Waterside Enterprises, LLC

Fourth Annual Report to JPMorgan Chase Bank, N.A. On Activities Related to Securities Act Rule 506 of Regulation D

December 5, 2019

Respectfully Submitted:
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Waterside Enterprises, LLC, the Independent Compliance Consultant ("Waterside" or "ICC") engaged pursuant to a waiver of disqualification granted by the Securities and Exchange Commission ("SEC" or "Commission") in 2015,[1] hereby submits the fourth annual review of the JPMorgan Chase Bank, N.A. ("JPMCB" or "Bank") and its subsidiaries, the "Rule 506 Entities,"[2] activities with regard to transactions from 2018 in accordance with Rule 506 of Regulation D under the Securities Act of 1933 ("Securities Act").[3]

Waterside conducted the fourth annual comprehensive review of the JPMorgan Chase Bank Wealth Management policies and procedures applicable to compliance with Rule 506, reviewing those policies and procedures in place in 2018 and testing a statistically valid random sampling of transactions conducted in 2018 in reliance on Rule 506 of Regulation D.

In order to accomplish the ICC work as required by the SEC Order for 2018 transactions, Waterside reviewed:

- Requirements of Regulation D;
- Business processes applicable to private placement activity relying on Rule 506 of Regulation D;
- Written policies and procedures pertaining to the requirements of Regulation D; and
- Offering and marketing documents for products within the scope of the Order.

The Rule 506 Entities act as investment manager, placement agent or issuer in offering hedge funds, private equity funds and structured products that rely on the Rule 506 of Regulation D exemption from registration.

I. Background

Under federal securities laws, a company or private fund may not offer or sell securities unless the securities have been registered with the SEC or an exemption from registration is available. Rule 506 of Regulation D is such an exemption and is considered a safe harbor for the private offering exemption of Section 4(a)(2) of the Securities Act. Companies relying on the Rule 506 exemption from registration must satisfy the following five standards:

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[1] Securities Act of 1933, Release No. 9993, December 18, 2015 ("Order").

[2] The "Rule 506 Entities" are JPMorgan Chase Bank, N.A. including the Singapore, Hong Kong and Paris Branches and the following of its subsidiaries or affiliates: J.P. Morgan International Bank, Ltd., J.P. Morgan (Suisse) S.A. In past years, J.P. Morgan Securities (Far East) Limited, Seoul Branch was also a Rule 506 Entity, but in 2018, there were no activities in scope from this entity. J.P. Morgan Securities LLC (a U.S. registered broker/dealer) is not a Rule 506 Entity; therefore its Regulation D placements are out of scope for this review. In addition, placements relying on an exemption from registration offered by Regulation S of the Securities Act are not in scope for this review.

[3] For additional background information on the Order and the ICC review, *See,* Appendix A, attached.

1. Companies must decide what information to give to "accredited investors," as long as the information does not violate the antifraud prohibitions of the federal securities laws;[4]
2. The company may sell its securities to an unlimited number of accredited investors and up to 35 other purchasers;[5]
3. The company may use general solicitation or advertising to market the securities only if, among other things, it takes reasonable steps to verify that investors meet accredited investor standards;[6]
4. Companies relying on the Rule 506 exemption must file an electronic "Form D" with the SEC after they first sell their securities;[7] and
5. Companies must disclose certain regulatory actions and exercise reasonable care that no "Bad Actor" is participating in the Rule 506 offering by, among other things, monitoring the level of client holdings in the offering.[8]

II. Process of the Review

In 2019, Waterside spoke with members of Compliance, Legal and business department management in order to become aware of any changes to business processes or compliance procedures relevant to the private placement businesses of the Rule 506 Entities. The fourth annual review includes private placement offerings relying on Rule 506 of Regulation D that closed in calendar year 2018 including: private equity funds, hedge funds, Global Access Portfolio or "GAP" funds and structured notes.

Waterside examined written policies and procedures relevant to the scope of the Order that were in effect during 2018 including manuals, training materials, order taking procedures, middle office procedures, subscriber forms and "Frequently Asked Questions" relating to:

- Communications and Marketing Materials for Private Placements of Private Equity Funds and Hedge Funds;

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[4] Unlike offerings registered with the SEC in which certain information is required to be disclosed, companies and private funds engaging in exempt offerings to "accredited investors" do not have to make prescribed disclosures. Clients in private placement offerings generally are made aware of information and risks through offering memoranda such as private placement memoranda and marketing documents. The company must be available to answer questions by prospective purchasers and must make financial statements available to potential investors.

[5] According to the SEC, one principal purpose of the accredited investor concept is to identify persons who can bear the economic risk of investing in unregistered securities. An *accredited investor*, in the context of a natural person, includes: anyone who has earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, or has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

[6] In 2013, the SEC adopted amendments to Rule 506 of Regulation D (Release No. 33-9415; No. 34-69959; No. IA-3624; File No. S7-07-12) that, among other things, allows general solicitations of the private placement as long as the issuer takes reasonable steps to verify that the purchasers are accredited investors (Rule 506(c) of Regulation D). None of the funds within the scope of this review relied on Rule 506(c) of Regulation D.

[7] Form D is a brief notice that includes the names and addresses of the company's promoters, executive officers and directors, and some details about the offering, but contains little other information about the company.

[8] Adopted in 2013, this requirement is referred to as the "Bad Actor" provision of Regulation D. *See*, Release No. 33-9415; No. 34-69959; No. IA-3624; File No. S7-07-12.

- Alternative Investment Procedures for Onboarding and Offering Private Equities and Hedge Funds;
- Order Taking and Middle Office Procedures, including processing and reconciling client transactions;
- Accredited Investor Attestations, including Subscriber Information Forms, Instructions to Subscribe and the Electronic Subscriber Information Form User Guide;
- Compliance Manual with respect to the Global Access Portfolios;
- Procedures for Monitoring Compliance with the Bad Actor Rule; and
- Discretionary Account Investments in Hedge Fund and Private Equity and Conflicts Policy.

During the course of the review, Waterside had extensive discussions with Compliance and Legal personnel focusing on the Rule 506 of Regulation D private placement business.[9] Waterside discussed with business management the due diligence, onboarding and marketing processes that are followed with the issuers of private equities and hedge funds. We also discussed best practices for compliance with Regulation D.

After file review, Waterside interviewed the outside law firms and middle office personnel in New York City responsible for reviewing subscription documents for private equity funds. Waterside also interviewed middle office and compliance personnel in Geneva, Switzerland and Edinburgh, Scotland who have responsibility for processing hedge fund transactions. In these interviews, Waterside discussed the application of various middle office processes that included control points, review practices, and systems used for compliance with the requirements of Regulation D.

Waterside conducted testing, as required by the Order and described more fully in Appendix B, of a statistically valid random sample of private equity transactions, all hedge fund transactions and one GAP fund trade that were in scope from 2018 to help ascertain whether the policies and procedures were reasonably designed to achieve their stated purpose, namely, compliance with Rule 506 of Regulation D.

The private placements relying on Rule 506 of Regulation D in scope for this review include:

Private Equity Funds – Waterside was provided a population of 1,386 Wealth Management transactions in 22 different private equity funds that closed in 2018 and for which the Rule 506 Entities served as Placement Agent. Waterside applied a statistically valid random sampling process, described in more detail in Appendix B, to the 1,386 private equity fund transactions. From that sampling methodology, Waterside selected 396 transaction files. Waterside also

[9] In the last two reviews, the J.P. Morgan Securities (Far East) Limited, Seoul Branch conducted transactions in scope for those reviews. Last year, Waterside recommended the development of policies and procedures in any jurisdiction where a fund was relying on the exemption from registration under Rule 506 of Regulation D and the Rule 506 Entities were participating in such an offering. The Bank agreed with that recommendation and in 2019 Waterside reviewed the policy put in place by the Asset Management area of the Bank and the procedure applicable to the Seoul branch.

reviewed an additional 11 private equity files (to include at least one transaction from each of the 22 fund families as well as small and large transactions) bringing the total reviewed to 407.

Hedge Funds – The hedge funds offered in 2018 within the scope of the Order were developed by non-affiliated hedge fund managers and offered by Rule 506 Entities serving as placement agents. During 2018, the Rule 506 Entities had four (4) hedge fund offerings that were made in reliance on Rule 506 of Regulation D in which 298 client transactions closed.[10] Due to the limited number of transactions, Waterside reviewed information for each transaction file, which were in both brokerage accounts and investment management accounts.

Global Access Portfolio funds – The GAP private placement offerings consist of a variety of hedge funds or fund of funds designed to meet broad investment criteria for accredited investors depending on their investment risk tolerance. In 2018, there were three (3) offshore and four (4) onshore Global Access Portfolio funds for which the Bank served as Investment Manager, that offered securities in reliance on Rule 506 of Regulation D. For these offerings, Waterside reviewed policies and procedures as well as marketing documents, subscription agreements and placement agent agreements for compliance with the requirements of Regulation D. These offerings were made primarily to U.S. persons residing in the U.S. via J.P. Morgan Securities LLC, an entity outside the scope of the Order, or to non-U.S. persons outside the U.S. under Regulation S, so in the past reviews, none of those client transaction files were in scope for this review. In 2018, however, one client (a U.S. citizen residing in a foreign country) purchased a GAP fund that had been issued relying on Regulation D for which the Bank acted as placement agent so Waterside reviewed that client transaction.

Structured Notes – Generally, structured bank notes are securities whose returns are based on, among other things, an index or indices based on the market performance of equity securities, a basket of equity securities, interest rates, commodities, and/or foreign currencies. Each investment's return is linked to the performance of a selected set of reference assets or indices. In 2018, the Rule 506 Entities issued five (5) structured notes in reliance on Rule 506 of Regulation D. The notes were developed for and marketed by intermediaries that were not Rule 506 Entities.

For each of the five structured products in 2018, JPMCB served as Issuer. Waterside reviewed policies and procedures, marketing and offering information as well as intermediary agreements, but did no review of client transaction information since the Rule 506 Entities did not act as placement agent for the products and thus were out of scope for this review.

[10] Originally Waterside was informed that there were 299 hedge fund transactions that closed in 2018 and were in scope for this review. Subsequently, one Geneva-based transaction was removed from scope since it was a transaction done in a special advisory program where the Rule 506 entity does not serve as placement agent, and thus not in scope. Removal of this transaction brought the in-scope hedge fund transactions to 298 transactions to review. Waterside also reviewed one GAP hedge fund transaction that is discussed elsewhere in this Report.

III. Findings/Conclusions/Recommendations

As discussed above, requirements of Rule 506 of Regulation D relevant to this review briefly include:

- Complying with the anti-fraud requirements of the Securities Act;
- Limiting sales of unregistered products to accredited investors;
- Not engaging in general solicitations of sales for the unregistered products;
- Filing a Form D when sales commence and periodically thereafter; and
- Complying with the Bad Actor provisions of the Rule.

A. Complying with the Anti-fraud Requirements of the Securities Act

Waterside reviewed Private Placement offering memoranda and marketing documents describing private equity funds, hedge funds, Global Access Portfolio funds and structured notes for compliance with the anti-fraud prohibitions of the Securities Act. The funds were routinely described as speculative with a high degree of risk, such as counter-party risk, credit risk, and market risk, and the investments were described as offering limited or no liquidity in resale. Further, each subscription and marketing document made it clear there was no assurance that the investment objectives of the fund would be met. The offering documents also explained that the funds and structured notes had not been registered with the SEC and that they were being offered as unregistered private placements, in reliance on Regulation D.

We reviewed written policies, procedures and guidelines outlining requirements for marketing documents, as well as onboarding procedures. Accordingly, Waterside was satisfied that marketing, onboarding and offering policies, procedures and guidelines were designed to ensure compliance with the anti-fraud requirements of Rule 506 of Regulation D.

B. Limiting Sales of Unregistered Products to Accredited Investors

Key to compliance with the requirements of Rule 506 of Regulation D is developing and following procedures to establish a reasonable belief that clients subscribing to the unregistered offerings are accredited investors.

Private Equity Fund Transactions

For private equity funds, the Rule 506 Entities served as placement agent and Waterside reviewed 407 client transaction files of the 1,386 transactions that closed in 2018. For brokerage transactions, policies require a valid Subscriber Information Form ("SIF")[11] and a Subscription

[11] The SIF is used to determine whether a client who is a prospective investor for an interest in a hedge fund, private equity fund or other private investment company is an accredited investor and is otherwise eligible to invest in a fund. By completing and signing the SIF, a prospective subscriber is representing and warranting that the information in the form is accurate and complete as of the date of the signature and that the subscriber will notify the Rule 506 Entity promptly of any change in information. Each SIF form is valid for a year following the first of the month after the date of the client's signature, and a single signed SIF will suffice for all subscriptions entered into within the 12-month period. Part A of the SIF requires certain subscriber information (i.e., name, contact

Agreement that includes certain attestations, representations and warranties by authorized persons, whether individuals or authorized representatives of legal entities. In order to verify that authorized persons (for example, individuals related to account owners or signers authorized to act on behalf of legal entities) have signed subscription documents, for international transactions the Bank requires review of the client signature and a signature verification (such as an "ACT" stamp, which may include the initials of the Bank employee who verified the signature) on the signature page of the document. The signature verification is generally accomplished by the client's JPMCB investor (sales representative) or by the jurisdiction's onboarding team.

When processing private equity fund transactions for acceptance, the outside law firms or U.S. - based middle office Alternative Trade Order Management ("ATOM") team checks that information and signatures on the Subscription Agreement are complete and consistent within the document, and that the client has a valid SIF on file before they process the transaction. Policies and Procedures for onboarding international private equity fund brokerage transactions require the signature verification process[12] and the Bank's operations procedure identifies this step in its Risk Matrix as High Risk if the signature verification stamp is missing. The risk matrix states that if the signature verification is missing, the sales representative needs to go back to the onboarding team to obtain it.[13]

Waterside also noted that while the procedures for the international middle office ("IATOM") require checking for evidence of signature verification for the funds that they process, the U.S.- based middle office ATOM procedures do not require a review for such documentation for international private equity fund transactions, notwithstanding the fact that the originating jurisdiction may require a signature verification in its procedures.

File review of brokerage transactions disclosed several instances of documents with no signature verification notation and accordingly, Waterside recommends that a notice be issued to the law firms and the ATOM team about the requirement to see evidence of signature verification for international transactions in private equity funds, or alternatively, to eliminate this requirement in the written procedures if the Bank concludes this step is no longer necessary. In addition, Waterside recommends that the U.S. - based middle office procedures be made consistent with

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information, ownership type and tax information); Part B defines accredited investor status and requires subscribers to attest whether they meet the qualification requirements for natural persons or for entities. The SIF includes a signature page that represents, warrants and covenants that the information contained in the form is accurate and complete. An individual is required to print his/her name and the name of any joint subscriber and sign and date the form. An entity representative must print the name of the subscriber, sign and date the form as an authorized signatory, and print the name of the authorized signatory. In February 2017, the SIF was revamped to consolidate previous U.S. and non-U.S. person forms and in 2018 the use of the paper SIF was transitioned to an Electronic SIF for managed accounts.

[12] For example, the procedures for processing transactions in private equity funds and hedge funds in Asia require the ACT team to perform signature verification on all relevant documents, such as subscription documents and SIFs. *See* Global Wealth Management Asia Procedure for Private Equity dated 12/8/16; updated 5/31/2019; Section 15.

[13] *See* International Alternative Trade Order Management procedures, dated 9/8/2017; updated 2/20/2019; ATOM Risk Matrix – Subscriptions.

the IATOM procedures with regard to checking for evidence of signature verification for international clients during their review.

After file review, Waterside had a small number of private equity fund brokerage transactions that required additional clarification from either the Rule 506 Entities or the outside counsel that reviewed the transactions for the funds or the fund issuers, and our questions were answered satisfactorily.[14] For the most part, Waterside found that the paperwork for the 407 private equity fund transactions reviewed was in good order, with signed and dated SIFs and Subscription Agreements in place for each transaction. Subscribers were required to attest in each document that they met the accredited investor monetary thresholds and to keep the issuer updated should their status change.

Hedge Fund Transactions

The requirements for hedge fund transactions in brokerage accounts are similar to those for private equity – there must be a SIF as well as a Subscription Agreement (and an "Instruction to Subscribe" document in Switzerland) on file with attestations as to the accredited investor status of the client.[15] For hedge fund brokerage transactions, procedures also call for the JPMCB investor or on-boarding team to verify the client's signature.

With regard to hedge fund transactions in managed (discretionary) accounts, the requirements are that each client must meet certain accredited investor and client suitability standards and must enter into an Investment Adviser agreement with the Rule 506 Entity to open a discretionary or managed account. Once a client has agreed to the terms of the managed account, individual transactions in hedge funds are entered into at the direction and discretion of the investment manager. In 2018, investment managers were using Electronic SIFs ("ESIFs") where the investment manager attests to the fact that the client is an Accredited Investor and submits an electronic record (ESIF) into the system.

In this fourth annual review period, Waterside was provided one GAP transaction completed in 2018, for which the Bank acted as placement agent in a Rule 506 offering. The documentation provided for this transaction was found to comply with the policies and procedures the Bank uses to meet the requirements of Rule 506 of Regulation D.

Waterside reviewed all 298 hedge fund transactions[16] from 2018 and had several transactions for which we needed to request additional information or clarification from JPMCB. As in prior

[14] Generally, follow-up questions for private equity transactions were related to indecipherable signatures, lack of printed names, missing forms or out of date forms. Waterside received documentation for all private equity files that we requested.

[15] The Instruction to Subscribe form used in EMEA was replaced or supplemented in mid 2017 with a requirement to use a SIF as well as a Subscription Agreement. Switzerland is the only area that still requires an Instruction to Subscribe from brokerage clients.

[16] Using the statistically valid random sampling methodology and table found in Appendix B, sampling for the 2018 population of 298 hedge fund transactions within the scope of the Order for this review, Waterside could either sample 194 hedge fund transactions or review all of them. We elected to review all transactions rather than use the sampling approach.

years, we found discussions with Compliance and management met our needs for clarifying issues and we were generally able to review additional documentation as well.

We had questions with regard to the transition to the ESIF. In prior years, for hedge fund transactions in managed accounts, the Bank required a form be filled out in which the investment manager attested to the Accredited Investor/Qualified Purchaser status of the client ("AI/QP Form"). The AI/QP forms were valid for a year. In late 2017, the Bank discontinued use of that form and transitioned to use of the ESIF that included an attestation to the Accredited Investor/Qualified Purchaser status of the client, which is also valid for a year.

After file review, Waterside had questions about dates of input, review and approval of select ESIFs. In one instance, Waterside found that the input date for the ESIF was the day after the document was reviewed and approved. The middle office determined that all of the dates were accurate, but made from different time zones. In addition, Waterside found one form where a sales representative deleted a client name and substituted his own name in error. Waterside discussed with Compliance and management what additional system controls could be introduced and the Bank agreed to make system changes to address these issues.

In addition, our review disclosed that in one jurisdiction we were unable to review select transactional documentation and had to rely on summary "audit trail" data to demonstrate compliance with Regulation D requirements. The document retention repository did not maintain "PDF" copies of past Subscriber Information Forms, for client privacy concerns, and instead, a summary of data reflecting dates of previous SIF forms was retrieved and produced for Waterside.

When we reviewed the summary dates of previous SIF forms, we found two instances where there appeared to be no valid SIF on file when the transaction occurred. The Bank explained that a technical issue in the Bank's standard processing in October 2018 had caused the inability to update ESIFs in these two accounts, and Waterside reviewed additional documentation regarding procedures used during that technology problem to ascertain that the clients were indeed accredited investors. We also received assurances that the technology issue from 2018 had been resolved satisfactorily and the ESIFs had been input into the data repository shortly after the system fix. Waterside will be able to continue to review system output in our next review period.

Accordingly, Waterside recommends that system-related improvements (reference to time zones or an international date; system controls regarding over-writing critical information in files; and retention of PDF copies of appropriate documents) be implemented as promptly as practicable.

To summarize, Waterside reviewed written policies and procedures related to the accredited investor status of prospective clients for private placements including private equity, hedge funds and the one GAP transaction. We reviewed subscription documents, marketing materials and subscriber identification forms used by the Bank, and we tested transactions as required by the Order. Although we are making two recommendations regarding procedural consistency and

systems processing, Waterside believes that written policies and procedures are being followed and are reasonably designed to assure compliance with Rule 506 of Regulation D.

C. General Solicitations for Unregistered Products

Waterside found that marketing documents for private placements for private equity and hedge fund subscriptions routinely included language to make prospective subscribers aware that the funds were unregistered and were being offered only to known prospects without a general or public solicitation of sales. Since 2013, Rule 506(c) permits the use of general solicitation and advertising if all purchasers are accredited investors and the unregistered fund has taken reasonable steps to verify that all purchasers are accredited investors. None of the Issuers with relevant transactions in this review period availed themselves of that particular subsection.

In our last annual review, Waterside noted that the Global Access Portfolio funds' Subscription Agreements contained appropriate language regarding subscribers being Accredited Investors, but the documents were silent with regard to the funds being marketed via a general solicitation and we recommended that the language be amended going forward to include such language. During this review period, the Bank provided Waterside with GAP offering documents that had been developed in 2019 and contain the "No general solicitation" language. Compliance also commented that business management committed to add the "No general solicitation" language to any new subscription documents when they are developed.

D. Filing Form D with the SEC

The Bank produced several of the required Form D filings for the private placements within scope for this review. For the other funds, Waterside checked with the SEC database and found all of the required forms. Waterside also reviewed the policies and procedures that require the filing of a Form D and believes that the Bank is complying with this requirement of Rule 506 of Regulation D.

E. Compliance with the "Bad Actor" Provision of Regulation D

Waterside found that appropriate disclosures of the Rule 506 Entities regulatory actions had been included in marketing and subscription documents for private placements in 2018. We noted that in every case where the Rule 506 Entities acted as placement agents, appropriate disclosures regarding the Rule 506 Entities regulatory actions had been appropriately disclosed.

In last year's review, Waterside noted that there was a difference in approach with regard to language included in Subscription Agreements to put the subscriber on notice of the 20% threshold ownership level that is the trigger for disclosing or investigating whether a "disqualifying event" had taken place as described in the Bad Actor provision. Last year we recommended that for all newly developed Subscription Agreements, language be included to put clients on notice of the disqualifying event disclosure requirements. The Bank agreed with this recommendation and provided examples of Subscription Agreements from 2019 that include the language.

The Bank's written policies and procedures appropriately reflect the requirements of the "Bad Actor" provision of the SEC rules, and the policies and procedures appear to be reasonably designed and are being followed.

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Summary of Prior Recommendations

In the first annual review of policies and procedures from 2015 and testing of transactions made in 2015, Waterside made recommendations for changes to existing policies and procedures, primarily regarding consistency across various jurisdictions. Bank management accepted all of the recommendations for changes to the policies and procedures, and acted to implement amendments prior to year-end 2016.

During the second annual review, Waterside recommended that the Bank enhance oversight of new business acceptance processes for private placement transactions to improve quality and consistency of transaction files. Management accepted our recommendations from the second review and enhanced its processes for signatures by implementing a new signatory template and holding training for U.S. and international trade order review teams. Additionally, JPMCB took steps to enhance its data identification and reconciliation processes.

In the third annual review, Waterside identified three areas for enhancement: include language in Subscription Agreements to describe a "disqualifying event" for the Bad Actor provision of Regulation D; develop policies and procedures for institutional business in any jurisdiction where a fund is relying on the exemption from registration under Regulation D; and include "no general solicitation" language in GAP subscription agreements. The Bank agreed with all recommendations during the current review, and the Bank provided Waterside documents that addressed our recommendations.

Current Recommendations

In the fourth annual review, Waterside found that the 2018 Policies and Procedures continue to be current, relevant and largely consistent across jurisdictions. Waterside is making a recommendation to make procedures checking for signature verifications on client documents more consistent.

With regard to select hedge fund transactions, Waterside's file review disclosed systems-related follow-up questions, largely with regard to documentation of transactions in managed accounts and the use of ESIFs. Our questions were largely resolved satisfactorily, but we made systems-related recommendations.

Accordingly, in this fourth annual review, Waterside makes the following recommendations:

1. Waterside recommends that a notice be issued to the law firms and the ATOM team about the requirement to see evidence of signature verification for international transactions, or alternatively, to eliminate this requirement in the written procedures if the Bank concludes this step is no longer necessary. In addition, Waterside recommends that the U.S. - based middle office procedures be made consistent with the IATOM procedures with regard to checking for evidence of international funds' signature verification during their review.

2. Waterside recommends that system-related improvements (reference to time zones or an international date; system controls regarding over-writing critical information in files; and retention of PDF copies of appropriate documents) be implemented as promptly as practicable.

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For this Fourth Annual Report, Waterside conducted a comprehensive review of the policies and procedures relating to compliance with Rule 506 of Regulation D including but not limited to, policies and procedures relating to the Rule 506 Entities' activities as investment manager and placement agent to private funds relying on Rule 506 of Regulation D for transactions that closed in 2018. Waterside tested the Rule 506 Entities policies and procedures relating to Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D that closed in calendar year 2018.

Waterside hereby certifies that:

"JPMCB's policies and procedures designed to ensure compliance by the Rule 506 Entities with their obligations under Rule 506 of Regulation D are reasonably designed to achieve their stated purpose."

Appendix A

Background

On December 18, 2015, the Securities and Exchange Commission granted a waiver of disqualification under Rule 506(d)(2)(ii) of Regulation D under the Securities Act of 1933 at the request of JPMorgan Chase Bank, N.A.[17] The waiver of disqualification was requested because on the same date, the U.S. Commodity Futures Trading Commission ("CFTC") instituted proceedings pursuant to Sections 6(c) and (d) of the Commodity Exchange Act making findings and imposing remedial sanctions as a result of JPMCB's failure to adequately disclose certain conflicts of interest to clients.[18] Because of the CFTC proceedings, JPMCB requested and received a waiver of disqualification pursuant to Rule 506(d) of Regulation D by the SEC for JPMCB and its subsidiaries, the Rule 506 Entities.[19]

Rule 506(d)(2)(ii) of Regulation D provides that disqualification from certain regulated activities, in this instance, participation in private placements of select unregistered offerings, "shall not apply…upon a showing of good cause and without prejudice to any other action by the Commission, if the Commission determines that it is necessary under the circumstances that an exemption be denied."

In granting the waiver, the Commission determined that as part of the Rule 506(d)(2)(ii) showing of good cause, JPMCB would retain a qualified independent compliance consultant ("ICC" or "Consultant") not unacceptable to Commission staff,[20] to conduct a comprehensive review of the policies and procedures relating to compliance with Rule 506 of Regulation D. The ICC is required to complete its review and submit a written report to JPMCB on an annual basis for a period of five years following the Order. This is the fourth annual review pursuant to the requirements of the Order.

The ICC is charged with reviewing policies and procedures by the Rule 506 Entities including but not limited to, activities as investment manager and placement agent to private funds relying on Rule 506 of Regulation D. According to the Order, JPMCB must require the ICC to test the Rule 506 Entities' policies and procedures relating to compliance with Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D. If the Consultant finds that Rule 506 Entities' policies and procedures

[17] Securities Act of 1933, Release No. 9993, December 18, 2015.
[18] CFTC Docket No. 16-05, December 18, 2015.
[19] In 2018, the Rule 506 Entities were JPMorgan Chase Bank, N.A. including its Singapore, Hong Kong and Paris Branches and the following of its subsidiaries or affiliates: J.P. Morgan International Bank, Ltd., and J.P. Morgan (Suisse) S.A.
[20] In addition, the Order requires the Consultant to enter into an agreement that provides for the period of the engagement and for a period of two years from completion of the agreement, the ICC shall not enter into any other professional relationship with the Rule 506 Entities.

have been reasonably designed to achieve compliance with their obligations under Rule 506 of Regulation D, then the ICC shall certify annually to that finding.

Waterside Enterprises, LLC was engaged as the Consultant in March 2016. Waterside is a Financial Services consulting firm established in 2003 by its two principals, Paul Bruce and Beth Weimer. Paul and Beth have over 75 years combined experience in the securities and insurance industries including working for regulators (SEC and FINRA [NASD]), and working as Chief Compliance Officers, corporate officers and regulatory and compliance consultants. For this engagement, Waterside also retained two experienced independent consultants (Michael Raney and Robert Arndt) who have many years of broad financial services experience and who have worked with Waterside on other engagements.

According to the terms of the Order, in 2016 Waterside conducted the first annual comprehensive review of the policies and procedures in place in 2015 applicable to compliance with Rule 506 of Regulation D by the Rule 506 Entities. The first annual report was submitted to JPMCB in December, 2016 and after review and acceptance, JPMCB submitted the report to the SEC. The SEC published the first annual report on March 14, 2017.[21]

In 2017 and 2018, Waterside similarly conducted the second and third annual comprehensive reviews of policies and procedures applicable to compliance with Rule 506 of Regulation D. The second annual report was submitted to JPMCB in December, 2017 and after review and acceptance, JPMCB submitted the report to the SEC. The SEC published the second annual report on March 20, 2018.[22]

The 2018 report was submitted to JPMCB in December 2018. After review and acceptance, JPMCB submitted the report to the SEC.

In 2019, Waterside has completed the fourth annual review of compliance with Regulation D and the description of the process of the review as well as findings and recommendations are presented in the body of the report.

[21] https://www.sec.gov/divisions/corpfin/cf-noaction/2017/jpmorgan-chase-na-waterside-report-031417.pdf.
[22] https://www.sec.gov/divisions/corpfin/cf-noaction/2018/jpmorgan-chase-na-waterside-report-121317.pdf.

Appendix B

Statistical Sampling Methodology for 2018 Rule 506 Transactions

Language in the Order states "JPMCB shall require that the Consultant test the Rule 506 Entities policies and procedures relating to Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D."

There are three types of Rule 506 transactions that fall within the scope of our review: Private Equity, Hedge Funds and Global Access Portfolio (GAP).

Private Equity Fund Transactions

As discussed in the Report, JPMCB prepared a list of all private equity fund offerings in 2018, for which the Rule 506 Entities acted as placement agent and relied on Rule 506 of Regulation D. From that population of client transactions that closed in 2018, Waterside applied the following statistical review approach to select a random sample.

The generally accepted purpose of utilizing a statistically valid random sampling process is to be able to review an abbreviated subset of a population and use the results of that review to draw conclusions about the entire population. To comply with the statistically valid random sampling requirements of the Order, Waterside used a methodology that was intended to optimize the sample size while maintaining statistical integrity.[23] The approach we chose is based on a normal approximation to a binomial distribution and the Central Limit Theorem, adjusted for a finite population.

For any given population, a Central Limit Theorem approach states that regardless of the distribution of the underlying population, any set of sufficiently large samples reviewed will follow an approximately normal distribution. Even if we do not know the distribution of the underlying population, this approach should routinely produce a valid sample. The method used allows us to determine a sample size for a given population based on three key criteria:

- Confidence Level relative to the standard normal distribution;
- Population Proportion estimate; and
- Margin of Error.

[23] Any number of statistical sampling approaches may be applied. Based on the education, training and experience of the Waterside review team, we selected a standard approach from a 1970 article by Krejcie and Morgan and documented in the Penn State University online course website under course 414/415: "Estimating a Proportion for a Small, Finite Population."

I. Confidence Level

A confidence interval gives an estimated range of values that are likely to include an unknown population parameter, the estimated range being calculated from a given set of sample data. The confidence level is the probability value associated with a confidence interval.[24] Relative to statistical sampling and sampling distributions of population proportions, a 95% confidence level means that 95% of confidence intervals constructed from samples of a given size (n), will contain the true population proportion parameter. This implies that only 5% of confidence intervals constructed with the specified criteria will not contain the true population proportion. This also equates to an assumption that the population parameter being tested falls within two standard deviations of the predicted value of the parameter.

II. Population Proportion

If we know nothing about the underlying population vis-a-vis the criteria for which we are sampling, we need to use a population proportion estimate, ("P") of 0.5. This is a common approach for situations such as election sampling where we anticipate about a 50/50 response for each of two candidates. Or, another example would be a coin toss, where we define a "heads" result as positive ("P") and a "tails" result as negative. This P of 0.5 leads to the largest sample size, since for every sample data element selected, e.g., head or tail, we are unable to predict a positive result with a higher level of certainty than the negative result or vice versa.

If, however, we know or believe the population is skewed in one direction or another, in other words, we expect a clear majority of the items in the sample will be either positive or negative, we can select a more informed estimate of P and reduce the sample size while maintaining the accuracy and integrity of the sampling process. An example of this would be to roll a standard six-sided die and declare that rolling a "one" would be a negative result and all other results are positive. We now know that 5/6 of the time we would expect a positive result. In other words, the better we can predict the population parameter for which we are testing, the smaller the required sample size.

For our purposes and to meet the terms of the Order, we reviewed the firm's policies and procedures, conducted interviews and discussed control points applicable to the private placement business of Rule 506 Entities relying on Rule 506 of Regulation D within the scope of our review. We also applied our experience in brokerage and other client focused businesses in which we see that if policies and procedures are reasonably designed to achieve their stated purposes, we generally find files containing the appropriate documents, disclosures and signatures well in excess of 90% of the time. In addition, we are informed by the results of our transaction sampling from prior years of this review.

[24] Definitions of confidence interval and confidence level are from Valerie J. Easton and John H. McColl's Statistics Glossary v 1.1. (Available at: http://www.stats.gla.ac.uk/steps/glossary/confidence_intervals.html).

Based on our review of the Rule 506 Entities policies, procedures and control points, including documents, interviews, observation and prior experience in performing this review, we concluded that those policies, procedures and processes would lead to similarly accurate and complete transaction files.

Using these inputs, we set our estimated sampling population proportion at 0.90. The ultimate test of that assumption is whether our sampling results demonstrate that at least 90% of the sampled files met criteria above. If so, it should indicate that our population proportion assumption was appropriate.

III. Margin of Error

The next key sampling criteria is Margin of Error. In other words, how predictive are our results? To refer again to election polling type sampling, we often see a result that is noted to be accurate within "plus or minus" 2%, 3% or 4%. This is the margin of error for that poll. Waterside decided to use a margin of error of 2.5%, which is a margin of error among a common range of selection (2%-4%) that leads to a fairly conservative (larger) sample size. Thus, a result of 95% of files in good order in a sample would be indicative of an assumed population accuracy rate within the interval 92.5% to 97.5%.

IV. Using these criteria to set a sample size

Accordingly, for the purpose of this review, to test compliance with written policies and procedures as they pertain to the requirements of Rule 506 of Regulation D, we predicted (based on all the discussed above in this Appendix) that the required paperwork for at least 90% (Population Proportion) of the client transactions reviewed would be "in good order" (defined here as signed and dated by an appropriately authorized party and containing assertions that the client is an accredited investor, and that appropriate relevant disclosures were made to each investor). Additionally, we selected a Confidence Level for the population of "in good order" transactions of 95% with a 2.5% Margin of Error.

V. The population and sampling results

Waterside was provided a population of 1,386 Wealth Management private equity transactions that closed in 2018. Using that population of 1,386 transactions, we used the criteria described above, and the following table, to reach a minimum sample size of 396.

The table on the following page clearly illustrates that for very large population sizes we see the most optimum leveraging abilities of statistical sampling. However, a population of 1,386 still lends itself to providing the benefits of random sampling.

Illustration of required minimum sample sizes based on: (1) Confidence Level, (2) Population Proportion estimate and (3) Margin of Error:

Estimated Population Proportion, $\hat{P}$ =		90%		$\hat{P}$ =	50%		
Confidence Level =		95%			95%		
		Margin of Error, E =			Margin of Error, E =		
Population Size N =		3.0%	2.5%	1.0%	3.0%	2.5%	1.0%
	50	45	46	50	48	49	50
	250	152	173	234	203	216	244
HF	298	169	**194**	275	234	250	290
	500	218	263	437	341	378	476
	1,000	278	357	776	517	607	906
PE	1,386	301	**396**	990	604	729	1,212
	10,000	370	525	2,570	965	1,333	4,900
	25,000	379	542	3,038	1,024	1,448	6,939
	100,000	383	551	3,342	1,056	1,514	8,763
	1,000,000	384	553	3,446	1,066	1,535	9,513
	Very Large	385	554	3,458	1,068	1,537	9,604

Using the results of this table, we numbered the 1,386 private equity transaction files from 1 to 1,386 and proceeded to select a sample of 396 transactions. To start the sample selection process, utilized a random number generator to select a number between 0 and 3.5 (the ratio of 1,386 to 396 which is the ratio of the population to the minimum sample size). The result of that selection was the number 1.92. To establish our sample to test, we added 3.5 to that starting point repeatedly, and in each case, rounded the result to the nearest integer.

Accordingly, we selected file numbers (using standard rules of rounding):

- 2 (closest to 1.92),
- 5 (closest to 5.42),
- 9 (closest to 8.92),
- 12 (closest to 12.42),
- 16 (closest to 15.92), and so forth,

until we had identified a sample of 396, which is equal to the minimum sample size that our process requires for a statistically valid random sample.

Once we selected our random sample of 396, we reviewed that sample for adequate representation of the population. Through this process, we added eleven transactions to the sample to enhance coverage of all fund families, including those with very small transaction volumes. In each instance if we had a choice, we selected the largest previously unselected transaction for the fund family in question. We also added a transaction in each of two fund families that was the smallest or one of the smallest transactions. In three instances, we added the sole transaction in a fund family if it was not selected via our random sampling approach.

Accordingly, we have a general population of 1,386 Wealth Management private equity transactions of which we reviewed 407:

Beginning Population	1,386
Random Sample Selected	396
Additional Selections	11
Total Transactions Reviewed	407

We subsequently made the following observations regarding the sample set: at the culmination of the transactional review of Private Equity files, we found 17 files (or about 4% of the files reviewed) for which we had questions that required follow-up with JPMCB. We thus noted that using this criteria, over 90% of the files were in good order, i.e., complying with policies and procedures reflecting Regulation D control points. Further, all the files for which we had questions have subsequently been resolved, clarified or discussed with JPMCB to Waterside's satisfaction, bringing the 'in good order' percentage to 100%.

Finding all of the files in the sample in good order allows us to make the same conclusion about the population from which the sample was drawn, i.e., that we would expect to find a statistically significant percentage of any files we might select to be in good order.

GAP and Hedge Fund Transactions

We were provided one GAP transaction completed in 2018, for which the Bank acted as placement agent in a Rule 506 offering. The documentation provided for this transaction was found to comply with the policies and procedures the Bank uses to meet the requirements of Rule 506 of Regulation D.

In each of the prior years of this review, the volume of hedge fund transactions in scope was low enough to provide little to no real advantage for statistical sampling, so we reviewed the entire population of transactions. For 2018, the number of hedge fund transactions was higher, with 298 in scope. Using the same statistical sampling table that we used to determine the Private Equity transaction sample, but using the line for a population of 298, (see table on previous page) we concluded that there was limited value in going through the process of generating a random sample. So instead of "de-selecting" about one third of the hedge fund transactions, Waterside reviewed each hedge fund file. We can therefore treat the 298 hedge fund transactions as our sample as well as our population.

As a result of our hedge fund transaction file review, we had a variety of questions for which we needed to request additional information or clarification from JPMCB. As in prior years, we found those further discussions generally produced the file documentation that we needed. However, for two of those transaction files the response indicated a technology issue in the company's standard processes in one jurisdiction. Our observations on those two accounts and subsequent recommendations are included in the body of the report. For statistical purposes, two issues from 298 files are well within the statistical norms used for this analysis.

CERTIFICATION

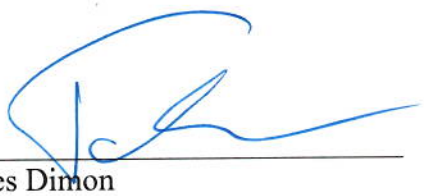
I am the principal legal officer of JPMorgan Chase Bank, N.A. Pursuant to Section III.E of the Order under Rule 506(d) of the Securities Act of 1933 Granting a Waiver of the Rule 506(d)(1)(iii) Disqualification Provision issued by the Securities and Exchange Commission on December 18, 2015, I certify that I have reviewed the written report of Waterside Enterprises LLC, dated December 5, 2019.

Stacey Friedman
General Counsel
JPMorgan Chase Bank, N.A.

Date: 12/16/2019

CERTIFICATION

I am the principal executive officer of JPMorgan Chase Bank, N.A. Pursuant to Section III.E of the Order under Rule 506(d) of the Securities Act of 1933 Granting a Waiver of the Rule 506(d)(1)(iii) Disqualification Provision issued by the Securities and Exchange Commission on December 18, 2015, I certify that I have reviewed the written report of Waterside Enterprises LLC, dated December 5, 2019.



James Dimon
Chief Executive Officer and President
JPMorgan Chase Bank, N.A.

Date: 12/17/19