

January 9, 2013

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U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0506

Re: *Securities and Exchange Commission v. J.P. Morgan Securities LLC; EMC Mortgage, LLC; Bear Stearns Asset Backed Securities I, LLC; Structured Asset Mortgage Investments II, Inc.; SACO I, Inc.; and J.P. Morgan Acceptance Corporation I*, Case No. 1:12-cv-01862 (D.D.C. Jan. 8, 2013)

Dear Mr. Scheidt:

We submit this letter on behalf of our client, J.P. Morgan Securities LLC (“JPMS”), a defendant in the above-captioned civil proceeding, which was filed on November 16, 2012.

JPMS seeks the assurance of the staff of the Division of Investment Management (the “Staff”) that it would not recommend any enforcement action to the U.S. Securities and Exchange Commission (the “Commission”) under Section 206(4) of the Investment Advisers Act of 1940 (the “Advisers Act”) and Rule 206(4)-3 thereunder (the “Rule”), if any investment adviser that is required to be registered pursuant to Section 203 of the Advisers Act pays JPMS, or any of its associated persons as defined in Section 202(a)(17) of the Advisers Act, a cash solicitation fee, directly or indirectly, for the solicitation of advisory clients in accordance with the Rule, notwithstanding the existence of a judgment (the “Judgment”)¹ (as described below) that otherwise would preclude such an investment adviser from paying such a fee, directly or indirectly, to JPMS or certain related persons. While the Judgment does not operate to prohibit or suspend JPMS or any of its associated persons from being associated with or (except as provided in Section 9(a) of the Investment Company Act of 1940, from which Section relief has been separately requested as described in footnote 2) acting as an investment adviser and does not relate to solicitation activities on behalf of any investment adviser, it may affect the ability of JPMS and its associated persons to receive such payments.² The Staff in many other instances

¹ *Securities and Exchange Commission v. J.P. Morgan Securities LLC; EMC Mortgage, LLC; Bear Stearns Asset Backed Securities I, LLC; Structured Asset Mortgage Investments II, Inc.; SACO I, Inc.; and J.P. Morgan Acceptance Corporation I*, Case No. 1:12-cv-01862 (D.D.C. Jan. 8, 2013).

² Under Section 9(a) of the Investment Company Act of 1940 (“Investment Company Act”), JPMS; EMC Mortgage, LLC; Bear Stearns Asset Backed Securities I, LLC; Structured Asset Mortgage Investments II, Inc.; SACO I, Inc.; and J.P. Morgan Acceptance Corporation I, the settling defendants (collectively, the “Defendants”) and their affiliated persons will, as a result of the Judgment, be prohibited from serving or acting as, among other things, an investment adviser or depositor of any registered investment company or principal underwriter for any registered

Douglas J. Scheidt, Esq
January 9, 2013
Page 2

has granted no-action relief under the Rule in similar circumstances. The staff of the Division of Enforcement has informed us that it does not object to the grant of the requested no-action relief.

BACKGROUND

The staff of the Division of Enforcement engaged in settlement discussions with JPMS; EMC Mortgage, LLC; Bear Stearns Asset Backed Securities I, LLC; Structured Asset Mortgage Investments II, Inc.; SACO I, Inc.; and J.P. Morgan Acceptance Corporation I, the settling defendants (collectively, the “Defendants”) in connection with the above-captioned civil proceeding, which was brought alleging violations of Sections 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C § 77q(a)(2), (3)] (the “Securities Act”). As a result of these discussions, the Defendants submitted an executed Consent to Entry of Final Judgment (the “Consent”) that was presented by the staff of the Commission to the United States District Court for the District of Columbia when the Commission filed its complaint against the Defendants in the civil action (the “Complaint”). In the Consent, the Defendants agreed to consent to the entry of a final judgment as described below, without admitting or denying allegations made in the above-captioned proceeding (other than those relating to jurisdiction of the district court over them and the subject matter solely for purposes of that action).

The Complaint alleged that the Defendants violated Sections 17(a)(2) and (3) of the Securities Act in connection with their alleged conduct related to certain offerings of residential mortgage-backed securities. The Judgment, among other things, restrains and enjoins the Defendants and their agents, servants, employees, attorneys and all persons in active concert or participation with them who receive actual notice of the Judgment from violating, directly or indirectly, Sections 17(a)(2) and (3) of the Securities Act. Additionally, pursuant to the

open-end investment company or registered unit investment trust. JPMS, the other Defendants and their affiliated persons who act in the capacities set forth in Section 9(a) of the Investment Company Act filed an application under Section 9(c) of the Investment Company Act requesting the Commission to issue both temporary and permanent orders exempting them, and JPMS and the other Defendants’ future affiliated persons should any of them serve or act in any of the capacities set forth in Section 9(a) in the future, from the restrictions of Section 9(a). The applicants believe that they meet the standards for exemptive relief under Section 9(c), and they expect that the Commission will issue a temporary order prior to or simultaneous with the Judgment, and a permanent order in due course thereafter. In no event will JPMS, the other Defendants or any of their affiliated persons act in any capacity enumerated in Section 9(a) unless and until the Commission issues an order pursuant to Section 9(c) of the Investment Company Act exempting them from the prohibitions of Section 9(a) of the Investment Company Act resulting from the Judgment. On January 9, 2013, the Commission issued a temporary order (SEC Release No. IC-30347) effective as of the date of the Judgment, and the applicants expect the Commission will issue a permanent order in due course thereafter.

Douglas J. Scheidt, Esq
January 9, 2013
Page 3

Judgment, the Defendants will pay, collectively, disgorgement in the amount of \$177,700,000, prejudgment interest in the amount of \$34,865,536, and a civil monetary penalty of \$84,350,000.

DISCUSSION

The Rule prohibits an investment adviser that is required to be registered under the Advisers Act from paying a cash fee to any solicitor that has been temporarily or permanently enjoined by an order, judgment or decree of a court of competent jurisdiction from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security. Entry of the Judgment would cause JPMS to be disqualified under the Rule and, accordingly, absent no-action relief, JPMS would be unable to receive cash payments from advisers required to be registered for the solicitation of advisory clients.

In the release adopting the Rule, the Commission stated that it “would entertain, and be prepared to grant in appropriate circumstances, requests for permission to engage as a solicitor a person subject to a statutory bar.”³ We respectfully submit that the circumstances present in this case are precisely the sort that warrant a grant of no-action relief.

The Rule’s proposing and adopting releases explain the Commission’s purpose in including the disqualification provisions in the Rule. The purpose was to prevent an investment adviser from hiring as a solicitor a person whom the adviser was not permitted to hire as an employee, thus doing indirectly what the adviser could not do directly. In the proposing release, the Commission stated that:

[b]ecause it would be inappropriate for an investment adviser to be permitted to employ indirectly, as a solicitor, someone whom it might not be able to hire as an employee, the Rule prohibits payment of a referral fee to someone who ... has engaged in any of the conduct set forth in Section 203(e) of the [Advisers] Act ... and therefore could be the subject of a Commission order barring or suspending the right of such person to be associated with an investment adviser.⁴

³ See Requirements Governing Payments of Cash Referral Fees by Investment Advisers, Inv. Adv. Act Rel. No. 688 (July 12, 1979), 17 S.E.C. Docket (CCH) 1293, 1295.

⁴ See Requirements Governing Payments of Cash Referral Fees by Investment Advisers, Inv. Adv. Act Rel. No. 615 (Feb. 2, 1978), 14 S.E.C. Docket (CCH) 89, 91.

Douglas J. Scheidt, Esq
January 9, 2013
Page 4

The Judgment does not bar, suspend, or limit JPMS or any person currently associated with JPMS from acting in any capacity under the federal securities laws (except as provided in Section 9(a) of the Investment Company Act).⁵ JPMS has not been sanctioned for conduct in connection with the solicitation of advisory clients for investment advisers. The Judgment does not pertain to advisory activities. Accordingly, consistent with the Commission's reasoning, there does not appear to be any reason to prohibit any investment adviser from paying JPMS or its associated persons for engaging in solicitation activities under the Rule.

In addition, the need for the no-action relief requested is neither theoretical nor speculative, but instead is concrete. JPMS currently is contractually entitled to receive cash compensation from investment advisers in connection with its solicitation of advisory clients for such advisers. The Staff previously has granted numerous requests for no-action relief from the disqualification provisions of the Rule to individuals and entities found by the Commission to have violated a wide range of federal securities laws and rules thereunder or permanently enjoined by courts of competent jurisdiction from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security.⁶

⁵ See footnote 2.

⁶ See, e.g., Wells Fargo Bank, N.A., SEC No-Action Letter (pub. avail. Sept. 21, 2012); J.P. Turner and Company, L.L.C. et al., SEC No-Action Letter (pub. avail. Sept. 10, 2012); GE Funding Capital Market Services, Inc., SEC No-Action Letter (pub. avail. Jan. 25, 2012); J.P. Morgan Securities LLC, SEC No-Action Letter (pub. avail. July 11, 2011); J.P. Morgan Securities LLC, SEC No-Action Letter (pub. avail. June 29, 2011); UBS Financial Services Inc., SEC No-Action Letter (pub. avail. May 9, 2011); Citigroup Inc., SEC No-Action Letter (pub. avail. Oct. 22, 2010); Banc of America Investment Services, Inc., SEC No-Action Letter (pub. avail. June 10, 2009); Barclays Bank PLC, SEC No-Action Letter (pub. avail. June 6, 2007); Morgan Stanley & Co. Incorporated, SEC No-Action Letter (pub. avail. May 15, 2006); American International Group, Inc., SEC No-Action Letter (pub. avail. Feb. 21, 2006); Goldman, Sachs & Co., SEC No-Action Letter (pub. avail. Feb. 23, 2005); Morgan Stanley & Co. Incorporated, SEC No-Action Letter (pub. avail. Feb. 4, 2005); Prime Advisors, Inc., SEC No-Action Letter (pub. avail. Nov. 8, 2001); Legg Mason Wood Walker, Inc., SEC No-Action Letter (pub. avail. June 11, 2001); Dreyfus Corp., SEC No-Action Letter (pub. avail. March 9, 2001); Prudential Securities Inc., SEC No-Action Letter (pub. avail. Feb. 7, 2001); Tucker Anthony Inc., SEC No-Action Letter (pub. avail. Dec. 21, 2000); J.B. Hanauer & Co., SEC No-Action Letter (pub. avail. Dec. 12, 2000); Founders Asset Management LLC, SEC No-Action Letter (pub. avail. Nov. 8, 2000); Credit Suisse First Boston Corp., SEC No-Action Letter (pub. avail. Aug. 24, 2000); Janney Montgomery Scott LLC, SEC No-Action Letter (pub. avail. July 18, 2000); Aeltus Investment Management, Inc., SEC No-Action Letter (pub. avail. July 17, 2000); William R. Hough & Co., SEC No-Action Letter (pub. avail. Apr. 13, 2000); In the Matter of Certain Municipal Bond Refundings, SEC No-Action Letter (pub. avail. Apr. 13, 2000); In the Matter of Certain Market Making Activities on Nasdaq, SEC No-Action Letter (pub. avail. Jan. 11, 1999); PaineWebber Inc., SEC No-Action Letter (pub. avail. Dec. 22, 1998); Nations Bank Investments, Inc., SEC No-Action Letter (pub. avail. May 6, 1998); Morgan Keegan & Co., Inc., SEC No-Action Letter (pub. avail. Jan. 9, 1998); Merrill Lynch, Pierce, Fenner & Smith, Inc., SEC No-Action Letter (pub. avail. Aug. 7, 1997); Gruntal & Co., SEC No-Action Letter (pub. avail. July 17, 1996); Salomon Brothers Inc., SEC No-Action Letter (pub. avail. Jan. 26, 1994); BT Securities Corporation, SEC No-Action Letter (pub. avail. Mar. 30, 1992); Kidder Peabody & Co. Inc., SEC No-Action Letter (Oct. 11, 1990); First City Capital Corp., SEC No-Action Letter (pub. avail. Feb. 9, 1990); RNC Capital Management Co., SEC No-Action Letter (pub. avail. Feb. 7, 1989); and Stein Roe & Farnham Inc., SEC No-Action Letter (pub. avail. Aug. 25, 1988).

Douglas J. Scheidt, Esq
January 9, 2013
Page 5

UNDERTAKINGS

In connection with this request, JPMS undertakes:

1. to conduct any cash solicitation arrangement entered into with any investment adviser registered or required to be registered under Section 203 of the Advisers Act in compliance with the terms of Rule 206(4)-3 except for the investment adviser's payment of cash solicitation fees, directly or indirectly, to JPMS, which is subject to the Judgment;
2. to comply with the terms of the Judgment, including, but not limited to, payment of disgorgement and the civil penalty; and
3. that, for ten (10) years from the date of the entry of the Judgment, JPMS or any investment adviser with which they have a solicitation arrangement subject to Rule 206(4)-3 will disclose the Judgment in a written document that is delivered to each person whom JPMS solicit (a) not less than 48 hours before the person enters into a written or oral investment advisory contract with the investment adviser or (b) at the time the person enters into such a contract, if the person has the right to terminate such contract without penalty within five (5) business days after entering into the contract.

CONCLUSION

We respectfully request the Staff to advise us that it will not recommend enforcement action to the Commission if an investment adviser that is required to be registered with the Commission pays JPMS a cash payment for the solicitation of advisory clients, notwithstanding the Judgment.

Best regards,



Gail S. Ennis