JPMORGAN CHASE & CO.

Louis Rauchenberger
Managing Director & Corporate Controller

September 7, 2010

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

Re: File Reference No. 1830-100: Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820) Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*

Dear Mr. Golden,

JPMorgan Chase & Co ("JPMorgan Chase" or "the Firm") appreciates the opportunity to comment on File Reference No. 1830-100: Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820) Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (the "Exposure Draft") issued by the Financial Accounting Standards Board ("FASB" or the "Board"). Our comments are summarized below.

Measurement uncertainty analysis

With respect to the expanded disclosures regarding a measurement uncertainty analysis for fair value measurements categorized within Level 3 of the fair value hierarchy (paragraph 820-10-50-20-f), we believe that fair value measurement disclosures will not be improved simply by adding to existing disclosure requirements. We continue to encourage the Board to make a broader assessment regarding the disclosure framework around financial instruments, rather than continually adding additional requirements on a piecemeal basis. Attached as Appendix A is our prior comment letter on this issue, which raised issues regarding the operationality and usefulness of the proposed disclosures. These concerns and questions continue to exist with the current Exposure Draft, and we believe the Board should address those issues prior to proceeding.

Consideration of correlation between unobservable inputs

The requirement to consider the effect of correlation between the various unobservable inputs used in level 3 measurements is theoretically sound, but we believe that its inclusion suggests a higher level of precision than is practically achievable. Given the number and types of unobservable inputs used in Level 3 measurements, the correlation among all of these variables would require significant management judgment because there is very little market data upon which to rely for such an estimate. If the Board intends to move forward with the disclosure, we believe a preferable alternative would be to explicitly exclude correlation from the analysis and ensure appropriate disclosure regarding the necessary limitations of the uncertainty analysis.

Application of blockage factors

The amendments to paragraphs 820-10-350-36C could be interpreted to preclude the consideration of liquidity and size of position adjustments for all instruments classified within level 2 and level 3 of the fair value hierarchy, because it suggests that a blockage factor may not be used if a quoted price is used as an input to the fair value measurement. We do not believe that this was the Board's intent given the discussion on this topic. However, if this is the Board's intent, we believe that would result in a significant departure from current practice and is inconsistent with the portfolio valuation exception described in the Exposure Draft and the market participant approach described in Topic 820. Both level 2 and level 3 measurements include observable inputs. Observable inputs may include a quoted price, but due to the nature of the asset or liability, significant adjustments are required to be made to arrive at a fair value as defined in Topic 820. We believe that liquidity and size of position adjustments are appropriate and often necessary because market participants also would consider those factors in a transfer of those assets or liabilities.

Effective Date

If the Board proceeds with the proposed additional disclosures, the effective date should be aligned with the effective date for the Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Financial Instrument Exposure Draft). In addition, even if the Board does not align the effective dates, because of the complexity of the information proposed for disclosure, and the fact it is not already routinely prepared and reviewed by management, the effective date of the final Accounting Standards Update should be no earlier than December 31, 2011.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments, including further details of our proposed model, with you at your convenience. If you have any questions, please contact me at 212.270.3632 or Bret Dooley at 212.648.0404.

Sincerely yours,

Louis Rauchenberger

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Appendix A

Louis Rauchenberger
Managing Director & Corporate Controller

October 16, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
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File Reference No. 1710-100: Proposed Accounting Standards Update to Topic 820, *Improving Disclosures about Fair Value Measurements*

Dear Mr. Golden,

JPMorgan Chase & Co ("JPMorgan Chase" or "the Firm") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" "the Boards") Proposed Accounting Standards Update to Topic 820 *Improving Disclosures about Fair Value Measurements*. We understand the desire for robust disclosure for instruments carried at fair value, particularly where markets, and as such values, are subject to increased levels of uncertainty. However, we do not believe that better disclosure will be achieved by simply continuing to add to the existing disclosure requirements. Instead we believe it is time to step back and assess the broader disclosure framework around financial instruments focusing more on why an entity holds an instrument or portfolio of instruments; how cash flows are expected to be realized; and, how the instrument or portfolio is risk managed. We understand that this requires further study and encourage the Board to undertake this effort as part of the financial instruments project or as part of its broader project on the disclosure framework.

As the Board considers a requirement for sensitivity disclosures and assesses the potential impact of such a requirement on preparers, critical questions need to be answered including:

- Are users of financial statements requesting quantitative data around reasonably possible alternatives to a specific valuation input(s) (the possibility of estimation error at a point in time in the past)? If so, how will such data be used or compared between firms given the multitude of inputs and levels of aggregation that different firms must consider and incorporate into their disclosure of the information?
- Or are users trying to understand the potential impact on profit and loss of changes in market factors (more forward-looking disclosure)?

We believe it is critical that these questions be answered before proceeding with a sensitivity disclosure requirement. We acknowledge that we are raising significantly broader considerations than the scope of the current exposure draft, however, we think a broader and more holistic approach to risk-based disclosures that actually reflects information an entity uses to risk manage its portfolios would be preferable to the proposed approach. In addition, we believe that a more comprehensive approach should be considered to enable better integration of the core financial statements, footnotes to the financial statements and Management's Discussion and Analysis.

Appendix A

The Board's current proposal requires an entity to disclose the potential for estimation error in a level 3 valuation based on the range of a reasonably possible alternative input (or inputs). We do not believe that the suggested disclosure is the best way to present the uncertainty around the valuation of illiquid instruments and question how it will be beneficial to, or leveraged by, a user of the financial statements. Disclosures regarding the uncertainty around valuation inputs are more effectively addressed through qualitative disclosures of valuation practices and controls around such practices including processes undertaken to validate estimates, including, for example, model review, price verification, benchmarking, and backtesting.

In addition, preparing sensitivity information, at an appropriate level of aggregation, in a meaningful way, is very challenging. Therefore, we believe that efforts to develop this disclosure would have to be measured and thoughtful and that an appropriate amount of outreach and education be undertaken prior to making this a requirement. Acknowledging that certain elements of disclosure may need to be addressed in the short term, we have provided our comments on the key disclosure proposals put forth in the Proposed Accounting Standards Update.

Effect of Reasonably Possible Alternative Level 3 Inputs

Where listed prices or quotes are not available for a financial instrument, the fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters including, but not limited to yield curves, interest rates, volatilities, equity and debt prices, foreign exchange rates and credit curves. Valuation adjustments are recorded (including amounts to reflect constraints on liquidity and unobservable parameters) in order to arrive at an exit price.

At any point in time our model values and related adjustments are our best estimates of fair value. Where we believe uncertainty exists, an adjustment is made to reflect this. What the proposed disclosure will require is an entity's evaluation of an alternative value somewhere between what it believes to be the exit price and where another market participant might value the asset (even if they are incorrect). This will need to be developed by distinct product types. There are currently tens of thousands of level 3 transactions and as such, in addition to concerns with the relevance of the information, we have significant concerns with the operationality of preparing the information, particularly where such information is not used as part of existing risk management processes. Some of our key concerns are described below:

- Valuation adjustments, including adjustments for uncertainty, are determined at the transaction or homogeneous sub-product/asset class level. Determining the reasonably possible alternative amounts for level 3 measurements would also be performed at this level. Disclosing this information would put forth a voluminous amount of information with proprietary elements. As a result, for purposes of external disclosure, an entity would need to aggregate products that are similar. While the product or asset class groupings would include instruments that are similar in nature (for example, mortgages), the products could have vastly different underlying assumptions, for example, prepayment, default probabilities, and vintage. Thus, the resulting aggregation necessary for external disclosure will deteriorate the meaningfulness of the data to the point that the ultimate disclosure will likely not be useful and, in fact, can be in-accurate or misleading.

Appendix A

- The proposal requires consideration of the expected effects of correlation among changes in significant inputs (for level 3 instruments) if estimating the effect of more than one reasonably possible alternative input. This is a complex exercise as instruments within level 3 typically have multiple significant inputs. In addition, correlation exists across levels of the hierarchy and asset classes and therefore isolating the effect within the context of level 3 instruments is incomplete.

As a result, we have concerns regarding how the proposed sensitivity disclosures will be used. If it is incomplete or inconsistent with data used to manage risk internally, then we are not sure how it can effectively be used externally. We also believe that some users might simply default to the number provided for the "reasonably possible" lower end of the range without understanding the basis for the estimate. If, for instance, a user were to aggregate the "reasonably possible decreases in fair value" across all products to arrive at a more conservative estimate of value, then they would not be giving appropriate consideration to the extremely remote possibility that every single position could experience a "reasonably possible decrease in fair value" simultaneously, regardless of the underlying risk factor driving the decrease or offsetting risk positions in other levels of the hierarchy Even after the experiences of the recent credit crisis where correlation was higher than expected, the probability of all downside estimates occurring at once is extremely remote or impossible. We also understand, from a discussion with a user of financial statements, that this information would be helpful to perform comparisons across similar institutions. However, without detailed subportfolio or instrument level detail, as well as an analysis of the assumptions used, a valid comparison will not be possible. While we have significant concerns with the costs exceeding the perceived benefits of this proposal, in the event that the Board chooses to proceed with a proposal in the short term, we suggest the following:

- Adjust the effective date to periods beginning after December 15, 2010- If the proposal is retained in its current form, entities will generally not be able to meet this requirement for first quarter 2010 interim financial statements.

- Limit the scope of the proposal to key risk exposures versus all level 3 instruments.

- Clarify that disclosure of input parameters where such information would be deemed proprietary is not required.

Activity in Level 3 Fair Value Measurements

The Board has proposed separate disclosure of purchases, issuances, sales and settlements within the level 3 rollforward. We believe that the current level of detail in the rollforward is sufficient (particularly when coupled with a qualitative description of the significant changes in level 3 balances) and recommend that the Board not move forward with this requirement. In addition, we have concerns with providing the proposed disclosure for trading portfolios, as discussed below:

- *Risk*- A trading portfolio is a dynamically managed portfolio of risk. Within a trading portfolio are both long positions (where the expectation is that the "asset" value will go up) and short positions (where the expectation is that the "asset" value will go down.) Where an entity wishes to close out the risk on a short it will purchase a risk position. In this circumstance, a purchase will not equate to an increase in risk, but instead a decrease in risk. In contrast, an entity may also "sell" to increase risk. If the purpose of providing the breakdown of cash flows is to highlight movements in risk position, then we do not believe that the presentation is meaningful for instruments within a trading portfolio. This is especially true for derivatives.

- *Operational concerns*- Trading portfolios experience voluminous cash flows through the purchase and sale of instruments as well as interim cash settlements of derivative transactions.

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> Transaction and settlement systems (which are separate from risk management systems) capture all of the cash flows but cannot, in an automated manner, produce the information for the proposed disclosure. Transaction and settlement systems do not identify instruments by their level within the fair value hierarchy and cash flows would need to be analyzed for each level 3 instrument to ensure that they were appropriately classified. As a result, a significant manual process would need to be undertaken. This would need to be completed for each transaction system. JPMorgan Chase has a transaction system for each type of product and certain types of products leverage multiple transaction systems.

We also note that the exposure draft states that the disclosure requirement would be effective for yearend reporting. In order to provide the disaggregation of purchases, issuances, sales and settlements for 2009 year end reporting (the full year rollforward) entities would need to go back to January 1, 2009 and recreate this information. Compiling this information by the proposed effective date is not feasible.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212.270.3632 or Shannon Warren at 212.648.0906.

Sincerely yours,

Louis Rauchenberger