

DAN BURTON, INDIANA,
CHAIRMAN

BENJAMIN A. GILMAN, NEW YORK
CONSTANCE A. MORELLA, MARYLAND
CHRISTOPHER SHAYS, CONNECTICUT
ILEANA ROS-LEHTINEN, FLORIDA
JOHN M. MCHUGH, NEW YORK
STEPHEN HORN, CALIFORNIA
JOHN L. MICA, FLORIDA
THOMAS M. DAVIS, VIRGINIA
MARK E. SOUDER, INDIANA
STEVEN C. LATOURETTE, OHIO
BOB BARR, GEORGIA
DAN MILLER, FLORIDA
DOUG OSE, CALIFORNIA
RON LEWIS, KENTUCKY
JO ANN DAVIS, VIRGINIA
TODD RUSSELL PLATTS, PENNSYLVANIA
DAVE WELDON, FLORIDA
CHRIS CANNON, UTAH
ADAM H. PUTNAM, FLORIDA
C.L. "BUTCH" OTTER, IDAHO
EDWARD L. SCHROCK, VIRGINIA
JOHN J. DUNCAN, JR., TENNESSEE

ONE HUNDRED SEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074
FACSIMILE (202) 225-3974
MINORITY (202) 225-5051
TTY (202) 225-6852

www.house.gov/reform

April 12, 2002

HENRY A. WAXMAN, CALIFORNIA,
RANKING MINORITY MEMBER

TOM LANTOS, CALIFORNIA
MAJOR R. OWENS, NEW YORK
EDOLPHUS TOWNS, NEW YORK
PAUL E. KANJORSKI, PENNSYLVANIA
PATSY T. MINK, HAWAII
CAROLYN B. MALONEY, NEW YORK
ELEANOR HOLMES NORTON,
DISTRICT OF COLUMBIA
ELIJAH E. CUMMINGS, MARYLAND
DENNIS J. KUCINICH, OHIO
ROD R. BLAGOJEVICH, ILLINOIS
DANNY K. DAVIS, ILLINOIS
JOHN F. TIERNEY, MASSACHUSETTS
JIM TURNER, TEXAS
THOMAS H. ALLEN, MAINE
JANICE D. SCHAKOWSKY, ILLINOIS
WM. LACY CLAY, MISSOURI
DIANE E. WATSON, CALIFORNIA
STEPHEN F. LYNCH, MASSACHUSETTS

BERNARD SANDERS, VERMONT,
INDEPENDENT

Mr. William B. Harrison, Jr.
President and Chief Executive Officer
JPMorgan Chase
270 Park Avenue
New York, N.Y. 10017

Dear Mr. Harrison:

I am writing to ask for information about certain transactions that JPMorgan Chase conducted with Enron Corp. that may have allowed Enron to covertly borrow money without the loan appearing on its balance sheet as a loan. These transactions involved a number of special-purpose entities (SPEs), principal among them an Enron subsidiary named Sequoia Financial Assets.

I would appreciate your responding to the questions I have posed below.

JPMorgan Chase's Transactions with Enron

In recent months, questions have been raised about JPMorgan Chase's close relationship to Enron. Indeed, earlier this week, JPMorgan Chase was named as a co-defendant in two consolidated class-action lawsuits that have been filed on behalf of Enron employees and shareholders.¹ Both lawsuits cite JPMorgan Chase's participation in LJM2, an Enron SPE that allegedly allowed Enron to inflate its reported profits while enriching investors at the company's expense.²

¹*Pamela M. Tittle, et al., v. Enron Corp., et al.*, Civil Action No. H-01-3913 (consolidated) (S.D. Tex.); *Mark Newby, et al., v. Enron Corp., et al.*, Civil Action No. H-01-3624 (consolidated) (S.D. Tex.).

²"The transactions between Enron and the LJM partnerships resulted in Enron increasing its reported financial results by more than a billion dollars, and enriching [CFO Andrew] Fastow and his co-investors by tens of millions of dollars at Enron's expense." *Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp.*, 8-9 (Feb. 1, 2002).

Mr. William B. Harrison, Jr.
April 12, 2002
Page 2

The lawsuits also cite JPMorgan Chase's role in allegedly helping Enron to disguise loans as energy sales through transactions conducted with Mahonia Ltd., an offshore company set up by JPMorgan Chase. JPMorgan Chase reportedly received as much as \$100 million in revenues from Mahonia.³ The Mahonia transactions are the subject of a separate lawsuit filed by JPMorgan Chase against several insurance companies.⁴ The defendants in that case have alleged that the energy trades were shams and the federal judge hearing the case recently agreed that "these arrangements now appear to be nothing but a disguised loan -- or at least have sufficient indicia thereof that the Court could not possibly grant judgment" to JPMorgan Chase. The Federal Reserve Bank of New York is also reportedly investigating the Mahonia transactions.⁵

The Sequoia Transactions

While the Mahonia and LJM2 transactions have attracted public attention and scrutiny, little attention has been paid to a similar series of Enron-JPMorgan Chase transactions involving SPEs named Sequoia, Choctaw, Cherokee, Zephyrus, and Enron Finance Partners. Those transactions are detailed in another JPMorgan Chase lawsuit that seeks to force Enron to turn over more than \$2.1 billion that Enron is allegedly holding on behalf of JPMorgan Chase.⁶ As described by JPMorgan Chase in its court filings, the Sequoia transactions do not appear to have served a legitimate economic purpose. Rather, on their face, they appear to have been designed to allow Enron to covertly borrow hundreds of millions of dollars in undisclosed loans.

In one set of transactions, summarized in an attachment to this letter, a group of lenders including JPMorgan Chase loaned \$485 million to an SPE named Choctaw Investors.⁷ Choctaw also received \$15 million from certain unidentified investors. Choctaw then invested the \$500 million in an SPE named Cherokee Finance. Cherokee in turn loaned the \$500 million, plus another \$750 million from an entity named Cheyenne Finance, to Sequoia Financial Assets,

³*Trading Charges: Lawsuit Spotlights J.P. Morgan's Ties to the Enron Debacle*, Wall Street Journal (Jan. 25, 2002). Chase Manhattan Bank set up Mahonia before Chase's merger with JP Morgan & Co.

⁴*JPMorgan Chase Bank v. Liberty Mutual Insurance Co., et al.*, Case No. 01-11523 (S.D.N.Y.).

⁵*New York Fed Probes Trade Accounting of J.P. Morgan Chase in Enron Dealings*, Wall Street Journal (Feb. 22, 2002).

⁶*JPMorgan Chase Bank v. Enron Corp., et al. (In re. Enron Corp., et al.)*, Case No. 01-16034 (Bankr. S.D.N.Y.).

⁷The attached diagram was part of JPMorgan Chase's court filings.

another Enron subsidiary and SPE. The loan was apparently structured so that, on the first day of each month, Cherokee would loan Sequoia \$1.25 billion. This amount would then be treated as repaid in full on the last day of the month, only to be loaned again the next day. Since balance sheets are generally prepared as of the end of the month, this series of transactions allowed Sequoia (and Enron) to avoid reporting the debt. However, it appears that the repayment never actually occurred. Instead, Enron was allowed to hold the "repayment" overnight at the end of each month on behalf of the recipient, Cherokee. Thus, it appears that Enron was able to keep the money until it was loaned again the next day.

A similar set of transactions involved an Enron subsidiary named Enron Finance Partners (EFP) and another SPE named Zephyrus Investments. This series of transactions is summarized in a diagram attached to this letter that JPMorgan Chase filed in court. Lenders including JPMorgan Chase loaned \$482 million to Zephyrus, while an unidentified equity investor put another \$18 million into Zephyrus. Zephyrus invested the \$500 million in EFP, which took the money -- plus another \$125 million from various Enron entities -- and loaned it to Sequoia. As with the Cherokee transactions, the EFP loan was structured so that repayment would appear to occur at the end of each month, though no money would actually change hands.

These transactions raise a number of troubling questions:

1. Were the Sequoia transactions designed, in whole or in part, to allow Enron to borrow money without the loans showing up on the company's balance sheet as loans? In your answer, please specify the purpose (or purposes) of the Sequoia transactions and describe the interactions between Enron and JPMorgan Chase that led to the structuring of the Sequoia transactions.
2. Why were the Sequoia transactions structured so that Enron was able to avoid repaying the loan when it came due at the end of each month?
3. How did Enron account for the Sequoia transactions? Was Enron's actual accounting for the transactions different from what JPMorgan Chase expected?
4. How much money did JPMorgan Chase and its fellow lenders receive from their involvement in these transactions? How much money did the unidentified equity investors in Choctaw and Zephyrus receive from their involvement in these transactions? In your answers, please identify all the lenders and investors and the amount of money each invested or loaned.
5. Were any of the SPEs identified above -- Sequoia, Choctaw, Cherokee, Zephyrus, and Enron Finance Partners -- consolidated subsidiaries of Enron? In your response, please identify the officers of each SPE. In addition, please identify any investors or partners in each SPE not identified in your response to question (4).

Mr. William B. Harrison, Jr.

April 12, 2002

Page 4

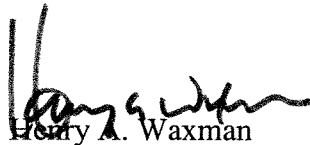
6. Is JPMorgan Chase aware of any other transaction(s) involving SPEs that may have allowed Enron to effectively obtain loans without disclosing the loans' existence or to inflate Enron's revenues? If so, please identify and describe the transaction(s) and SPE(s).

7. Were any JPMorgan Chase research analysts aware of the Sequoia transactions? If so, please identify those analysts and specify how they became aware of the transactions.

In addition to your answering these questions, I would appreciate your providing me with any documentation in the possession of JPMorgan Chase that explains or discusses the creation, nature, purpose, terms, or accounting of the Sequoia transactions.

I request that you respond to this letter by April 30, 2002. Thank you for your assistance in this matter.

Sincerely,



Henry A. Waxman
Ranking Minority Member

Attachments

