J.P.Morgan

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549
Attention Ms. Nancy M. Morris

Colin W. McKechnie
Managing Director

Via email: rule-comments@sec.gov

June 8, 2012

Re: File number S7-08-07 Amendments to Financial Responsibility Rules for Broker-Dealers

Dear Sir and Madam,

JPMorgan Chase Bank, N. A. ("JPMorgan") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed amendments to Rule 15c3-3 "Customer Protection – Reserves and Custody of Securities" (the "Proposal") and in particular to the proposed addition of a new paragraph (e)(5).

The Commission has proposed limitations on the amount of cash that a broker-dealer can deposit in a special reserve bank account for the exclusive benefit of customers ("Special Reserve Bank Accounts") at an unaffiliated bank in order to meet its reserve requirements to address the Commission's concerns about concentration risk at a single institution. JPMorgan is an industry leader in providing regulated accounts solutions and was the first bank to offer a cash option that met customer protection rules.

Certain aspects of the proposed rules, e.g. the proposed limitations in the form of proposed paragraph 15C3-3 (e)(5), may result in additional administrative costs and may impose significant operational burden on certain broker-dealers. Hence we suggest considering whether the Commission's concerns could be better addressed through other prudential rules.

Current Guidelines and Proposal

Rule 15c3-3[1] requires broker-dealers to take certain steps to protect customer assets, including maintaining in a Special Reserve Bank Account cash and/or qualified securities equal to the difference between the amount of money the firm owes customers and the amount of money customers owe the firm. For the purpose of the broker-dealer meeting its reserve requirements under Rule 15c3-3, the Commission proposes to (1) exclude cash deposits at banks affiliated with the broker-dealer and (2) place limits on the amount of Rule 15c3-3 deposits ("a Deposit") a broker-dealer could maintain in a Special Reserve Bank Account at a single unaffiliated bank. Specifically, the Proposal requires a broker-dealer to limit a Deposit at an unaffiliated bank to the lower of either 50% of the broker-dealer's excess net capital ("the 50 Percent Rule") or 10% of the bank's equity capital.

[1] 17 C.F.R. § 240.15c3-3

1 Chase Manhattan Plaza, Floor 58, New York, New York 10005-1401
Telephone 212 552 7500 Facsimile 212 552 6568 mckechnie_c@jpmchase.com

JPMorgan Chase Bank, N.A.

In response to the Proposal we have the following observations:

1. Proposal does not cover credit risk of deposit taking bank

The Proposal is meant to address concerns that a broker-dealer could experience a loss or may not be able to access cash if the bank at which the Deposit is maintained experiences financial difficulty and the broker-dealer's required reserves are concentrated with one single bank. Whilst the management of concentration risks is an important aspect to safeguard customer assets, we believe that the Commission's proposal does not fully address this issue.

Under the Proposal a broker-dealer would be limited in the amount of cash it can deposit with one single unaffiliated bank; apart from the 50 Percent Rule, deposits are limited to 10 percent of the bank's equity capital. However, the Proposal does not require the broker-dealer to take into account the credit quality of that unaffiliated bank. Whilst limits to mitigate concentration risk is an effective means, any benefits to diversification need to be balanced with the benefit of the quality of the counterparty .

2. Proposal creates operational burden potentially leading to operational risk

A likely result of the 50 Percent Rule could be that the broker-dealer will transition from a liquid and flexible system where it can easily move Deposits in accordance with the reserve requirement, to a situation requiring additional resources, oversight, management and reconciliation in order to effectively manage cash in accounts at multiple banks.

If a broker-dealer elects to use qualified securities[2] as opposed to cash to meet all or part of its reserve requirement, then the broker-dealer will likely have a significant amount of additional operational and transactional costs. Certain broker-dealers may be required to hire additional staff to manage and maintain a securities portfolio. Managing a pool of qualified securities involves a myriad of tasks such as monitoring income collection, redemption processing, marking the securities to market, collateral substitutions and collateral segregation amongst other tasks.

Although JPMorgan recognizes that the 50 Percent Rule will achieve a limitation to concentration risk, it is likely to enhance the administrative burden and operational risk for those broker-dealers that, as a result of the Proposal, need to deposit cash with several unaffiliated banks. Internal research indicates that, based on the 50 Percent Rule, it is very likely that for the largest US Broker Dealers who opt to meet their 15c3-3 requirements with cash, at least 20% of these would need to place their Deposits with more than ten banks.

3. Limitation to the number of available banks meeting broker-dealers' internal criteria

In the event of an unexpected disruption in the market for qualified securities, whereupon substantial amounts of securities will be converted into cash, broker-dealers may be hard pressed to find adequate banks offering deposits which meet their own internal credit standards, or with which they maintain banking relationships; adding a potential impediment to comply with the proposed rules.

[2] As defined in paragraph (a)(6) of rule 15c3-3

1 Chase Manhattan Plaza, Floor 58, New York, New York 10005-1401
Telephone 212 552 7500

JPMorgan Chase Bank, N.A.

4. Basel III and the capital treatment of Deposits

Under the new Basel III rules, banks may need to characterize Deposits as non operational cash, leading to less favorable liquidity treatment specifically under the Liquidity Coverage Ratio ("LCR"), as opposed to, for instance, consumer deposits. As the investment options of these funds will be restricted to highly liquid securities, likely making such investments uneconomical, many banks will be hesitant to accept Deposits. Therefore the LCR will likely regulate the level of Deposits which banks are willing to accept, and reduce the number of banks available to provide these services to broker-dealers.

We would welcome the Commission's view to achieve more diversification with deposit taking banks, in conjunction with the required treatment by those banks of Deposits under the LCR.

Recommended approach

As indicated above, the 50 Percent Rule favors risk mitigation through diversification. However this does not necessarily ensure that Deposits are placed with the most creditworthy banks and therefore does not properly mitigate an impairment of any deposit taking bank. Even in case the LCR acts as a self regulating ratio for banks to indicate the level of Deposits which they are willing to accept, in the event a deposit taking bank does not meet its LCR, a recomposition of its balance sheet can be a timely process. As such JPMorgan recommends that broker-dealers will be limited to place Deposits only with those banks that meet certain minimum qualitative standards to be set by the Commission- relating to the financial stability of the Deposit taking bank.

For smaller broker-dealers JPMorgan recommends that these should be able to continue to hold their Deposits with one deposit taking bank which meets the above mentioned qualitative standards.

Moreover JPMorgan is of the opinion that broker-dealers should continue to be able to place Deposits with affiliated banks as long as those banks meet the above mentioned qualitative standards.

Finally – in order to mitigate any concentration risk but avoid the administrative burden and potentially associated risks of using multiple banks to place Deposits – JPMorgan recommends increasing the threshold for the excess net capital, from the proposed 50% to for instance 100% (which would decrease the average number of bank accounts a broker-dealer would need to use as mentioned under observation 2 by 50%).

Once again, JPMorgan appreciates the opportunity to comment on the proposed changes to rule 15C3-3 and would be pleased to discuss any of the points raised in this letter in more detail.

Yours faithfully,

Colin McKechnie

Managing Director J.P. Morgan Trading Services

1 Chase Manhattan Plaza, Floor 58, New York, New York 10005-1401
Telephone 212 552 7500

JPMorgan Chase Bank, N.A.