UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

U.S. SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **v.** **J.P. MORGAN SECURITIES LLC (f/k/a J.P. MORGAN SECURITIES INC.),** **Defendant.**	**COMPLAINT** **[Securities Fraud]** **11-CV-___________ ( )** **ECF CASE**

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows against the defendant J.P. Morgan Securities LLC (f/k/a J.P. Morgan Securities Inc.) ("J.P. Morgan Securities"):

SUMMARY

1. The Commission brings this securities fraud action relating to the structuring and marketing of a largely synthetic collateralized debt obligation ("CDO") called Squared CDO 2007-1 ("Squared"). The investment portfolio for Squared consisted primarily of credit default swaps ("CDS") referencing other CDO securities whose value was tied to the United States residential housing market. J.P. Morgan Securities structured and marketed this $1.1 billion "CDO squared" in early 2007 when the housing market and the securities referencing it were beginning to show signs of distress. Synthetic CDO squareds were designed to, and did, result in leveraged exposure to the housing market and therefore magnified losses when the United States housing market experienced a downturn.

2. J.P. Morgan Securities' marketing materials for Squared – including the pitch book, term sheet, and offering circular – all represented that the investment portfolio of Squared was selected by GSCP (NJ) L.P. ("GSC"), a registered investment adviser with experience analyzing credit risk in CDOs. Undisclosed in the marketing materials and unbeknownst to investors, a large hedge fund, Magnetar Capital LLC ("Magnetar"), with economic interests adverse to investors in Squared, played a significant role in the portfolio selection process with the knowledge of J.P. Morgan Securities. While participating in the selection of the investment portfolio, Magnetar shorted a substantial portion of the assets it helped to select by entering into CDS to buy protection on them. The CDO securities Magnetar shorted had a notional value of approximately $600 million, representing over half of Squared's investment portfolio. (Magnetar also invested $8.9 million in Squared's subordinated notes, or equity.)

3. J.P. Morgan Securities sold approximately $150 million of the so-called "mezzanine" tranches of Squared's liabilities ("Notes") -- representing the riskiest notes of the deal after the equity -- to a group of approximately 15 institutional investors ("Mezzanine Investors"). The Mezzanine Investors included a faith-based not-for-profit membership organization headquartered in Minneapolis, Minnesota (Thrivent Financial for Lutherans), a company that provides insurance and retirement products based in Topeka, Kansas (Security Benefit Corporation) and financial institutions located in East Asia (Tokyo Star Bank, Far Glory Life Insurance Company Ltd., Taiwan Life Insurance Company Ltd., and East Asia Asset Management Ltd.).

4. Three asset-backed commercial paper conduits administered by J.P. Morgan Securities (the "JPM Conduits") purchased the $935 million super-senior tranche in Squared. These investments were backstopped by a J.P. Morgan Securities bank affiliate.

5. The deal priced on April 19, 2007, and closed on May 11, 2007. J.P. Morgan Securities was paid approximately $18.6 million for structuring and marketing the transaction. Squared declared an event of default on January 18, 2008. By January 29, 2008, 50% of the CDO securities in the investment portfolio had been downgraded and another 34% of the portfolio was on negative downgrade watch. While J.P. Morgan Securities and its affiliates sustained losses on nearly the entire investment by the JPM Conduits – a total of approximately $880 million – it avoided potentially substantial losses on the investment portfolio by placing the Notes with the Mezzanine Investors and closing the deal.

6. By engaging in the conduct described herein, J.P. Morgan Securities violated Sections 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C. §77q(a)(2) and (3)] ("the Securities Act") by negligently misrepresenting a key deal term, namely, who selected the collateral. A violation of Sections 17(a)(2) and (3) of the Securities Act may be established by a showing of negligence. See Aaron v. SEC, 448 U.S. 690, 697 (1980). The Commission seeks injunctive relief, disgorgement of profits, prejudgment interest, civil penalties and other appropriate and necessary equitable relief from the defendant.

JURISDICTION AND VENUE

7. This Court has jurisdiction and venue over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), 77v(a)]. J.P. Morgan Securities transacts business in this judicial district and, directly or indirectly, made use of the

means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged herein.

DEFENDANT

8. **J.P. Morgan Securities LLC** (f/k/a J.P. Morgan Securities Inc.) is the principal U.S. broker-dealer of J.P. Morgan Chase & Co., a global investment banking, securities and investment management firm headquartered in New York City. J.P. Morgan Securities structured and marketed Squared.

FACTS

A. J.P. MORGAN SECURITIES'S STRUCTURING OF THE SQUARED TRANSACTION

GSC Agrees to Select the Portfolio for Squared

9. J.P. Morgan Securities executed an engagement letter with GSC on or about January 11, 2007, pursuant to which J.P. Morgan Securities agreed to arrange and place a CDO squared with an investment portfolio of primarily cash and synthetic investments in CDOs, and GSC agreed to select and manage that portfolio. GSC was a registered investment adviser with knowledge of the domestic housing market and expertise in analyzing CDO securities. GSC promoted itself as relying on proprietary research and modeling that included extensive quantitative and qualitative processes to select and manage CDO investment portfolios. As of December 31, 2006, GSC had closed nine structured finance CDO transactions and had more than $12.9 billion in structured finance assets under management and over $22 billion in total assets under management.

The Warehousing and Collateral Selection Process

10. A CDO squared is a complex, highly-leveraged structured product. Investors receive payments out of the interest and principal received on an investment portfolio of CDO securities or, where the CDO squared is synthetic, payments related to CDS referencing CDO securities (collectively, "CDO securities"). The CDO securities are packaged and generally held by a special purpose vehicle ("SPV") that issues notes entitling the holders to payments derived from the underlying CDO securities. A CDO squared comes into being at its closing date when the SPV purchases CDO securities from the entity that structured the CDO using money obtained by selling notes to investors.

11. The notes issued by a CDO squared are securities with defined risk profiles determined by a hierarchical, tranched structure. The cash flows from the investment portfolio of CDO securities are divided according to defined rights among the tranches of the CDO squared in a waterfall fashion. The "super senior" AAA-rated tranche is at the top of the waterfall with the first right to receive principal and interest if there is a shortfall. As a result, it has the highest credit quality, meaning the lowest likelihood of being affected by problems in the underlying collateral. The lower "mezzanine" tranches are junior in priority and, therefore, carry more risk. Mezzanine investors are generally the first rated note holders to experience losses associated with a deterioration of the underlying collateral. Below the mezzanine tranches are the subordinated notes, or equity, which are the unrated riskiest notes and the first to experience losses.

12. Prior to the closing date, it is typical for the entity that structures a CDO squared to have acquired, at the direction of the collateral manager, most of the collateral on behalf of the SPV. This pre-closing process is called "warehousing." During the warehouse period, the entity that structures the CDO squared typically finances the acquisition of

collateral and places acquired collateral in a segregated account or "warehouse." The process of acquiring collateral for the warehouse is often referred to as "ramping" and the individual CDO securities or bonds are often referred to as "names."

13. The collateral is owned and held by the entity that structured the CDO squared subject to a forward commitment to transfer the collateral to the SPV on the closing date when the SPV generally acquires the collateral on the original terms. The SPV uses the proceeds from the sale of notes to investors to pay the entity that structured the CDO for the collateral.

Squared Collateral Selection Process - Phase One

14. The collateral selection and warehousing processes for Squared began on or about January 12, 2007 – the day after J.P. Morgan Securities executed an engagement letter with GSC. The engagement letter provided that J.P. Morgan Securities would function as warehouse provider for Squared pursuant to a separate written agreement. Between January 12 and February 7, 2007, GSC selected for the warehouse 27 names or CDO securities with a notional value of $436.4 million. The collateral selected and placed in the J.P. Morgan Securities warehouse during this phase was selected by GSC with little or no input from Magnetar. Magnetar bought protection on, or shorted, three of the selected CDO securities with a notional value of $60 million. The short counterparties on the remaining 24 CDO securities were identified using a "bid wanted in competition" or "BWIC" process, in which a list of bonds is submitted to various brokers to solicit bids for protection on those bonds. J.P. Morgan Securities entered into a warehouse agreement with GSC on or about February 14, 2007.

Squared Collateral Selection Process - Phase Two

15. On or about January 29, 2007, J.P. Morgan Securities executed a letter agreement with Magnetar obligating Magnetar to purchase the equity of Squared. Although it committed to purchase the equity, Magnetar recognized that its short position was the motivating economic factor in an internal Magnetar email sent January 29, 2007, in which it characterized its equity position as "basically nothing" and explained its motivation for the transaction as "just doing it. . . to buy some protection." By the time the deal closed in May 2007, Magnetar's $600 million short position dwarfed its $8.9 million long position and gave it economic incentives adverse to the Mezzanine Investors.

16. Shortly thereafter, Magnetar began to play a significant role in the process of selecting the remaining collateral for Squared. At the same time, Magnetar took the short positions on the vast majority of the synthetic CDO securities included in the investment portfolio. Between February 8 and 23, 2007, GSC ramped 19 CDO securities with a notional value of $365 million. Magnetar bought the protection on 18 of those CDO securities with a notional value of $360 million. Electronic mail messages among Magnetar, GSC, and/or J.P. Morgan Securities document Magnetar's significant involvement in the collateral selection process.

17. On February 8, 2007, Magnetar informed GSC via electronic mail message that "[it would] like to do a list of names with [them]… if [they] have them ready." GSC promised to "[g]et [Magnetar] … a list shortly," and on February 9, 2007, gave Magnetar a list of 12 proposed CDO securities for the Squared portfolio. Magnetar agreed to short six of the 12

CDO securities. On February 12, 2007, GSC asked J.P. Morgan Securities to include these six CDO securities in the warehouse for Squared in an electronic mail message that made clear Magnetar's intent to short the collateral. J.P. Morgan Securities approved all six trades. GSC included all six of the CDO securities identified by Magnetar in the portfolio on February 13, 2007. Magnetar was the counterparty to all six CDO securities, adding $120 million in notional value to the portfolio. The other six CDO securities that Magnetar did not have an interest in shorting were neither included in the portfolio nor bid out to the market (using the customary BWIC process) to find other potential buyers. In an internal electronic mail message sent on February 13, 2007, a J.P. Morgan Securities salesperson expressed the view, "We all know [Magnetar] wants to print as many deals as possible before everything completely falls apart . . . . "

18. On February 20, 2007, Magnetar took a short position on two more CDO securities added into the portfolio with a notional value of $40 million; one CDO security was proposed by Magnetar, and the other by GSC. J.P. Morgan Securities negotiated these trades with Magnetar rather than bidding the CDO securities out to the market. That same day, GSC gave Magnetar a list of 12 additional proposed CDO securities for Squared and sought approval from J.P. Morgan Securities to include these CDO securities in the warehouse.

19. On February 23, 2007, GSC informed Magnetar that J.P. Morgan Securities had granted warehouse approval for all 12 CDO securities, and asked Magnetar to identify the CDO securities on which it wanted to take a short position. Magnetar chose 10 of the 12 CDO securities. That same day, after obtaining warehouse approval from J.P. Morgan Securities, GSC included the 10 CDO securities that Magnetar chose, with a total notional value of $200 million, into the portfolio. Magnetar was the counterparty to all 10 of these CDO securities.

The two CDO securities that Magnetar did not have an interest in taking a short position on were not included in the portfolio or bid out to the market to find other potential buyers.

J.P. Morgan Securities Closes the Warehouse for Squared

20. Prior to closing, J.P. Morgan Securities as structurer bore the "warehouse risk" associated with the CDO squared, meaning that in the event the deal failed to close, was downsized, or the SPV otherwise failed to purchase the collateral, J.P. Morgan Securities would suffer any losses associated with the deterioration of the investment portfolio. Warehouse risk is one of the principal risks associated with the CDO structuring business.

21. On or about February 24, 2007, J.P. Morgan Securities closed the warehouse for Squared, meaning it stopped acquiring collateral for the portfolio, as a result of disruptions in the credit markets. On or about March 7, 2007, J.P. Morgan Securities' senior management requested an update on the Squared transaction. On or about March 8, 2007, J.P. Morgan Securities' senior management received via electronic mail a summary of the transaction. According to that summary, the notional amount of the portfolio then being held in the warehouse was $802 million, of which Magnetar had taken a short position on $390 million. The summary also noted that J.P. Morgan Securities had already suffered a $40 million mark-to-market accounting loss on the portfolio.

22. Senior management pressed the deal team responsible for the Squared CDO to avoid permanent losses on the transaction and continued to receive periodic briefings on Squared in March and April 2007. The deal team knew that the $40 million mark-to-market accounting loss on the collateral in the warehouse could be reversed and other potentially

significant losses avoided if they were able to sell the Notes and, thereby, transfer the collateral to the SPV at closing.

Squared Collateral Selection Process - Phase Three

23. Magnetar continued to be significantly involved in the collateral selection process for Squared. In early April 2007, J.P. Morgan Securities, GSC and/or Magnetar regularly exchanged lists of CDO securities for the investment portfolio for Squared. On April 5, 2007, GSC sent J.P. Morgan Securities a list of 31 CDO securities for warehouse approval. That list indicated that 10 of the 31 CDO securities had elicited "prelim[inary] interest from Magnetar" and four additional CDO securities were the subject of an "agreed trade with Magnetar."

24. On or about April 7, 2007, J.P. Morgan Securities sent Magnetar a list of 28 names for the possible inclusion in the Squared's portfolio. This list included at least 10 names on which Magnetar had previously decided it did not want to take a short position. Magnetar forwarded the list to GSC and noted that, "[J.P. Morgan Securities] sent us what the rest of the portfolio looks like, want to make sure you signed off on this. To be honest, I don't love it, some recent deals I'd like to get in there are missing. Also, think they're missing some of the trades to which we've already agreed. Lets discuss [sic]." In an internal electronic mail sent on April 8, 2007, Magnetar characterized J.P. Morgan Securities' list as "stupid" and explained that it needed to "use GSC to get some decent shorts off on the balance of the portfolio." All 10 CDO securities that Magnetar had previously declined to take short positions on were excluded from the final portfolio.

25. On April 9, 2007, GSC and Magnetar discussed certain bonds to include in the balance of the Squared portfolio. GSC sent Magnetar a copy of a list they had discussed that day and "highlighted the names which [Magnetar] had interest in shorting into the deal." GSC then told Magnetar that they would "focus [their] internal credit review on … [the names for which Magnetar wanted to take a short position]."

26. On April 10, 2007, J.P. Morgan Securities again discussed with Magnetar certain CDO securities to include in the balance of the Squared portfolio. Magnetar sent J.P. Morgan Securities "a file that list[ed] proposed trades/backstops … [that Magnetar had] … discussed with GSC which would finish out the portfolio . . . ." According to Magnetar, "[m]any of the bonds [were] still pending GSC's internal approval. Assuming that Magnetar and GSC [were] more more-or-less on the same page, then [Magnetar] would be comfortable moving forward . . . ." Magnetar then informed J.P. Morgan Securities of the possibility of increasing or "upsizing" the size of previously agreed upon trades to "try[] to make the asset selection process as easy as possible by using known and agreed deals."

27. On April 17, 2007, J.P. Morgan Securities sent GSC a list of CDO securities, 12 on which Magnetar had agreed to take a short position, and asked GSC if all of the CDO securities on the list had been approved. That same day, Magnetar sent J.P. Morgan the CDO list and noted that it "looks like we [Magnetar] are shorting in $168 million."

28. Additional lists were exchanged between Magnetar and J.P. Morgan Securities on April 18, 2007, and an agreement was reached on the vast majority of the remaining CDO securities for the Squared portfolio. Late that afternoon, J.P. Morgan Securities sent GSC an

updated Squared portfolio stating "These are the names and levels agreed with Magnetar." The deal priced on April 19, 2007.

29. On April 30, 2007, J.P. Morgan Securities circulated internally via electronic mail a power point presentation entitled "GSC CDO Squared – Transaction post-mortem." The presentation noted that the "Collateral pool was identified between GSC Group and the equity investor." The equity investor was Magnetar.

30. As late as May 4, 2007, Magnetar informed GSC that it "need[ed] a few more bonds for Squared. [Magnetar] agreed to a few that JPM didn't put in because they were saving room for swaps . . . Lets revive what you have approved and finish up [sic]." GSC responded, "Yes. I think we need one more to close a[t] 95 percent. Then we need to finalize the rest of the port[folio]."

31. In May 2007, Magnetar shorted at total of 12 CDO securities into the portfolio with a notional value of $183.9 million. None of these names were bid out to the market, as Magnetar was pre-identified as the buyer. The following chart summarizes the three phases of the warehousing and portfolio selection for Squared:

Phase	Total Notional Value ($)	Total Number of Names	Magnetar Short Position ($)	Number of Magnetar Names
I	436.4M	27	60M	3
II	365M	19	360M	18
III	293.9M	19	183.9M	12
Total	1.1B	65	603.9M	33

B. J.P. MORGAN SECURITIES'S WORLDWIDE SALES EFFORT

32. Beginning in March 2007, J.P. Morgan Securities considered mitigating its growing mark-to-market accounting losses on the Squared transaction and avoiding additional potential losses on the collateral in the warehouse in a number of ways. One alternative J.P. Morgan Securities considered was to close the warehouse permanently and dismantle the deal; however, this likely would have had adverse economic consequences if the United States housing market (and the securities that referenced it) continued to deteriorate. Ultimately, J.P. Morgan Securities sought to mitigate its losses by closing the deal and moving the collateral out of the warehouse and off its balance sheet. Doing so involved an aggressive effort to sell the Notes to the Mezzanine Investors.

33. J.P. Morgan Securities embarked upon a worldwide effort to sell the mezzanine tranches of Squared in March and April 2007. J.P. Morgan Securities' sales force faced a number of challenges as the United States housing market was showing signs of distress. According to contemporaneous, internal J.P. Morgan Securities documents, a "[b]lowout of the subprime market resulted in a lack of pricing transparency in the mezzanine ABS CDOs and the underlying mortgage collateral" and a "[m]ajority of investors globally stopped taking direct and indirect subprime exposure." A number of traditional United States and European CDO investors rejected Squared. According to a contemporaneous, internal document, J.P. Morgan Securities responded by launching an "opportunistic global distribution" that focused on "[a]lternative pockets of cash beyond the historic go-to-guys" and "alternative investor appetite in Japan and Non-Japan Asia, Australia and the Middle East."

34. On March 19, 2007, J.P. Morgan Securities' point person for Squared's European distribution notified her sales force concerning the transaction, urging "we really

need your help on this one. This is a top priority from the top of the bank all the way down." The J.P. Morgan Securities employee in charge of Squared's global distribution effort encouraged the sales team to focus on Squared, emphasizing in an email on March 22, 2007, that "we are soooo pregnant with this deal, we need a wheel-barrel to move around…. Let's schedule the cesarian, please!"

35. J.P. Morgan Securities' sales and marketing employees repeatedly emphasized to investors the advantages of having GSC select and manage the portfolio. J.P. Morgan Securities knew that emphasizing that the portfolio had been selected by GSC would assist in selling the Notes of Squared. The Risk Factor section of the offering circular for Squared provided in relevant part that, "the performance of the CDS Portfolio Assets and the Funded Portfolio Assets depends heavily on the Collateral Manager in analyzing, selecting and managing the CDS Portfolio Assets and the Funded Portfolio Assets. As a result, the Issuer will be highly dependent on the financial and managerial experience of the Collateral Manager and certain of its officers . . ."

36. Unbeknownst to the Mezzanine Investors, the collateral selection process involved significant input from Magnetar, which engaged in back-and-forth negotiations with GSC and J.P. Morgan Securities pursuant to which an agreement was reached on the portfolio. Statistical analyses conducted in connection with the Commission staff's investigation indicate that Magnetar's involvement in the collateral selection process contributed, beginning in early 2008, to the negative performance of Squared's investment portfolio.

C. <u>DISCLOSURES RELATING TO THE COLLATERAL SELECTION PROCESS</u>

37. J.P. Morgan Securities' marketing materials for Squared, including the pitch book, term sheet and offering circular, represented that GSC selected the investment portfolio but failed to disclose that Magnetar, a party with economic interests adverse to the Mezzanine investors, played a significant role in the selection of the investment portfolio.

38. J.P. Morgan Securities' March 2007 pitch book for Squared represented in its "Executive Summary" that "[t]he portfolio will be selected and managed by GSC Group." The pitch book included an overview of GSC that described its senior management team, business strategy, expertise, and credit selection process; a CDO report of a bond expected to be approved for the transaction; a CDO report for a bond declined for inclusion in the deal; a summary of the performance of other portfolios managed by GSC; and background information about GSC's management team. Similarly, J.P. Morgan Securities' April 2007 term sheet for the Squared CDO described GSC as the "Portfolio Selector."

39. On or about May 10, 2007, J.P. Morgan Securities finalized an offering circular for Squared. The cover page of the offering circular represented that, "[t]he investment portfolio will be managed by GSCP (NJ), L.P., an investment adviser that is registered under the U.S. Investment Advisers Act of 1940." The offering circular summary represented that the investment portfolio was selected by GSC in accordance with its "research, credit analysis and judgment." The Management Agreement section provided that GSC would "perform its obligations . . . with reasonable care and in good faith" and would "follow its customary standards, policies and procedures."

40. Although the offering circular did have a risk factor that disclosed that a noteholder may hold a short position with respect to the CDO securities or buy credit

protection with respect to the CDO securities, and that a noteholder may act with respect to those positions "without regard to whether any such action might have an adverse effect on the Issuer, the Noteholders, related Reference Entity or any Reference Obligation," this disclosure did not indicate that such a noteholder was involved in the portfolio selection process.

41. J.P. Morgan Securities' sales efforts emphasized the advantages of having GSC select and manage the Squared investment portfolio. J.P. Morgan Securities' head of distribution on the Squared transaction described GSC as "the core of the marketing argument for this transaction." J.P. Morgan Securities emphasized in writing to investors the benefits of having GSC serve as collateral manager, including that investors would "benefit from GSC's look-through loan level credit underwriting process and loan level RMBS monitoring model."

D. SQUARED'S MEZZANINE INVESTORS

42. J.P. Morgan Securities sold Notes with a par value of $150 million to the Mezzanine Investors, a group of approximately fifteen (15) institutional investors including seven located in the United States and eight located overseas (the Mezzanine Investors actually paid $145.8 million due to modest pricing discounts). The Mezzanine Investors lost most, if not all, their principal when their Notes became nearly worthless months after closing. J.P. Morgan Securities provided each Mezzanine Investor marketing materials, including a term sheet, pitch book, and/or offering circular, that represented that GSC selected Squared's investment portfolio. Those representations were materially misleading because, unbeknownst to the Mezzanine Investors, Magnetar, a party with economic interests adverse to investors, played a significant role in the selection of the investment portfolio.

43. All of the ten Mezzanine Investors interviewed by the Commission staff indicated that they would have considered it important to their investment decision to have known that the equity investor in Squared had shorted approximately half of the investment portfolio and played a significant role in the collateral selection process.

44. The seven domestic Mezzanine Investors in Squared were Thrivent Financial for Lutherans, a Minneapolis, Minn.-based, not-for-profit life insurance organization ($10 million notional); General Motors Asset Management, a New York City-based asset manager for General Motors' pension plans ($10 million notional); Security Benefit Corporation, a Topeka, Kansas-based provider of insurance and retirement products ($12 million notional); Moneygram International Inc., a Minneapolis, Minn.-based provider of global money transfer and bill payment services ($15 million notional); Fifth Third Asset Management Inc., a Cincinnati, Ohio-based investment advisor and mutual fund company ($4 million notional); Morgan Asset Management Inc., the Birmingham, Alabama-based asset management unit of broker-dealer Morgan & Keegan Co. ($6 million notional); and Dillon Read Finance L.P., a New York City-based affiliate of a hedge fund unit within UBS known as Dillon Read Capital Management ($20 million notional).

45. The eight foreign Mezzanine Investors were two Taiwanese life insurance companies, Far Glory Life Insurance Company Ltd. ($5 million notional) and Taiwan Life Insurance Company Ltd. ($3 million notional); three banks, Paris-based Caisse D'Epargne ($20 million notional), Tokyo-based Tokyo Star Bank ($8 million notional) and Singapore-based United Overseas Bank ($13 million notional); two asset managers, Hong Kong-based East Asia Asset Management Ltd. ($1 million notional) and Tel Aviv-based Leader Capital

Markets Ltd. ($2 million notional); and Sydney-based hedge fund, Basis Pac-Rim Opportunity Fund ($10 million notional).

46. J.P. Morgan Securities offered and sold the Notes in New York, New York, and delivered them to the Mezzanine Investors in book-entry form through the Depository Trust Company in New York, New York.

CLAIM FOR RELIEF

Sections 17(a)(2) and (3) of the Securities Act

47. Paragraphs 1-46 are realleged and incorporated herein by reference.

48. As set forth above, J.P. Morgan Securities, in the offer or sale of securities or securities-based swap agreements, by the use of the means or instruments of interstate commerce or by the mails, directly or indirectly, obtained money or property by means of untrue statements of material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities in violation of Section 17(a)(2) and (3) of the Exchange Act [15 U.S.C. § 77q(a)(2) & (3)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a judgment:

A. Permanently restraining and enjoining J.P. Morgan Securities from violating Section 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C. §77q(a)(2) and (3)];

B. Ordering J.P. Morgan Securities to disgorge all profits that it obtained as a result of its conduct, acts or courses of conduct described in this Complaint, and to pay prejudgment interest thereon; and

C. Ordering J.P. Morgan Securities to pay civil monetary penalties pursuant to Section 20(d)(2) of the Securities Act [15 U.S.C. § 77t (d)(2)].

Dated: Washington, D.C.
June ___ , 2011

Respectfully submitted,

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