

JPMORGAN CHASE & CO.

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October 15, 2008



LETTER OF COMMENT NO. 21

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 140-e and FIN 46(R)-e

Dear Mr. Golden:

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") appreciates the opportunity to comment on the proposed Financial Accounting Standards Board's ("FASB" or the "Board") Staff Position No. FAS 140-e and FIN 46(R)-e, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities* (the "proposed FSP"). The Firm is both a user and preparer of financial statements and our comments reflect our views from both perspectives.

JPMorgan Chase is a supporter of the Board's efforts to increase financial statement disclosure transparency related to transfers of financial assets and significant interests in variable interest entities ("VIE"). Additionally, based upon feedback from certain financial statement users within our firm, we believe many of the recommended disclosure enhancements will result in more meaningful and relevant analyses of entities' involvement in securitizations and VIEs. While we support the Board's overall objective of greater transparency in disclosures, there are several proposed quantitative disclosure requirements that we do not believe meet this objective. Our concerns are described below.

In addition, we encourage the Board to provide adequate time for entities to perform a thorough evaluation of the new disclosure requirements. To prevent entities hastily attempting to fulfill potentially significant quantitative and qualitative requirements, we recommend an effective date of the first interim reporting period in fiscal years beginning after November 15, 2008, with earlier disclosure of qualitative enhancements encouraged but not required.

Proposal Highlights

As indicated above, JPMorgan Chase is supportive of the Board's primary objective within the proposed FSP to provide greater transparency. In our opinion, the following proposed enhancements are key to meeting this objective:

- The disclosure objectives in paragraphs 16A and 22A provide financial statement preparers with an overarching framework for evaluating their continuing involvement in transferred financial instruments and their significant interests in VIEs. A principles-

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based, holistic approach to financial statement disclosures should result in enhanced, more comprehensive information related to continuing involvement.

- The additional qualitative information regarding transfers that do not meet the criteria for sale accounting and are therefore accounted for as secured borrowings within paragraph 17.i., will provide clarity for certain transactions. While the various forms of continuing involvement, including financial assets that do not meet the criteria for sale accounting, are already included in institutions' financial statements and have extensive financial statement disclosures driven by instrument type and form, additional qualitative disclosures would better link the information already disclosed in order to provide users with a better understanding of the full effect of certain transactions.
- Continued disclosure of both an entity's maximum exposure to loss as a result of its involvement with VIEs, as detailed in paragraph 24.a. and the current carrying value of such involvement provides meaningful information to users. Particularly in light of the current market turmoil, providing users with a quantification of the maximum obligation highlights a relevant measure of exposure, in terms of a worst case scenario irrespective of probability, and achieves transparency without adding a layer of uncertainty associated with estimates of probability.
- The requirement for a non transferor holder of *significant* variable interests, in an unconsolidated VIE or qualifying special purpose entity, to disclose additional information, as detailed in paragraphs 22C and D3 will increase transparency in the financial statements. Transparency in financial reporting can only be achieved through disclosure of significant interests in off balance sheet entities.

Proposal Points of Clarification

While JPMorgan Chase is supportive of the objectives of the proposed FSP, there are a few proposed provisions which we feel could be enhanced, therefore we urge the Board to consider the following:

- Clarifying that the provisions of the proposed FSP need not be applied to immaterial items, as indicated in the text box following paragraph 13.

There is confusion surrounding whether insignificant continuing involvement should be captured in the complex and detailed quantitative disclosures provided by paragraphs 17.h. and 17.i., due to the definition of *continuing involvement* provided in paragraph 16A.a., footnote 5. The definition of continuing involvement references "any involvement [by a transferor] with the transferred financial assets," and further goes on to list examples which, individually, may or may not be significant depending upon the facts and circumstances. Additionally, paragraph 22C(c) explicitly requires disclosures about a sponsor's variable interest in a VIE (*irrespective of the significance of the variable interest*).

While the Firm is in favor of providing disclosures and adding transparency regarding significant continuing involvement, we are concerned that including extensive

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information associated with insignificant continuing involvement is not only irrelevant, but will also lead to a lack of transparency as users are inundated with information that is not meaningful. For example, continuing involvement limited to a plain vanilla, interest rate swap, which is already recognized at fair value in the balance sheet, is generally well understood by financial statement users and need not be included in this disclosure. Providing extensive, quantitative disclosures regarding detailed valuation assumptions along with sensitivity and stress test analyses for this interest rate swap will not only fail to provide meaningful information, but will also obscure the detailed information provided for other instruments or other continuing involvement (i.e., servicing assets or retained interests) where this data is useful and relevant.

- Eliminating the duplicative disclosures proposed in paragraph 23.d. As fair value information of consolidated VIE's financial assets and financial liabilities is already provided under existing accounting standards, either because the financial instruments are recognized at fair value within the balance sheets or because fair value of the instruments must be disclosed (i.e., SFAS 157 and SFAS 107), requiring a separate disclosure of the fair value of consolidated VIE's financial assets and liabilities will only serve to increase financial statement disclosures without adding meaningful, new information.
- Removing the alternative to disclose an entity's "estimated exposure to loss or range of that loss" when the entity believes "the maximum exposure to loss is not representative of its estimated exposure to loss," as required in paragraph 24.b. As discussed above in the proposal highlights section of this letter, JPMorgan Chase is supportive of disclosing an entity's maximum exposure to loss as a relevant measure of an entity's exposure in today's volatile environment, in conjunction with disclosing the carrying value of such interests in a VIE. Further, while an entity's "maximum exposure to loss" is generally understood, guidance would be needed to understand what the Board intended by "estimated exposure to loss," as it is unclear what this means. We are also concerned that the Board is proposing a disclosure that may not be meaningful to users of financial statements, nor used by preparers in managing their risk exposures in off-balance sheet entities. Rather than defining what "estimated exposure to loss" means, we recommend the Board eliminate this proposed disclosure requirement and instead encourage reporting entities to disclose other internal risk measures used to monitor and measure its risks associated with off-balance sheet entities.
- Eliminating the requirement in paragraph 22C.a. (2) to disclose "whether a different assumption or judgment could have reasonably been made that would result in a different conclusion" in support of its determination that it is or is not the primary beneficiary of a VIE. This disclosure requirement would require an entity to speculate on the effect of assumptions or judgments it did not make. Instead, we believe it would be more relevant for an entity to disclose whether there was significant judgment involved in the assessment of consolidation under FIN 46R, and what the potential impact would be if a different conclusion were reached. It is our understanding that users are most interested in this information as they can then determine for themselves what the potential impact would be in the financial statements.

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Effective Date

Over the last year, JPMorgan Chase has included additional disclosures associated with its continuing involvement in transferred financial instruments and its involvement with VIEs in an effort to increase financial statement transparency. Given the Firm's full support for the Board's objectives of improved transparency, we agree that the proposed qualitative disclosures should be disclosed as soon as possible. However, given practical limitations associated with the current market environment and significant efforts already under way to fulfill other new accounting disclosure requirements effective in the near term (i.e., FSP SFAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An amendment of FASB Statement No. 133 and FASB Interpretation No. 45*; and *Clarification of the Effective Date of FASB Statement No. 161*, and FSP SFAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*) JPMorgan Chase recommends the Board give entities time to effectively address the new disclosure requirements in the proposed FSP. We recommend an effective date of the first interim reporting period in fiscal years beginning after November 15, 2008, with earlier disclosure of qualitative enhancements encouraged but not required.

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If you have any questions or would like to discuss our comments further, please do not hesitate to contact me at 212-648-0906 or Giovanna Acquilano at 212-648-0908.

Sincerely yours,

Shannon S. Warren