

May 4, 2010

MEMORANDUM TO: The Executive Secretary's Section
FDIC Legal Division

FROM: Christopher Bellotto
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Legal Division

SUBJECT: Meeting with JPMorgan Chase on
Large Bank Assessment System NPR

Please include this memorandum in the public file for the Proposed Rule on the Large Bank Assessment System, 75 Fed. Reg. 23516 (May 3, 2010).

The FDIC published in the Federal Register a Notice of Proposed Rulemaking requesting comments on its proposal to amend the FDIC's assessment regulations and revise the assessment system applicable to large institutions to better differentiate institutions by taking a more forward-looking view of risk, to better take into account losses that the FDIC will incur if an institution fails, to revise initial assessment rates for all institutions, and to make technical and other changes to the rules governing the risk-based system. 75 Fed. Reg. 23516 (May 3, 2010). Also on May 3, 2010, FDIC staff conducted a telephone conference call with representatives of JPMorgan Chase (JPM) to discuss specific issues relative to possible reporting of criticized/classified assets related to securities financing under the proposed new large bank pricing system. The discussion focused on three areas, as set out below:

1) Collateral or counterparty. JPM and FDIC staff discussed whether the rating, for the purpose of reporting criticized or classified assets, should be based on the counterparty rating or on the rating assigned to the underlying collateral. JPM suggested that exposure should be based on the counterparty rating (but net as discussed below) rather than based on collateral ratings.

2) Netting. JPM and FDIC staff discussed whether the exposures should be reported gross or net of collateral, or whether a possible third option might apply, net of both collateral and offsetting counterparty positions. JPM suggested that exposures be reported net of both collateral and offsetting counterparty positions. The capacity of existing systems to allow the reporting of collateral netting distinct from the counterparty netting was also discussed.

3) Dollar Rolls. JPM and FDIC staff discussed whether dollar rolls should be treated as securities trading or securities lending. JPM observed that for regulatory reporting, Dollar Rolls are treated as securities lending and therefore it made sense to report them as securities lending even though they may be reported internally as securities trading.

FDIC staff encouraged JPM to submit additional comments or suggestions during the comment period.