BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 2008

Kathleen A. Juhase, Esq.
Senior Vice President and
Associate General Counsel
JPMorgan Chase & Co.
277 Park Avenue, 19th Floor
New York, New York 10172

Dear Ms. Juhase:

This is in response to the request by JPMorgan Chase & Co. ("JPMC"), New York, New York, for an exemption from section 23A of the Federal Reserve Act and the Board's Regulation W for transactions entered into by JPMorgan Chase Bank, National Association ("JPMC Bank"), Columbus, Ohio, with or relating to Maiden Lane LLC ("Maiden Lane").[1]

Maiden Lane is a Delaware limited liability company established for the purpose of holding and liquidating certain assets of The Bear Stearns Companies, Inc. ("Bear Stearns") that will secure a credit facility to be provided by the Federal Reserve Bank of New York ("FRBNY") to facilitate the acquisition of Bear Stearns by JPMC. Maiden Lane will be capitalized by a $29 billion senior credit facility provided by the FRBNY and a $1 billion subordinated loan provided by JPMC. The anticipated closing date for the FRBNY and JPMC facilities is Thursday, June 26, 2008.

Maiden Lane will use most of the proceeds of these two facilities to purchase from JPMC a portfolio of securities and other financial assets previously owned by Bear Stearns. Maiden Lane will use the remainder of the proceeds of the two facilities to acquire from JPMC the risk positions embedded in a portfolio of related hedge transactions previously owned by Bear Stearns ("Hedge Positions"). To accomplish the transfer of the Hedge Positions, Maiden Lane will enter into a swap transaction with JPMC Bank (the "Master Swap") under which JPMC Bank will synthetically transfer the Hedge Positions to Maiden Lane. To obtain the economics of the Hedge Positions for on-transfer to Maiden Lane, JPMC Bank will in turn enter into swap

[1] 12 U.S.C. § 371c; 12 CFR part 223.

transactions with JPMC ("Bridge Swaps") that will synthetically transfer the Hedge Positions from JPMC to the bank.

Section 23A and Regulation W limit the aggregate amount of "covered transactions" between a bank and any single affiliate to 10 percent of the bank's capital stock and surplus, and limit the aggregate amount of covered transactions between a bank and all its affiliates to 20 percent of the bank's capital stock and surplus.[2] "Covered transactions" include the purchase of assets by a bank from an affiliate, the extension of credit by a bank to an affiliate, the issuance of a guarantee by a bank on behalf of an affiliate, and certain other transactions.[3] The statute and regulation also require a bank to secure its extensions of credit to, and guarantees on behalf of, affiliates with prescribed amounts of collateral.[4]

Regulation W provides that a company that owns 25 percent or more of the total equity capital of another company controls the other company, unless the company presents information to the Board that demonstrates, to the Board's satisfaction, that the company does not control the other company.[5] Because the JPMC facility represents a substantial first-loss exposure to Maiden Lane, JPMC could be viewed as owning more than 25 percent of the total equity capital of Maiden Lane for purposes of Regulation W. Therefore, Maiden Lane could be viewed as an affiliate of JPMC Bank. If Maiden Lane were viewed as an affiliate of JPMC Bank, the Master Swap could be viewed as a covered transaction subject to the quantitative and qualitative limits of section 23A and Regulation W. In addition, regardless of the affiliate status of Maiden Lane, the Bridge Swaps could be viewed as covered transactions between JPMC Bank and JPMC.

Section 23A and Regulation W authorize the Board to exempt, at its discretion, a transaction or relationship from the requirements of the statute and the regulation if the Board finds the exemption to be in the public interest and consistent with the purposes of section 23A.[6] JPMC has requested that the Board exempt from section 23A and Regulation W transactions entered into by JPMC Bank with or relating to Maiden Lane, including the Master Swap and the Bridge Swaps.

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[2] 12 U.S.C. § 371c(a)(1) and 12 CFR 223.11 and 223.12.

[3] 12 U.S.C. § 371c(b)(7) and 12 CFR 223.3(h).

[4] 12 U.S.C. § 371c(c) and 12 CFR 223.14.

[5] 12 CFR 223.3(g)(5).

[6] 12 U.S.C. § 371c(f)(2) and 12 CFR 223.43.

For the following reasons, the Board has determined to exempt from the statute and rule the Master Swap, the Bridge Swaps, and any other transactions between JPMC Bank and either Maiden Lane or JPMC that result in the transfer of the Hedge Positions from JPMC to Maiden Lane. First, the derivative transactions between Maiden Lane, JPMC Bank, and JPMC will be largely offsetting mirror transactions that pass risk positions from JPMC to Maiden Lane. JPMC Bank will act solely as an intermediary between JPMC and Maiden Lane. Although JPMC Bank incurs some amount of counterparty credit risk in the series of derivative transactions, this risk is substantially mitigated by the fact that the bank will at all times be fully collateralized by cash for its mark-to-market exposure to JPMC under the Bridge Swaps.

Second, JPMC will not, directly or indirectly, own any membership interest in Maiden Lane and will have no voting rights with respect to Maiden Lane. In addition, no directors or officers of JPMC will serve as directors, officers, or employees of Maiden Lane. Moreover, although JPMC has a substantial subordinated exposure to Maiden Lane, the FRBNY has the predominant economic interest in Maiden Lane. Granting the exemption also appears to be in the public interest because it will facilitate the consummation of the FRBNY facility.

This determination is specifically conditioned on compliance by JPMC and JPMC Bank with all the commitments and representations made in connection with the request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances of the existing and proposed relationships among JPMC, JPMC Bank, and Maiden Lane. Any material change in those facts and circumstances or any failure by JPMC or JPMC Bank to observe any of its commitments or representations may result in a revocation of the exemption.

Sincerely yours,

Robert deV. Frierson

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation