

United States Senate
Committee on Finance
Washington, D.C. 20510

For Immediate Release

Wednesday, April 2, 2008

Senators seek details of executive compensation, SEC knowledge of Bear Stearns collapse

WASHINGTON — Senators Chuck Grassley and Max Baucus are asking company leaders about compensation and severance arrangements provided to top management personnel at Bear Stearns and JP Morgan Chase as part of the merger agreement reached last month.

The senators are also asking the Securities and Exchange Commission questions about the agency's role in and reaction to the Bear Stearns collapse.

Various forms of compensation, including stock options, deferred compensation arrangements, and health care and other employee benefits are provided favorable treatment under the tax code. Baucus is Chairman and Grassley is Ranking Member of the Senate Finance Committee, which is responsible for tax legislation and oversight. The Finance Committee also has jurisdiction over U.S. debt and the Treasury-backed securities used to guarantee the Bear Stearns deal.

The text of the letters follows here.

April 2, 2008

Mr. Alan D. Schwartz
President and Chief Executive Officer
The Bear Stearns Companies Inc.
383 Madison Avenue
New York, NY 10179

Mr. James Dimon
Chairman and Chief Executive Officer
JPMorgan Chase & Co.
270 Park Avenue
New York, NY 10017

Dear Messrs. Schwartz and Dimon:

We would like assistance from you in providing information to us and our staff regarding the compensation and severance arrangements provided to top management personnel at Bear Stearns and JPMorgan Chase prior to and as a result of the merger agreement. Various forms of compensation, including stock options, deferred compensation arrangements, and health care and

other employee benefits, are provided favorable treatment under the tax code. As Chairman and Ranking Member of the Finance Committee, it is our responsibility to oversee not only these compensation programs and our federal tax and benefits laws related thereto, but more generally any activities involving bonded debt of the United States.

In order to assist the Committee in understanding the compensation and severance arrangements, please provide complete copies of the following documents for all C-level employees at Bear Stearns and JPMorgan Chase as of March 1, 2008, as well as any material amendments or contemplated amendments to those arrangements:

- (a) Employment contracts;
- (b) Deferred compensation arrangements;
- (c) Severance plan details;
- (d) Preferred stock and other equity based compensation arrangements; and
- (e) Any other compensation arrangements, including expense reimbursements.

Thank you for your prompt cooperation on these important matters. We look forward to hearing from you by no later than April 9, 2008.

Sincerely,

Max Baucus
United States Senator
Chairman of the Committee on Finance

Chuck Grassley
United States Senator
Ranking Member of the Committee on Finance

April 2, 2008

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Cox:

As Chair and Ranking Member of the Senate Finance Committee ("the Committee"), we asked our staff to review the details of the Bear Stearns-JPMorgan Chase transaction ("the transaction"), as announced on Sunday, March 16, 2008. On March 14, prior to its sudden collapse, Bear Stearns stock was trading near \$60 per share. By Monday, March 17, it was less than \$5 per share.

In light of the recent Bear Stearns-JPMorgan Chase transaction and the federal government's role in the resolution, it is appropriate for this Committee to request complete details on the role of current regulatory oversight leading up to the transaction, with respect to the conduct of business, the influence of outside parties, including the potential role of hedge funds, and the compensation of executives. The potential impact of these factors on the financial situation that resulted in the lending of treasury securities and the taxable compensation of the principals require that this Committee have a full understanding of these policies.

As the supervisor of broker-dealer holding companies under the Consolidated Supervised Entities (CSEs) Program, the SEC is also responsible for setting capital and liquidity standards for companies integral to our financial system, such as Bear Stearns. Given what has occurred, it seems reasonable to ask whether the standards set by the SEC were adequate and whether the company was able to avoid compliance with those standards.

Accordingly, please provide the Committee with a detailed explanation of the SEC's role in and reaction to the Bear Stearns collapse, including but not limited to answers to the following questions:

1. What steps is the SEC taking to re-assess the liquidity standards imposed on CSEs?
2. What enforcement mechanisms exist to ensure compliance with the standards and do those mechanisms need to be strengthened to avoid similar problems with other CSEs?
3. To what extent was the collapse in investor confidence in Bear Stearns a reflection of uncertainty created by investments and liabilities maintained off the balance sheets and thus not transparent to the public markets?
4. According to press reports, JPMorgan Chase has already promised some senior Bear Stearns officials retention packages. When will the SEC receive disclosures regarding any special executive compensation arrangements associated with the transaction and what is the SEC doing to ensure that those disclosures are complete and accurate?
5. Will the SEC be examining executive compensation provisions for Bear Stearns upper-management in light of the company's collapse, including any special arrangements as part of the deal between Bear Stearns and JPMorgan Chase?
6. When was the SEC informed of the deal and what role, if any, did it play in its negotiation?
7. According to New York Stock Exchange (NYSE) Rule 312.03(c) (1), shareholder approval is required for the issuance of stock with voting power 20% or greater than outstanding shares. Yet, JPMorgan purchased 39.5% of Bear Stearns through the issuance of new shares without shareholder approval. As part of its responsibility to provide oversight of Self-Regulatory Organizations (SROs), such as the NYSE, please describe the extent to which the SEC reviewed or approved this portion of the transaction in light of that rule.

8. To what extent is the SEC investigating any anomalous trading or potential manipulation surrounding this extraordinary event? Is the SEC examining, for example, those with the 10 or 15 largest short positions in Bear Stearns just before the collapse?
9. Has the SEC received any referrals or other notifications from SROs related to suspicious trading or potential manipulation surrounding the transaction? If so, please describe in detail the size, scope, and suspicious nature of the transactions or manipulative activities.
10. Has the SEC taken any special measures to ensure that suspicious trades or potential manipulation surrounding the transaction are identified and investigated as quickly as possible? If so, please explain.
11. Has the SEC sought to obtain from the parties timelines, documents, the names of those who represented the parties to the transaction, or other materials? If not, please indicate whether, under what circumstances, and in what timeframe the SEC intends to do so.
12. Just days before the transaction was announced, you publicly expressed confidence in the "capital cushion" of Bear Stearns and other CSEs. On what did you base your conclusion and why did it prove to be apparently inaccurate in light of later events?

According to a December 10, 2007, Wall Street Journal article, as well as regulatory filings, the SEC had an investigation underway of Bear Stearns for improperly valuing mortgage securities. Given that this may have represented an opportunity for the SEC Enforcement Division to uncover systemic market risks much earlier, we would like to learn more about this case and why it did not progress to an enforcement action, as well as any similar related cases. Accordingly, please provide the Committee:

1. Copies of any Wells Notices or draft Wells Notices related to Bear Stearns prepared by the SEC since 2005;
2. a timeline of the decision-making process within the SEC that led to a decision not to bring an enforcement action against Bear Stearns as well as an explanation of the reasons for declining to bring an enforcement action; and
3. a description of any and all communications between Bear Stearns executives or their representatives and senior SEC officials, including but not limited to Commissioners, the Director of Enforcement, Associate Directors of Enforcement, and Assistant Directors of Enforcement, as well as records relating to those communications.

Thank you for your prompt cooperation on these important matters. We look forward to hearing from you by no later than April 16, 2008.

Sincerely,

Max Baucus
United States Senator

Chairman of the Committee on Finance

Chuck Grassley
United States Senator
Ranking Member of the Committee on Finance

cc: David Kotz, Inspector General
Securities and Exchange Commission