative, exceeding many of those experienced during the recent severe liquidity stress events. While the NSFR could be a simple and useful measurement, the severity of these assumptions applied to all banks creates a high risk that this standard will constrain the banking sector from fulfilling its traditional role in financial intermediation and maturity transformation.

RSF Definition (Par. 87-91)

The proposal includes extreme assumptions for the RSF factors compared to actual experience, even during the financial crisis. JPMC again suggests that the Committee undertake a study to provide an empirically based set of factors. Some specific observations are noted below. U.S. Agency and U.S. Agency MBS require 100% long-term funding while U.S. Agencies trade similar to sovereigns, and some U.S. Agency and U.S. Agency MBS attract risk weights similar to sovereigns. The illiquid classification assigned to these assets takes a very short-term perspective and does not reflect the ability of a firm to sell these assets well within the one-year time horizon.

Under the proposal gold positions are assigned an RSF of 50%. Gold is one of the most liquid assets in the world and can be easily posted as collateral with a typical haircut of 2%. Additionally, gold is countercyclical (in a stressed environment the price typically rises) and is very easy to sell, proving effective as a high quality liquid asset during a systemic crisis. Gold should be treated no worse than the sovereign and supranational category which carries an RSF factor of 5%.

The proposal assigns a 50% RSF factor to equity positions. The equity markets of advanced economies are liquid and transparent. Secured financing would likely be available with appropriate haircuts and there is ample opportunity to sell these types of liquid and transparently priced securities. The typical contractual repo haircut for major index equities is 5% to 8% and has only risen to 10% in times of stress.

The proposal indicates that corporate bonds should be given an RSF of 50% if rated AA- to A- and an RSF of 100% if rated below A-. JPMC believes that the proposed RSF factors are too high in relation to empirical stressed market liquidity, and that significant liquidity exists in times of stress even for non-investment grade bonds. We believe the Committee should implement more granular RFS factors that are empirically based and reflect the historical price volatility of the associated ratings.

Available Unencumbered Assets (Par. 117-121)

The proposal states that liquid assets must be unencumbered and includes in the definition the requirement that positions not be held as a hedge for any other exposure. Hedges are frequently put in place against pools of assets. Therefore identification of individual hedges may not be feasible. Furthermore, whether or not an asset is used as a hedge bears no effect on its liquidity in the market. If such an asset is sold, compensating management actions may be taken to manage risk. JPMC believes that the Committee should drop this requirement.

Capital Proposals

Quality and Structure of Capital (Par. 60-90)

JPMC supports the objective of the Committee to strengthen the quality and consistency of all components of the regulatory capital base. JPMC fully agrees that common equity is the highest quality component of capital based on the characteristics identified by the Committee. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments, and has no maturity date. Common equity is the primary form of funding which helps ensure that banks remain solvent.

The Committee has observed that in some jurisdictions under current rules banks can hold as little as 2% in common equity before regulatory adjustments. As part of regulatory minimum standards, JPMC supports the introduction of an explicit international standard in the form of a Tier 1 Common Equity Ratio and encourages the Committee to consider establishing minimum and well-capitalized standards. To the extent that additional instruments are loss absorbing on a going-concern basis, the Committee should include those instruments in its definition of Tier 1 Capital.

Grandfathering Provisions (Par. 84)

JPMC supports the grandfathering of existing regulatory capital instruments issued prior to the finalization of the rule. Such instruments should be included in the relevant category of capital for the shorter of their maturity or 10 years for longer dated instruments.

Criteria for Additional Tier 1 Capital (Par. 88-89)

JPMC is concerned that certain criteria for inclusion in Additional Tier 1 Capital⁵ go beyond the principle of loss absorbency. Instruments should be included in Additional Tier 1 Capital under a principles-based approach. This will provide a degree of flexibility for a bank's management to adjust its capital structure while maintaining high quality capital and be able to meet applicable national solvency requirements. The following criteria for Additional Tier 1 Capital should be reevaluated by the Committee:

- Permanence;
- No expectation that a call will be exercised;
- Non-cumulative coupons (full discretion to cancel payments); and
- Conversion trigger or principal write-down mechanism for liabilities.

⁵ As defined in the proposal, *Tier 1 Additional Going Concern Capital* allows instruments other than common shares to be included in Tier 1 capital. *Any instrument included must at least: help avoid payment default through payments being discretionary; help avoid balance sheet insolvency by the instrument not contributing to liabilities exceeding assets if such a balance sheet test forms part of applicable national insolvency law; and be able to bear losses while the firm remains a going concern.*

JPMC believes that these requirements for Tier 1 instruments are unnecessarily restrictive and should be modified or clarified to permit eligibility of instruments such as trust preferred and qualifying mandatory convertible preferred securities currently issued in the U.S., as follows:

- Instruments with a maturity date and long life (at least 20 years) should be included in Tier 1. During the financial crisis there was little distinction between a perpetual instrument and an instrument with a long remaining life approaching perpetuity in providing capital support.
- Any change in the tax deductibility of a security during its life should not, in and of itself, be construed as conferring an incentive to redeem. For example, convertible securities that mandatorily convert into common or preferred equity at the earlier of a capital ratio breach or a set time period are typically tax deductible prior to such conversion and not afterwards. In such cases, the resulting increase in after tax costs is unavoidable.
- The balance sheet test of liabilities exceeding assets is not applicable under U.S. solvency law. Consequently, U.S. hybrids classified as liabilities do not have write-down features or conversion features to avoid insolvency. Conversion to common shares based on an objective, pre-specified trigger point should not be a stand-alone requirement (as proposed) for Tier 1 inclusion in the U.S. or other jurisdictions with similar solvency laws.
- Cumulative instruments should be included in Tier 1 where payments can be deferred to prevent insolvency. Since in the U.S. the solvency test is the ability to meet payments as they fall due, a long dated deferrable instrument allows a firm to operate as a going concern in times of stress.

JPMC agrees in principle with a reasonable limitation on hybrid capital instruments. The Tier 1 Capital standard must be calibrated to consider capacity for other forms of Tier 1 Capital beyond common equity. Domestic and international rules should reflect the same standards and care should be taken to ensure there are no conflicts between the two. For example, U.S. regulations scheduled to take effect on March 31, 2011 places a 15% limit on hybrid securities for internationally active bank holding companies. JPMC believes that international standards should also provide for additional capacity for other Tier 1 Capital instruments, including mandatorily convertible securities and preferred shares.

Capital Deductions (Par. 93-108)

JPMC understands the motivation to be conservative and apply virtually all deductions directly to common equity. It is inconsistent that the Committee recognizes other forms of Tier 1 capital yet assigns deductions only to Tier 1 Common Equity. JPMC believes deductions should be assigned proportionately across both common equity and Additional Tier 1 Capital. While JPMC disagrees with full exclusion of intangibles from Tier 1 Common Equity, we recognize the need for appropriate limits on the amount of intangibles included in Tier 1 Common Equity.

Deductions for Unrealized Gains and Losses (Par. 95)

JPMC supports retaining current adjustments to Accumulated Other Comprehensive Income (AOCI) under U.S. regulations, including gains and losses on AFS securities. The intent of this adjustment is to eliminate unnecessary volatility in capital requirements, which is appropriate, given the nature of these portfolios. Existing U.S. regulation properly adjusts for AOCI to prevent changes in the market value of particular asset classes from having a temporary and destabilizing impact on the level of capital required. Accounting adjustments for AOCI apply “other-than-temporary impairment” standards to distinguish between temporary changes and the portion of unrealized losses in AFS and held-to-maturity (HTM) securities that will be subsequently realized through earnings. In situations where the ultimate disposition of a security is expected to generate a loss, even if there is no immediate intent to sell, these accounting standards would require recognition of a loss in the current period. One undesirable consequence of implementing the proposal would be to incent banks to reclassify AFS securities as HTM to conserve capital. This, in turn, would limit banks’ flexibility and would reduce the supply of liquid assets due to accounting limitations on sale of HTM securities. The Financial Accounting Standards Board (FASB) is expected to propose changes to the accounting for financial instruments that would require more held for investment activities (for example, most loan assets) to be recorded at fair value through AOCI, resulting in an increase in the volatility of amounts recorded in AOCI. These expected proposed changes would significantly increase the importance of retaining the current adjustment for regulatory capital.

Deductions for Goodwill and Other Intangibles (Par. 97)

The proposal requires a full deduction from common equity of the balance sheet value of the MSR assets. This is six times the regulatory capital currently required by U.S. regulators - an assignment of capital that is excessive and is inconsistent with underlying MSR risk and the treatment of the assets in the market. Mortgage lenders in the U.S. will be significantly, adversely affected, as they have a large stake in the MSR market. JPMC, for example, held over \$15 billion of MSR assets as of December 31, 2009. JPMC supports a capital requirement similar to the current U.S. rules, specifically a 10% deduction and a 100% risk weight on the remaining 90% of the asset for the following reasons:

- MSRs are routinely valued based on cash flow analysis with the potential change in value hedged;
- MSRs trade in the open market and can be readily sold. Even during the stressed environment of the past two years, distressed sales of servicing rights have generally recovered at least 60% of their book value;
- If mortgage companies cannot recognize MSR value in pricing to the borrower, mortgage rates would increase; and

- Given the substantial increase in capital requirements, banks would be less willing to purchase MSRs and the secondary market for servicing could become less liquid. Replacement servicing may become more difficult to obtain in the event the original servicer fails to provide adequate service. This, in turn, could further damage the securitization market as investors would have less confidence in receiving timely and accurate payments.

Deductions for Deferred Tax Assets (Par. 98)

Under the proposal, deferred tax assets net of deferred tax liabilities, which rely on future profitability to be realized, would be fully deducted from Tier 1 Common Equity. JPMC believes that DTAs have loss absorbing benefit on a going concern basis where there is a reasonable expectation of near-term profitability, such as when a healthy banking institution acquires a troubled institution. The proposal penalizes such transactions by requiring additional capital to cover the full DTA deduction, which, in turn, ultimately raises resolution costs.

An important feature of DTAs is the timing discrepancy between when provisions are taken for prudential purposes and when they are recognized for tax purposes. The proposed deduction of DTAs under such circumstances will create disincentives to the expanded use of provisioning that the Committee advocates. Under current accounting for provisions, despite such disincentives, higher DTA capital deductions resulting from higher provisioning in a downturn will increase the procyclicality of capital requirements.

Current U.S. deductions for DTAs are generally limited to the lesser of (1) the amount of DTA dependent on future taxable income expected to be realized within twelve months or (2) 10% of Tier 1 capital prior to certain deductions, including intangibles and DTAs. JPMC supports an international treatment consistent with the current U.S. rule, as it recognizes some ability of DTAs to be realized while limiting their full inclusion in capital adequacy measurement.

JPMC supports the related proposal to apply sovereign risk weight calculations to that portion of DTAs that is equivalent to receivables or tax prepayments. This improvement properly aligns the treatment of this asset with the risk sensitive A-IRB framework.

Deductions for Shortfalls of Provisions to Expected Losses (Par. 102)

JPMC disagrees with the proposal that shortfall of reserves from expected loss should be deducted solely from Tier 1, given the resulting asymmetric treatment wherein the excess of provision over expected loss is only included in Tier 2 capital. If all shortfalls of reserves from expected loss are to be deducted solely from Tier 1, then all excesses of reserves should also be symmetrically added to Tier 1. If treatment is to remain a 50/50 deduction from Tier 1 and Tier 2, respectively, treatment of the excess should also be symmetrical.

JPMC agrees that the Committee should reconsider the current cap of 0.6% of credit RWA on the excess of provisions over expected losses. The cap acts as a disincentive to provisioning in a downturn (i.e. the portion of the excess above the cap will be disallowed as capital) and should be removed.

Remaining 50/50 Deductions (Par. 108)

The Committee proposes to risk weight certain exposures (certain securitization exposures and failed transactions) at 1250% that are currently deducted equally from Tier 1 and Tier 2 capital. As an alternative, these deductions should be apportioned among the components of capital to recognize the loss absorbing capability of all forms of capital.

Effective Expected Positive Exposure (EPE) with Stressed Parameters (P. 118-122)

The proposal requires the EPE for derivatives to be calculated using stressed market parameters. While the inclusion of a stressed period will serve to reduce spikes in the calculated results, JPMC has the following concerns with this approach as proposed:

- Firms utilize the EPE model for day-to-day risk management and hedging, and it is inappropriate to use stress inputs in this analysis. The use of stress data inputs to the model will effectively create a parallel but separate regulatory exposure calculation. A proper treatment of joint market and credit stresses should be implemented in the Incremental Risk Charge (IRC) discussed below rather than stressing data inputs into the EPE model.
- JPMC also notes that the methodology for a proper stressed market based EPE is considerably more complex than that of a stress market risk value at risk (VaR) due to the longer horizons involved for derivatives. Since the expected exposures over the life of the derivative factors into the RWA calculation, assumptions are needed regarding the length of the period that would utilize the stressed factors. It is unreasonable to assume that a derivative with a ten year remaining life, for example, would experience stressed volatilities for the entire period. Banks will vary in their assumptions on this stress period creating significant differences in calculated risk weighted assets for comparable transactions.

Bond Equivalent of Counterparty Exposure to Capture CVA Losses (Par. 123-125)

The Committee has determined that two-thirds of counterparty credit risk losses during the financial crisis were the result of CVA losses and only one third resulted from actual defaults. The proposal to address this risk is to add a capital charge by using a bond equivalent as a proxy for CVA risk. JPMC believes that the risks for the CVA portfolio can be more effectively captured under the regulatory market risk framework where the portfolio is internally managed and hedged within the trading book. The proposed bond equivalent approach to measure exposure and capital in the consultative document presents the following issues:

- The counterparty exposure measurement is proposed as the sum of all exposures at default (EADs), across all netting sets for a counterparty, with the maturity based on the longest effective maturity across the netting sets for that counterparty. This measurement is inconsistent with internal management and hedging of CVA risk, which is fully marked on credit spreads.
- The proposal is inconsistent with the final market risk rule published by the Basel Committee in July 2009 in that:
 - The VaR multipliers are proposed to be applied to one-year VaR and Stressed VaR, as opposed to 10-day values required by the market risk rule.
 - The proposal requires that no diversification benefit be taken from the rest of the trading book, as this calculation should be done on a standalone basis. The market risk rule allows for the diversification benefit across all trading positions.
 - The proposal only allows for single-name hedging whereas the market risk rule allows for single-name, portfolio and index hedging.

Alternatively, a more appropriate regulatory framework would treat counterparty risk like a credit derivative within the market risk framework:

- CVAs are fully marked to credit spreads and fit neatly into the market risk framework with respect to risk measurement and hedging.
- In addition to 10-day VaR and Stress VaR, the market risk calculation would include Incremental Risk Charge (IRC) reflecting default, recovery and spread/migration risk over a one-year horizon. The IRC would be enhanced to include the additional price variability due to the market risk of the underlying exposures. IRC would also take into account specific wrong-way risk.
- CVA would be included with the rest of the trading book and thus the offsets of any CVA hedges would be recognized appropriately. In addition to single-name hedges, it would be appropriate to include index hedging since the hedging of illiquid names is essentially proxied on index basis. Banks measure and manage CVA risks as integral components of their overall trading risks.
- Counterparty risk would no longer be part of regulatory credit risk capital since the default risk would be included in market risk capital.
- It would also be desirable to include the systemic spread risk (not the firm's own idiosyncratic default risk) in the Debit Valuation Adjustment (DVA) as part of the trading book capital framework.
- Any change in the margin period would be captured in the CVA exposure simulation.
- The enhanced IRC model would be subject to supervisory approval.

Asset Value Correlation Multiplier for Large Financial Institutions (Par. 135-140)

The proposal to increase the asset value correlation (AVC) for financial firms is based on the Committee's initial findings that correlations were 25% higher for financial firms than for non-financial firms during the financial crisis. The Committee is undertaking further analysis on the appropriate calibration of the proposed multiplier and JPMC encourages the Committee to seek industry participation in this effort. JPMC believes that a significant portion of risk related to exposures to financial institutions described by the Committee is being addressed by other increases in capital requirements being proposed that will reduce the risk of contagion. JPMC is concerned that as capital requirements increase for all financial firms, the cost of conducting normal business between banks could be severely impacted. For example, not only would JPMC's cost of doing trade finance business with other banks increase, but other banks' cost of doing business with JPMC would also increase. JPMC recommends the Committee take these consequences into account when considering the use of a proposed multiplier.

If the Committee decides to retain such a multiplier, JPMC believes that setting the asset level test for regulated institutions at over \$25 billion is too rigid. This captures a large number of banks and brokers who have performed well through the crisis in the U. S. and in other jurisdictions. While U.S. regional banks have suffered elevated write-offs due to problems in their loan portfolios (construction and subprime lending), they do not typically face the same funding, securities portfolio or interconnectedness issues as market makers. The failure of one, or multiple, regional players should not have a substantial systemic effect. For this reason, JPMC believes a \$25 billion threshold is set too low in the U.S.

A preferred approach would be for each relevant national regulator to determine the asset size threshold that is appropriate for its jurisdiction. In the U.S., JPMC recommends an asset size threshold of \$250 billion, consistent with U.S. criteria for mandatory adoption of the advanced approach for Basel II. This level would appropriately exclude the regional banks and brokers.

All U.S. mutual funds, credit unions, investment advisors and consumer finance companies are regulated. JPMC recommends that the Committee's proposed definition of regulated financial firms be expanded to include these as well as firms engaged in similarly regulated activities in other jurisdictions, such as collective investment funds (UCITS) in Europe.

Proposal for a New International Leverage Ratio (Par. 202-238)

JPMC has long held concerns about the usefulness of a leverage ratio for prudential supervision of internationally active banking organizations. These concerns are particularly acute when a leverage ratio is the binding capital constraint rather than a complementary measure to other risk-based measures. A leverage ratio is not risk sensitive since it ascribes the same capital rate to all exposures, which incents banking organizations to pursue risky assets to increase return on capital. If the Committee

decides to establish an international leverage ratio standard, it should: i) be harmonized across jurisdictions, ii) appropriately measure banks' leverage, and iii) incent prudent decision making and risk management by banks.

When investors assess a banking organization's leverage, they typically rely upon the straightforward tangible common equity (TCE / Assets) ratio, a useful measure of risk in evaluating banking organizations' overall leverage risk. Unlike the TCE / Assets ratio, the leverage ratio being proposed by the Committee cannot be calculated for most banking organizations from publicly available information and will not be widely accepted by investors as a useful measure.

The international leverage ratio proposed by the Committee departs radically from the straightforward balance sheet based TCE / Assets ratio preferred by investors, as well as from the Tier 1 Leverage Ratio currently used in the U.S. It will incorporate, among other exposures, off-balance sheet exposures at 100% conversion factors and un-netted repo-style and derivatives exposures. For many banks, the denominator of the Committee's proposed leverage ratio will be two or more times larger than that of the TCE / Assets ratio or the Tier 1 Leverage Ratio. This implies that many banks, even well capitalized ones, are operating today at 50 or more times leverage, making it difficult for investors and regulators to use the ratio to make meaningful leverage distinctions among banking organizations.

JPMC is concerned that even if the prudential minimum is set at a modest level, investors will compare the new ratio against their existing expectations of a reasonable level of leverage based on current TCE / Assets ratio. This would force institutions to reduce lending to achieve a substantially higher standard than the regulatory targets. JPMC believes investors will be skeptical as to whether the proposed ratio provides an accurate representation of a banking organization's true underlying leverage risk.

JPMC is further concerned that many of the elements in the denominator of the Committee's proposed international leverage ratio are not comparable in leverage terms to existing on-balance sheet exposures. The inclusion of off-balance sheet exposures at their highest possible non-netted level will have dramatic undesirable effects on numerous business activities of banks. Credit will simply be less available, constraining macroeconomic activity.

A conversion factor of 100% for cancelable commitments, or even Standardized Basel II conversion factors, implies that such commitments are economically equivalent to on-balance sheet exposures. During the recent period of financial distress in the U.S., the banking system actively canceled credit card lines and that the vast majority of

commitments were not converted into drawn exposures (see table below).

| Aggregate U.S. Banking Data \$(000) | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2007</u> | <u>12/31/2006</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Credit card lines | 3,307,931,256 | 4,102,733,907 | 4,676,368,014 | 4,189,119,162 |
| Credit cards loans outstanding | 422,094,632 | 444,691,752 | 421,817,757 | 384,980,072 |

Source Federal Deposit Insurance Corporation

The proposed leverage ratio will impose a significantly cost of capital on cancelable commitments, especially revolving consumer credit. Banking organizations will find it unprofitable to have to hold capital against unused commitments and will be incented to cut lines. JPMC believes that the proposed assumption that all commitments and lines will be drawn down completely at the same time is extreme and does not provide a good representation of the potential future balance sheet. Instead, JPMC suggests using probability weighted factors as employed in the calculation of EAD for regulatory capital purposes under Basel II.

For repo-style transactions and derivative exposures, collateral and netting are significant risk mitigants that have historically functioned well in minimizing the exposures and losses of financial institutions counterparties, even in times of financial distress. JPMC believes the current accounting treatment of repo-style (FIN 41) and derivative transactions (FIN 39) presents a more accurate measure of exposure (and one which is more consistent with on-balance sheet exposures) than the non-netted full notional and current exposure method (CEM) treatments being proposed, respectively, for leverage ratio purposes. The experience of derivative close outs over the past two years, e.g. Lehman, has shown that the true exposure is indeed the net exposure after FIN 41 and collateral netting, and that using gross amounts would significantly overstate leverage. Inclusion of the full notional amount of securities financing transactions will have a dramatic adverse impact on the liquidity in the government securities market, as dealers rely upon repo-style transactions to acquire, borrow and lend as well as finance inventories of government bonds and provide operational liquidity. The net result will be less market liquidity, which translates into higher spread and borrowing costs for governments.

The inclusion of the full notional value of written credit default swaps (CDS) in the denominator of the proposed leverage ratio unequivocally overstates the underlying risks associated with market making books, where numerous long and short positions typically net off against one another and result in relatively modest net position risk. JPMC believes having access to a liquid CDS market is a critical component of maintaining flexible bank and financial industry risk management practices. The implicit capital charge arising from the inclusion of the full notional value of the written CDS in the denominator of the proposed leverage ratio will reduce the availability of capital and liquidity in the market, thereby contracting the availability of risk management options.

Arguably, U.S. and global accounting treatments of securitization positions do not always fully distinguish between a banking organization's exposure to the whole or to a part of the underlying assets of a securitization transaction. With the recent implementation of the Statements of Financial Accounting Standards (FAS) 166 and 167, JPMC continues to believe the current U.S. accounting treatment of securitizations may overstate the exposure to which a banking organization is exposed to in a securitization or other transfer of financial assets for certain asset classes. For example, in residential mortgage deals the maximum amount of loss to a bank is contractually limited to the beneficial interests that it holds.

The undesirable outcome of the proposed leverage ratio definition would be to shift lending and other activities from regulated banking organizations to unregulated or less well regulated financial firms with lower capital requirements. As an example, finance companies providing revolving consumer credit or standalone broker dealers for repo-style and derivatives transactions could receive a significant portion of business that currently flows through banks directly. Invariably, a significant portion of these activities would end up being financed indirectly through the banking system, as non-bank financial firms traditionally secure significant portions of their funding from banking organizations. In a period of financial distress, bank supervisors and central bankers will find significant financial activity booked outside of regulated banking organizations, but with the ultimate risk being borne by the banking system.

Procyclicality Proposals (Par. 239-262)

Recognizing the need to achieve balance between risk sensitivity and the stability of capital requirements, the Committee proposed three approaches to dampen procyclicality:

- Reducing risk-sensitivity through the probability of default (PD) input, applying scalars to the output from the PD models or adjusting the risk-weighted asset output via a time-weighted averaging process;
- Advocating a change to accounting standards toward an expected loss approach; and
- Building buffers through capital conservation.

These three approaches are addressed below.

JPMC supports the use of through-the-cycle (TTC) estimates for PD. Consistency in the development of TTC PDs can be accomplished through the supervisory process in Pillar 1. JPMC is opposed to the use of PD inputs based on "downturn PDs". Use of downturn PDs will reduce risk sensitivity and simply create a new minimum capital standard. Ambiguous criteria for the estimation of downturn PDs across portfolios and regions will contribute to a lack of consistency across firms. Adjusting the inputs of models reduces their transparency and the comparability of capital requirements across firms. Regulators already have the ability to adjust the output of Basel II capital formulas to a level that they believe better reflects cyclical conditions by changing the scalar, currently at 1.06.

JPMC supports a revision of the current incurred loss model, with a 'probable' threshold for loss recognition, to reflect a more comprehensive view of expected losses in existing loan portfolios. There are a number of proposals being discussed with and between the FASB and the International Accounting Standards Board. JPMC supports this reconsideration of the loan loss reserve model, and supports a resolution of the accounting standards that is consistent with a firm's risk management policies, as well as with prudent regulatory objectives.

Establishing a buffer range above the minimum regulatory capital requirement effectively resets the minimum requirement. Concerns that supervisors may have in ensuring that banks are acting prudently in the management of their capital and associated distributions can be adequately addressed in the supervisory process in Pillar 2. Adjusting a buffer range based on an excessive credit growth indicator (e.g., credit-to-gross domestic product ratio or credit spread index) would require weighted average buffers where credit risks are spread across jurisdictions. The complexity of determining appropriate indices and concerns regarding their volatility would render their implementation difficult and result in inconsistent application across different markets.

Comments on Other Aspects of the Capital Proposals

Deductions for Investments in own shares (Par. 100)

While JPMC agrees with the concept of deducting exposures to a bank's own common shares, the requirement to look through holdings of index securities in both the banking and trading book to identify additional deductions is operationally impractical and appears to significantly outweigh any benefit. JPMC recommends the index look-through requirement be eliminated.

Deductions for investments in banking, financial and insurance entities outside the regulatory scope of consolidation (Par. 101)

The proposal broadens the scope of investments in financial firms to be deducted from common equity above certain thresholds. The scope includes common equity investments in banking, finance and insurance entities and requires: (1) full deduction if the common equity ownership in an individual institution exceeds 10% and (2) deduction of the amount by which holdings in all other financial institutions combined exceed 10% of the bank's own common equity net of all regulatory adjustments. Temporary holdings of securities resulting from investment banking activities, e.g., securities underwriting and market-making activities, should be outside the scope for the purposes of this deduction. The language requiring deductions for common equity holdings in "other financial institutions" in excess of 10% of a bank's common stock should be clarified to exclude holdings in those individual financial institutions where the bank's holdings exceed 10% and are already fully deducted.

The proposed treatment of investments in financial firms should also be reviewed in conjunction with the proposed treatment of minority interest and associated RWA of

minority-interest subsidiaries. Under the proposed rules, Bank A that owns the majority stake of a financial firm subsidiary must include RWA for 100% of the subsidiary's assets but must deduct the minority interest from its Tier 1 Common Equity.

Additionally, if Bank B holds the minority stake in the same financial subsidiary, Bank B must deduct its entire investment from its Tier 1 Common Equity. This results in double counting of the capital requirements across the banking system since Bank A must hold capital against 100% of the subsidiary's RWA with no benefit from the capital invested by Bank B. To avoid this double counting, either inclusion of minority interest in Tier 1 Common Equity or exclusion of the RWA attributable to minority shareholders would be a more appropriate approach.

The proposal also requires deductions for investments in financial firms to include a trading and banking book look-through of relevant exposures in holdings of index securities. JPMC recommends elimination of the index look-through requirement which imposes a significant operational burden.

Extending the Margin Period of Risk (Par. 150-153)

JPMC agrees that an increased minimum margin period of risk is necessary for certain types of transactions and that netting sets with over 5,000 trades warrant such treatment. However for illiquid collateral, "hard-to-replace" derivatives and netting sets with multiple disputes, the following should be considered.

For institutions using a haircut approach on securities financings trades, the existence of an illiquid security should not taint the entire netting set. In a default event, the presence of an illiquid security would not adversely impact the liquidation period of other liquid collateral in the netting set. Rather than apply the extended margin period to the entire netting set, the extended period should only be applied to the illiquid security itself by increasing the haircut for the illiquid security, while other liquid securities in the set could continue to use the appropriate shorter margin period.

JPMC believes the proposed definition of "hard-to-replace" derivatives should be revised. The requirement to obtain multiple price quotations within a two-day period that does not reflect a premium is too strict, as it will be difficult to anticipate how any close out could affect market prices. JPMC feels that in no instance should Level 2 derivative transactions be considered subject to this definition. Scoping these instruments out from the definition would promote better consistency of approaches amongst banks. Also similar to the proposed approaches for netting sets with 5,000 trades and those with multiple disputes, the extension of the margin period of risk should be applied on the subsequent quarter's calculation.

The proposal to double the margin period of risk when there are more than two disputes needs to have a clear definition of what constitute a dispute and a materiality threshold for the amount of the dispute. To avoid including differences due to routine timing and booking issues, JPMC proposes that a dispute be defined as an intractable difference

without a bilateral agreement on how to resolve. Additionally, JPMC recommends setting a materiality level for disputes at the \$100 million level. This is in line with the materiality level used in the QIS. Finally, unlike the five day period stated in the QIS, the rules should be clarified to note that only those disputes that last longer than the relevant margin period are considered. The majority of disputes will occur with counterparties with large netting sets which will already be utilizing a longer margin period.

Central Counterparties (Par. 165-170)

JPMC agrees that a non-zero risk weight is appropriate for guarantee/default fund exposures and supports the use of a standard prescribed risk weight (in the 10% to 15% range) for these exposures. This range represents lower risk than the Basel I 20% risk weight currently assigned to most, if not all, of our bilateral over the counter (OTC) derivatives exposure to other dealers to reflect the additional protections (margin and default fund contributions) provided through novation to Qualifying Central Counterparties (CCPs).

JPMC also supports the use of an updated single set of standards to be considered a CCP. These standards should allow for and identify differences by the type of clearinghouse (i.e. securities, exchange traded derivatives, physical commodities and OTC derivatives clearing). The standards, at a minimum, should include but not be limited to requiring that:

- Daily variation margin requirements, not just initial margin, should be required by the CCP. Moreover, initial margin should be calculated utilizing a risk-based approach which has been independently tested / reviewed. Specific levels of initial margin should not be set by Committee on Payment and Settlement Systems (CPSS) / International Organization of Securities Commissions (IOSCO). There should be guidelines and coordination on implementation, but not promulgation. Parameters and assumptions should be frequently reviewed and the CCP must have the ability to call for intraday margin. The CCP should require members to comply with established cash collateral thresholds and concentrations by security type and monitor them daily.
- Concentration and liquidity risks should also be incorporated into the initial margin calculation.
- CCPs should have the financial resources to withstand the default of its two largest member losses.
- Financial safeguards should include a first loss amount to be paid by the CCP prior to payments by members that did not default. This creates an incentive for the clearinghouse to create and maintain a robust margining approach.
- CCPs should have robust internal member risk assessment review processes at time of membership, as well as on, at least, an annual basis.

- CCPs should have well-trained and staffed internal audit departments to ensure that all policies, procedures and methodologies are sufficient for its level of risk.
- CCPs should have a formal model review process as well as a formal new business initiative approval process which incorporates the initial model review to ensure the CCP has sufficient processes, methodologies and staff in place prior to the launch of a new product.

In determining whether a CCP meets these standards, it is recommended that the regulators consider the underlying composition of the financial safeguards and weigh more favorably those CCPs which place greater reliance on posted cash and highly liquid securities versus assessment powers and other less liquid assets (shares in clearinghouse, letters of credit, etc.) Finally, there should be industry wide regulatory agreement on the population of qualifying CCPs, and a formal process should be established for adding to this population on a periodic basis.

Reliance on External Credit Ratings (Par. 179-185)

JPMC supports the continued use of external ratings in the Basel II securitization rules. The use of the ratings based approach provides a consistent, independent and effective method of measuring the capital requirements for these securitized holdings. A move to any Basel I-like approach would represent a clear step backward. With respect to the Committee's concern regarding incentives to produce "good ratings", JPMC notes that in the U.S, the Securities and Exchange Commission and Congress are taking steps to improve the integrity of the rating process, which will provide a better method of policing this activity than through bank regulatory policy.

Conclusion

JPMC supports the objectives of the Committee as outlined in these proposals, but believes that a balanced approach is needed to avoid unintended outcomes, including:

- Increases in the cost of financial services and cost of capital;
- Shifts in the asset composition of regulated financial institutions that will constrain credit availability; and
- Transfer of financial activities to non-regulated firms.

Any of these effects could significantly hamper economic recovery and undermine the key objective of the Committee to strengthen the resilience of the banking sector. The recommendations in this letter can significantly mitigate these risks while still providing appropriate risk-based capital, liquidity and leverage constraints for individual institutions and for the system as a whole.

JPMC appreciates the opportunity to comment on the Committee's capital and liquidity proposals and would be pleased to discuss the contents of this letter at your convenience.

Very truly yours,



Adam M. Gilbert

cc:

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Norah Barger
BaselComments-April2010@frb.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 1-5
Washington, DC 20219
Attention: Amrit Sekhon

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Attention: George E. French