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Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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File Reference No. 1700-100, Exposure Draft, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (“exposure draft” or “proposed Statement”)

Dear Mr. Golden:

JPMorgan Chase & Co. (“JPMC” or the “Firm”) appreciates the opportunity to comment on the above referenced proposed Statement. We support the Financial Accounting Standards Board’s (the “FASB” or the “Board”) objectives to enhance disclosures surrounding the allowance for credit losses and the credit quality of financing receivables.

Overall, we support the FASB’s decision to require entities to provide information at a disaggregated level. We believe that the spirit of the proposed Statement is consistent with the Disclosure Framework project, recently announced by the FASB, aimed at establishing an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant. Likewise the proposed Statement is complementary to the findings of the Working Group on Public Disclosure, chaired by Walter V. Shipley,¹ which sought to create a common platform for enhanced public disclosure. The Shipley letter identified four basic principles that should be at the centerpiece of any effort to enhance public disclosure: disclosures should reflect information that is consistent with management’s approach to risk management, disclosures should focus on how risk within an entity changes over time, disclosures should be responsive to changes in internal practices, and disclosures should be properly balanced between quantitative and qualitative information. We as a Firm agree with these principles and strive to adhere to them in our public reporting.

However the Firm believes that the proposed Statement is somewhat flawed in that it does not give appropriate consideration to the different accounting models governing purchased versus originated loans. Purchased loans that are accounted for under either SFAS No. 141(R) or SOP 03-3 do not have an

¹ The working group provided the Federal Reserve System, the Securities and Exchange Commission, and the Office of the Comptroller of the Currency with proposed principles for strong disclosure practices in a letter dated January 11, 2001 (Shipley letter). The Working Group consisted of members of Bank of America Corporation, Bank One Corporation, J.P. Morgan Chase & Co., Citigroup Inc., Deutsche Bank AG, Goldman Sachs & Co., HSBC Holdings, PLC, Merrill Lynch & Co., Morgan Stanley Dean Witter, UBS AG, and Wells Fargo Corp.

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allowance for credit losses at the acquisition date since expected credit losses are reflected in the initial carrying amount of the loan. While such loans may eventually require an allowance for loan losses, for some period of time the “allowance” is embedded in the basis of the loan. Similarly, an entity’s general policy for placing financing receivables on nonaccrual status may not be applicable to loans accounted for under SOP 03-3 since that standard generally requires interest income to be recognized as long as cash flows are reasonably estimable. For these reasons, traditional credit statistics, such as allowance coverage ratios, charge-off and nonperforming loan data may be misleading and/or confusing when an entity has significant numbers of both purchased and originated loans.

In part due to the recent credit crisis, the volume of loans subject to SOP 03-3 has increased significantly in the past year. Because SFAS 141(R) is relatively new, it has not yet been broadly applied, but its application is likely to become much more widespread in the future. Therefore, the Firm believes that the Board should take this opportunity to develop a comprehensive and coherent disclosure model that appropriately considers both purchased and originated loans, and that bridges the many differences between their respective accounting models.

In addition, while the proposed Statement seeks to provide consistency across disclosures related to the allowance for credit losses and the credit quality of financing receivables, we believe that some of the requirements of the exposure draft should be reexamined to provide better overall comparability and transparency of financial reporting between firms. The following are JPMC’s general comments in response to the specific issues raised within the proposed Statement:

Scope

The proposed statement requires disclosures on the credit quality and the allowance for credit losses for financing receivables. We believe the scope of the proposed standard should be expanded to include lending-related commitments. Understanding that certain of the proposed disclosure requirements may not be relevant to lending-related commitments (e.g., past due status), it is nonetheless important to include these types of instruments as part of the overall credit risk disclosure framework as many creditors manage lending-related commitments as part of their credit risk portfolios.

Disclosures – Rollforward of financing receivables

Disclosures should be properly balanced between quantitative and qualitative information. To that end, we believe that disclosures should incorporate clear and informative discussions about an entity’s risk factors along with relevant quantitative information that enhances the qualitative discussions, while not providing excessive detail, which may diminish the clarity and usefulness of the overall disclosure. Specifically, we are concerned with the level of quantitative data required to do a rollforward of the financing receivables balances for each portfolio segment.

At large financial institutions the volume of and reasons for changes in financing receivables can be quite large and diverse. Tracking these changes would be time consuming and costly for the preparers, and would not necessarily provide insight into the underlying credit quality of the portfolio. The example provided within Appendix A depicts activities within financing receivables such as originations and sales/repayments. While this disclosure would provide summary level information about the change in the overall balance, this type of information would not meaningfully inform users about the overall change in the credit profile of the portfolio. As such, we believe that financial statement users would better benefit from a qualitative discussion related to the drivers of significant changes in financing receivables and their credit quality, rather than an expanded quantitative disclosure regarding repayments versus new originations.

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Disclosures – Disaggregation by portfolio segment and class

JPMC is supportive of the proposal's principle to present credit quality and allowance information at the "portfolio segment" and "class" levels. We agree with the Board's definition of portfolio segment as the level at which the creditor develops and documents its methodology for determining its allowance for credit losses. We also agree with the proposal's definition of class as a level of information that enables users of financial statements to evaluate the nature and extent of exposure to credit risk arising from financing receivables held by the creditor at the date of the financial statements. Specifically, we support the principle in paragraph 6b that a class should be disaggregated to the level that management utilizes when assessing and monitoring risk performance. We believe it is critical that disclosures reflect information that is consistent with the way an entity risk manages its portfolio.

However we are concerned that the examples provided within Appendix A of the proposed Statement may be viewed as required disaggregation in depicting how entities should present both the "portfolio" and the "class" level of detail. For instance, the example on page 9 splits residential mortgage from other consumer loans as different portfolio segments. If a creditor uses the same methodology in determining the allowance for all consumer loans, including residential mortgages, then this split would not be required under the proposed standard. Therefore, we recommend that the FASB clarify in Appendix A that the tables are for illustration purposes only and that creditors need to apply the principles in paragraphs 5 and 6 in order to determine the appropriate level of disaggregation for both portfolio and class.

Further, as each portfolio segment may or may not be risk managed at a lower level of class, we ask that the Board allow discretion in the requirement to report information at a disaggregated class level. Some portfolio segments may inherently lend themselves to providing information by class level. For example, a consumer segment may report credit statistics by product type (e.g., home mortgage versus auto); while other portfolio segments may have similar credit risk characteristics across the portfolio segment as a whole and therefore not require further disaggregation by class. As such we believe that the proposed Statement should allow the required class level disclosures be done at the portfolio segment level if no further disaggregation is deemed useful.

Disclosures – Impairment and past due information

We recommend that the Board clarify the definition of "impaired" as it is used within the proposed Statement. If the Board intends the definition of impairment to be consistent with the FASB Codification reference 310-10-35-13 (previously SFAS 114), then many consumer loans would be scoped out of the proposed disclosure requirements (unless they have been restructured in troubled debt restructurings). We do not believe that scoping out most consumer loans from the disclosure requirements would be appropriate.

In addition, we agree that creditors should disclose an age analysis of past due financing receivables. However, we are concerned with the example provided within Appendix A as it depicts aging buckets of 31-60, 61-90 and greater than 90 days past due. We believe that this level of granularity is too detailed and unnecessary as it does not provide relevant information to the user. For example, a creditor may take several factors into account when determining whether larger non-homogeneous loans are impaired, other than past due status, including its assessment of the borrower's intent and ability to pay. Thus, aging would not necessarily be the sole indicator, or even a primary indicator, of impairment. Also, for these types of loans, the past due status may cure quickly and therefore reporting a 31-60 aging bucket may not be indicative of the actual credit risk to the portfolio. We recommend that the Board remove these aging buckets in the examples and only include the greater than 90 days past due bucket as required by the proposed Statement.

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Disclosures – Modifications

Regarding the request for the carrying amount of financing receivables that are current but have been modified subsequent to being past due, the Board should clarify which modifications should be presented in the proposed disclosure requirements. We believe that only troubled debt restructurings should be in scope of the proposed Statement or, at a minimum, that minor modifications should be explicitly excluded from the proposed required disclosure requirements. For example, modifications of past-due consumer accounts may occur frequently and take many forms (e.g., extensions, deferrals, and renewals). It is neither operationally feasible nor meaningful to provide information on all modifications. To ensure that the additional disclosures enhance financial reporting, we believe that the Board should clarify the intended scope of this requirement as noted above.

Disclosures – Fair value

As this proposed Statement is meant to address disclosures related to credit quality and the allowance, we do not feel it is appropriate to include disclosure requirements related to fair value, as factors other than credit quality (e.g., market liquidity) may significantly impact the fair value of a financing receivable. Instead we believe that the requirements of previous FASB Statements (SFAS 107, SFAS 157, and SFAS 159) should be upheld as they already address fair value disclosures, and it is not necessary to have multiple sources of guidance related to this topic.

Disclosures – Appendix A examples

As noted above, we believe the examples provided within Appendix A are overly prescriptive and may be perceived as minimum requirements of the proposed Statement. To avoid confusion, we reiterate our earlier recommendation that the Board clarify that the examples presented are for information purposes only and that each firm should present its information in accordance with how it risk manages its portfolio in accordance with the principles outlined in paragraphs 5 and 6 of the proposed Statement. Alternatively, the Board should consider removing the examples from the final standard as we believe the proposed Statement clearly articulates the required qualitative and quantitative disclosures for both the portfolio and class levels and therefore the examples are unnecessary.

If the Board decides to leave the examples in the final standard, then the table on page 11 should be revised. The credit quality indicator table presented on page 11 of the exposure draft shows fair value, however the table presented is an example of a class level disclosure while fair value is only required to be reported at the portfolio segment level in accordance with paragraph 12 of the proposed Statement. We recommend that this example be modified to remove fair value from the table.

Effective Date and Transition

While we are supportive of the FASB's efforts to provide transparency and comparability in reporting as soon as possible, we believe that the effective date of the proposed Statement should consider the timing of other projects currently underway that may have a significant impact on the information presented:

- The Board should examine the level of detail required within the proposed statement to ensure that it does not contradict the work to be undertaken as part of the Disclosure Framework project, which seeks to eliminate disclosure overload.
- The Board should also consider the timing of implementation of this exposure draft in consideration with the Board's financial instruments project, which would potentially amend the accounting standards and disclosure requirements related to financing receivables and the allowance in an attempt to simplify financial instrument reporting. Decisions made as part of this project could alter

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the disclosures required under this proposed Statement, requiring US companies to implement at least two sets of significant changes in disclosures in quick succession. This will not increase transparency surrounding the allowance for credit losses and the credit quality of financing receivables, could confuse users of financial statements, and will be costly for preparers.

* * *

Thank you for your attention to these matters and for considering our views. If you have any questions or would like to discuss our comments further, please do not hesitate to contact me at 212-648-0906 or Giovanna Acquilano at 212-648-0908.

Sincerely yours,



Shannon S. Warren