March 26, 2007

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Attention: Docket No. R-1274

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
Attention: File No. S7-22-06

Re: Release No. 34-54946 (File No. S7-22-06; Docket No. R-1274)
Regulation R

Dear Ms. Johnson and Ms. Morris:

JPMorgan Chase & Co. ("JPMC") appreciates the opportunity to comment on the rules which have been proposed (the "Proposed Rules") by the Board of Governors of the Federal Reserve System (the "Board") and the Securities and Exchange Commission (the "SEC") (together with the Board, the "Agencies") under the Securities Exchange Act of 1934 (the "Exchange Act") as modified by the Gramm-Leach-Bliley Act (the "GLBA") and that are proposed to be contained in a new Regulation R.

JPMC is a member of the American Bankers Association (the "ABA") and its affiliate, the ABA Securities Association, and is a member of The Clearing House Association L.L.C. (the "Clearing House"), both of which have submitted comment letters on the Proposed Rules. JPMC wishes to express its full support of the views expressed in those letters. JPMC agrees with the ABA and the Clearing House that the Proposed Rules represent a significant improvement over prior proposals to implement the broker registration exception for banks provided under the GLBA, and in particular strongly supports continued joint rulemaking between the Board and the SEC (including consultation with other bank regulators) regarding this implementation. We feel that it is particularly important that this joint effort continue into future interpretive actions,

whether such actions take the form of written interpretations by the Agencies or are incorporated within the terms of future enforcement proceedings.

However, JPMC also agrees with the ABA and the Clearing House that the Proposed Rules could be further improved and, in some instances, require significant clarification, to ensure the realization of Congress' intent in enacting the GLBA, and we strongly urge you to give serious attention to the points raised in the ABA and Clearing House comment letters. We want to particularly emphasize several points raised regarding the networking exception and the calculation of relationship compensation in the trust and fiduciary exception.

Networking Exception. The networking exception provides for the payment of one-time cash fees for the referral by bank employees of customers to a broker-dealer. We believe that a compensation program could be structured to satisfy this requirement even though it included, as an interim step, awarding employees points for various types of conduct, including referrals, provided that the end result of such a program would be a cash payment which, for the portion of the payment based on points awarded for referrals, would not exceed the cap calculated according to the Proposed Rules. In addition, we would like to confirm our understanding regarding what we see as the flexibility incorporated in proposed Rule 700(b) regarding bonus plans. In the case of proposed Rule 700(b)(i), we believe that it would permit a bank to structure a discretionary bonus plan that meets all of the restrictions of the proposed Rule, including the prohibition on including referrals as a factor in calculating an employee's bonus, but also includes (as one of the various factors in the calculation) a review of the overall value of the employee's customers to the firm (measured by appropriate financial metrics), even though some portion of this value may arise out of revenues for services provided by a broker-dealer. We also believe that proposed Rule 700(b)(ii) would permit bonus plans to be based on the financial performance of any appropriate level of the bank or its affiliates, including branches, geographical units, product groups or any other appropriate business component. We believe that so interpreted proposed Rule 700(b)(i) and (ii), taken together, will continue to permit most traditional bank bonus plans without providing any undue incentive to unregistered employees regarding a customer's securities transactions.

In the case of proposed Rule 701, however, which deals with fees permitted for referrals of high net worth individuals and institutional customers, we submit that the proposed Rule sets thresholds which are inappropriately high, and establishes procedures which are unnecessarily complicated. The purpose of the thresholds is simply to ensure that a customer, whether an individual or a business entity, is capable of understanding the significance of the fact that the bank employee who is referring the customer to a broker-dealer may receive more than nominal compensation as a result of that referral. In the case of high net worth individuals, there is no reason why that threshold should be any higher than the threshold which the SEC sets for individuals making investments in such things as private equity funds. In the case of a threshold for institutional customers, the ABA and Clearing House make a number of points with which we agree, but, in particular, for commercial business customers, we would emphasize the point that banks

generally categorize these customers based on the customer's annual sales or revenue figures, rather than the customer's assets, and use $5 to $10 million as an appropriate sign that a company has grown beyond a small business, and we submit that a similar threshold should reasonably satisfy this condition as well.

As regards how the amount of a proposed Rule 701 referral fee is calculated, and the timing and procedures surrounding the referral and the payment of the fee, we submit that a scaled-down, much more simplified exemption can be structured which still ensures that sophisticated investors have the appropriate information they need to understand and evaluate the relationship between the bank, its employees and its broker-dealer partners and any resulting securities transactions. Once the threshold for the appropriate categories of sophisticated customers has been met, and those customers have received the requisite disclosures (outlining the relationship between the bank and the broker-dealer partner and the fact that the referring bank employee may receive compensation which may be contingent on the customer entering into a securities transaction) the remaining practical components of building a due diligence and compliance model for a sophisticated customer referral program should be resolved by the bank and its broker-dealer partner through a written agreement tailored to their circumstances, rather than being managed rigidly by regulation. For example, which entity should have responsibility for ensuring that the referring bank employee is not statutorily disqualified (as that term is used under the Exchange Act) should be determined by the parties which can evaluate the practical issues associated with performing that analysis. We also submit that there is no need to define or otherwise circumscribe the type or amount of compensation to be received by the referring bank employee as to this class of customers. The fundamental purpose of this exemption has been satisfied once a sophisticated customer has been made aware of the bank employee's more than nominal financial interest in the securities transaction, and the customer receives no further meaningful protection by requiring that the employee's compensation for this referral take any particular form. Of course, the customer is further protected because the securities transaction itself will have to be conducted by appropriate licensed representatives of a broker-dealer.

If the Agencies determine not to simplify the Proposed Rule along these lines, we urge consideration of the other more specific issues detailed in the comment letters of the ABA and the Clearing House.

Trust and Fiduciary Exception. In addition to supporting the points raised by the ABA and Clearing House letters regarding the trust and fiduciary exception, JPMC would like to emphasize the need for further clarification regarding the treatment of fees for certain services, in particular securities lending, performance measurement, and compliance services, when those services are provided to trust and fiduciary accounts. For purposes of the chiefly compensated calculation, we believe it would be helpful for the Agencies to clarify that these fees may be included as relationship compensation. Banks may perform the securities lending services described in Rule 772 in an agency capacity, for trust and fiduciary accounts. While the terms and conditions of the securities lending services are set forth in a separate securities lending agreement, the

revenue is part of the compensation generated by the trust and fiduciary accounts that request the securities lending service. Depending on how the bank's fee is structured, the fees could be characterized as either an administrative fee for personal services or a fee based on assets under management, or a combination of both. Banks generally receive a percentage of income generated from the collateral in situations where the borrower of securities posts cash collateral, as well as a fee for investing the cash collateral depending on the investment options made available for cash collateral. In situations where the loan is secured by non-cash collateral, the bank's compensation is an agreed-upon fixed percentage share of a securities lending fee. Total fees generated from securities lending can be quite substantial and it is not uncommon for the bank to forego any other revenue related to the account.

Fees for performance measurement and compliance services should also be considered relationship compensation. The provision of information regarding a manager's or a portfolio's performance against a benchmark, and reports regarding compliance with investment guidelines are increasingly important services provided to trust and fiduciary accounts. The fees for these services are usually structured as annual fees which are payable monthly.

Conclusion. JPMC greatly appreciates the progress the Agencies have made by collaborating to create the Proposed Rules. Regulation R is a significant step forward in the process of creating a set of rules which are workable for banks. JPMC urges consideration of the issues raised by the industry to further clarify and improve the regulatory structure. JPMC is confident that the Agencies' continued commitment to this process will result in final rules that will enable banks to comply with the new system of functional regulation and continue to engage in traditional securities related banking activities without registering as a broker.

Very truly yours,

Gregory S. Meredith