May 8, 2002

**By Federal Express**

The Hon. Rep. Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives
Congress of the United States
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Waxman:

This letter is in response to your April 12, 2002 letter (hereinafter the "April 12 Letter") requesting information concerning services provided by The Chase Manhattan Bank and certain of its affiliates (collectively, "Chase") to Enron Corp. and certain of its subsidiaries and affiliates (collectively, "Enron"), in connection with transactions involving Sequoia Financial Assets, LLC, its affiliates and other entities (collectively, "Sequoia"). These transactions (the "Sequoia Transactions") took place prior to the merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated ("JPMorgan"), which company was renamed J.P. Morgan Chase & Co. ("JPMorgan Chase or the "Firm").

We welcome the opportunity to respond in detail to each of the questions posed in the April 12 Letter. We trust that our responses will resolve any misunderstandings concerning the Sequoia Transactions and, more broadly, JPMorgan Chase's relationship with Enron.

JPMorgan Chase is recognized as a leading financial institution that adheres to the highest standards of professional integrity. Last year, JPMorgan Chase was named "Bank of the Year" by *International Financing Review*, an independent financial services industry publication that also bestowed upon the Firm eighteen additional awards. Over 99% of the Fortune 1000 companies have been serviced by the Firm's corps of professionals who are among the most experienced, knowledgeable and prudent within the financial services sector of the economy.

As a client of Chase, Enron was offered a wide array of established financial services. Specifically, Chase, and since 2001, JPMorgan Chase, provided services to Enron as a lender, trading counterparty, structured finance provider and mergers and acquisitions advisor. (We understand that Enron used the services of ten so-called "tier one" or lead banks, and perhaps fifty to sixty additional financial institutions, as well.)

JPMorgan Chase, however, does not provide accounting, legal, tax or regulatory advice to clients. That advice comes directly from the clients' own tax advisors, accountants, auditors and attorneys. Nor does JPMorgan Chase structure transactions to avoid compliance with reporting requirements or to perpetrate fraud. Statements to the contrary in the media and in the litigation described in the April 12 Letter are without legal or factual support.*

The gravamen of the claims in the litigation referred to in the April 12 Letter is that JPMorgan Chase, in order to get transaction fees, aided a fraud by Enron by structuring and participating in transactions that it knew were not properly accounted for on Enron's financial statements. On examination, this is a claim that strains credulity. JPMorgan Chase is one of Enron's largest creditors, with approximately $2.6 billion of direct and indirect exposure, approximately $600 million of which is unsecured and over $450 million of which we have already written off as a loss. All that risk of loss was taken on by JPMorgan Chase because it relied on Enron's financial statements and believed Enron was creditworthy. The notion that one of the nation's largest and most respected financial institutions would take on this kind of credit exposure to a company it knew was not creditworthy, and would knowingly risk its reputation and expose itself to additional billions of dollars of legal claims by assisting that company in a fraud -- all to generate fees equal to a tiny fraction of the exposures involved -- is completely illogical and implausible.

It is true that many of Enron's transactions, including some that JPMorgan Chase and many other respected financial institutions participated in, are complex transactions that were structured to provide financing in a way that met various accounting or tax objectives of Enron. Some lawyers in Enron-related litigation, and some press stories based on information from those lawyers, have tried to create the impression that all complex, structured transactions are frauds, but this is simplistic obfuscation. Complex, structured transactions may be unfamiliar to the man on the street, but they are commonplace in the world of corporate finance, and they contribute to the efficiency of the American economy by lowering the cost of capital for business. What is important is to differentiate between transactions that are properly structured and reported in accordance with the applicable accounting and tax rules and transactions where the relevant rules are not followed.

It is within this framework that we address each of the questions raised in the April 12 Letter.

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* There is also no truth to the allegation that JPMorgan Chase was "enriched" by its affiliates' passive investments in the LJM2 limited partnership. To the contrary, to date, those investments have not broken even and there is little, if any, prospect of their ever doing so.

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.**

The Sequoia Transactions were designed to raise financing in the form of minority interest equity financing, a well-established means used regularly by large corporations to meet their capital needs. Such financing has attributes of debt for tax purposes and attributes of equity under Generally Accepted Accounting Principles ("GAAP"). Such financing is appropriately reflected on a company's consolidated balance sheet in the section designated "Liabilities and Shareholder's Equity" under the line item "minority interests."

Companies raise minority interest equity financing by having a consolidated subsidiary sell preferred shares, or other preferred equity interests, to an outside investor that provides the financing. The outside investor does not have voting control of the subsidiary. The company receiving the benefits of the financing maintains control of the subsidiary. The subsidiary is consolidated on the company's consolidated financial statements. Transactions between the company and the subsidiary by which the financing proceeds are made available to the company are not reflected on the company's consolidated statements because GAAP requires only that the minority interest equity contributed by the outside investor be reflected on the statements.

In the first Sequoia Transaction, Choctaw Investors B.V. ("Choctaw"), which is not affiliated with Enron, received a $485,000,000 loan from a group of lenders and a $15,000,000 capital infusion from a third-party equity investor. These funds were used to purchase $500,000,000 of preferred units in Cherokee Finance V.O.F. ("Cherokee"). JPMorgan Chase understood that substantially all of the common equity in, and the voting control of, Cherokee was held indirectly by Enron Corp. In the second transaction, Zephyrus Investments, LLC ("Zephyrus"), another company not affiliated with Enron, received a $482,000,000 loan from a bank group and $18,000,000 in preferred equity from a group of other investors, which it used to purchase $500,000,000 of preferred units in Enron Finance Partners, LLC ("EFP"). Similarly, the information provided to JPMorgan Chase indicated that Enron indirectly owned substantially all of the common equity of EFP and held all voting control of EFP.

The funds raised by Cherokee and EFP were used to purchase senior notes in Sequoia, a subsidiary of Enron. Sequoia was established to provide financing to Enron through the securitization of Enron trade receivables. To that end, Sequoia purchased investment grade accounts receivable of Enron Capital & Trade Resources, now known as Enron North America Corp. ("ENA"). ENA generated receivables from contracts for the supply of electricity or natural gas to certain standing customers. In accordance with industry standards, these contracts and accounts were billed on a monthly cycle. Payments of

receivables were generally due within 30 days. This structure diversified the credit support for the investments made by Cherokee and EFP, and thus for the financing provided by Choctaw and Zephyrus, because there was reliance on non-Enron obligors.

In the Enron Corp. and Subsidiaries Consolidated Financial Statements ("Enron's Financial Statements") for the years ending December 31, 1999 and 2000, Enron reported approximately $2.4 billion in minority interests. While JPMorgan Chase does not have direct knowledge as to the manner in which Enron accounted for the Sequoia Transactions, it was our expectation that, under GAAP, all of the entities described above, other than Choctaw and Zephyrus, would be consolidated on Enron's Financial Statements. The transactions between the consolidated entities, such as the senior notes issued by Sequoia, would be eliminated by the consolidation; and the minority interest preferred provided by Choctaw and Zephyrus was expected to be reflected on Enron's Financial Statements.

As for the interactions that led to the structuring of the Sequoia Transactions, we note that, over the years, JPMorgan Chase held ongoing meetings and discussions with Enron, as it did with its other corporate clients, to review Enron's financing needs. It was in the course of those discussions that Enron met with JPMorgan Chase's structured capital group. That group provided the framework for minority interest equity financing. The Choctaw minority interest equity financing closed in 1999. The subsequent transaction involving Zephyrus closed in 2000.

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?**

We assume that the loan to which you refer are the Sequoia senior notes (the "Notes") which were redeemed at the end of each month. In order fully to respond to your inquiry, we review briefly the rationale for the 30-day redemption period provided in the Notes.

The monthly payment and reinvestment cycle for the Notes coincided with the period during which the third-party receivables became due. Over the course of the month, the receivables would be collected as they came due, and, if Enron remained an investment grade company, Sequoia would use any cash received to purchase interim Enron or ENA short term notes, which would mature on the last day of the month, corresponding to the point at which a new group of receivables was available for purchase by Sequoia. Sequoia would then use cash from the notes and the late maturing receivables to purchase the following month's receivables.

As we understand it, the 30-day reinvestment cycle had no effect on Enron's Financial Statements. We expected that all of the entities involved in the transactions, with the exception of Choctaw and Zephyrus, which owned the preferred interests in Cherokee and EFP, respectively, would be consolidated on Enron's Financial Statements. Thus, any loans between Sequoia and Cherokee or Sequoia and EFP would have been

eliminated by consolidation on Enron's Financial Statements in accordance with GAAP. Put simply, whether loans extended by Cherokee to Sequoia or EFP to Sequoia were repaid at the end of the month, or at any other time during the month, had no bearing on Enron's Financial Statements because the financings were inter-company transactions which would have been eliminated in consolidation.

The only third-party financing involved in the transactions were the preferred investments by Choctaw in Cherokee and by Zephyrus in EFP. It is our understanding that these third-party investments were to be reflected on Enron's Financial Statements as minority interests. This entry would have remained constant notwithstanding any purchase or repayment of the Sequoia Notes.

**3. How did Enron account for the Sequoia Transactions? Was Enron's actual accounting for the transactions different from what JPMorgan Chase expected?**

JPMorgan does not verify or audit the manner in which its clients account for particular transactions. However, as noted above, JPMorgan Chase expected that, under GAAP, the financing provided to Enron in the Sequoia Transactions would be reported as minority interests on Enron's Financial Statements. A review of Enron's Financial Statements indicates that Enron had multiple minority interest financings for a total amount of approximately $2.4 billion, but the components of that figure are not separately identified.

**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.**

JPMorgan Chase was paid a total of approximately $11.5 million for its services in connection with the Sequoia Transactions that provided Enron with $1.0 billion of minority interest equity financing. This included, among other things, services as structuring advisor, administrative agent, arranger, and book manager.

The equity investors in Zephyrus were paid an up-front fee of up to 50 basis points on the face amount of their equity certificates and an ongoing yield of LIBOR + 175 basis points. The Choctaw equity investor received an ongoing yield of LIBOR + 375 basis points.

The Zephyrus lenders were paid an up-front fee of 50 basis points, with interest at LIBOR + 100 basis points. The Choctaw lenders were paid an up-front fee of up to 50 basis points, with an interest rate of LIBOR + 125 basis points.

As to the lenders and investors in Choctaw and Zephyrus, we note that JPMorgan Chase participated in a large syndicate of banks that extended loans to both Choctaw and Zephyrus and that a JPMorgan Chase entity was one of a number of equity investors in Zephyrus. However, because we are concerned about the legitimate privacy concerns of our customers and others with whom we do business, we do not believe that it would be appropriate for us to disclose the names of other third-party investors in Choctaw and Zephyrus or the names of other banks that extended loans to Choctaw or Zephyrus. If you continue to believe this information is necessary and relevant to your concerns after reviewing this letter and the accompanying documents, we would be pleased to discuss the matter further at your convenience.

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).**

See Response to Question 2.

A JPMorgan Chase entity is the managing member of Zephyrus. JPMorgan Chase is not an officer or managing member of any other SPE referred to in the April 12 Letter.

Because we are concerned about the legitimate privacy concerns of others with whom we do business, we do not believe that it would be appropriate for us to disclose the names of the officers of the SPEs referred to in the April 12 Letter. If you continue to believe that this information is necessary and relevant to your concerns after reviewing this letter and the accompanying documents, we would be pleased to discuss the matter further at your convenience.

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).**

As noted in our response to Question 3, JPMorgan Chase does not verify or audit the manner in which its clients account for particular transactions. However, JPMorgan Chase was under the impression that Enron accounted for the Sequoia Transactions as minority interests in accordance with GAAP.

JPMorgan Chase was also under the impression that other financings that the Firm provided to Enron during the course of its relationship were reported on Enron's audited Financial Statements in conformity with GAAP.

We now believe, on the basis of press reports and public information, that Enron improperly failed to consolidate certain SPEs on its Financial Statements. In particular, it

appears that the equity financing of Chewco had some features which should have required Chewco, and therefore also JEDI, to be consolidated on Enron's Financial Statements. If this is correct, it would indicate that assets and liabilities of Chewco and JEDI, including loans to JEDI entities by JPMorgan Chase, should have been reflected on Enron's Financial Statements. Similarly, it appears that a number of the transactions between LJM2 and Enron may not have been accounted for properly. JPMorgan Chase did not participate directly in those transactions and was not aware of accounting problems associated with those transactions until they were publicly disclosed. As you know, JPMorgan Chase, along with a large number of other reputable financial institutions and individuals, was a passive investor in LJM2.

Except as described above, JPMorgan Chase is not aware of having participated in any such transactions involving SPEs that enabled Enron to obtain undisclosed loans or to inflate revenues in violation of the relevant accounting rules.

The allegations made in the litigation referred to in the April 12 Letter, that the Firm assisted Enron in disguising loans, are baseless. We believe that plaintiffs' assertions stem from a fundamental misunderstanding of the different types of financing currently available and used by many Fortune 500 companies to raise capital. Whether a financing should be reported as a loan or some other liability depends on numerous factors and is a determination made by the client's accountants, auditors, and attorneys, not JPMorgan Chase.

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.**

JPMorgan Chase research analysts were not aware of the Sequoia Transactions until they were publicly disclosed.

I am enclosing confidential information memoranda for the Sequoia Transactions which more fully describe those financings. Should you be interested in reviewing any additional materials, we will endeavor to assist you.

Respectfully submitted,

Ahuva Genack

AG/dch
Enclosures