

TESTIMONY**STATEMENT OF MICHAEL PATTERSON
ON BEHALF OF
J.P. MORGAN CHASE & CO.**

SUBMITTED TO
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
COMMITTEE ON GOVERNMENT AFFAIRS
UNITED STATES SENATE

DECEMBER 11, 2002

Mr. Chairman and Members of the Subcommittee. I am Michael Patterson, a vice chairman of J.P. Morgan Chase (AJPMC@) and head of its Policy Review Office. I am pleased to be here to discuss JPMC=s policies and practices regarding transactions with publicly-traded U.S. companies. As requested in your invitation letter, I will address policies and practices relating most particularly to structured finance, accounting and tax matters.

JPMC and its predecessor firms have long had in place policies and procedures governing transactions with clients. These policies and business transaction approval procedures address, among many other subjects, compliance with external legal and regulatory requirements as well as the aspects of a transaction that could raise reputation risk for the firm. JPMC=s policies and procedures are periodically reviewed and updated to take account of our experience and external developments.

A Structured finance@ encompasses a wide variety of transactions and instruments designed to help clients achieve their risk management, financing, liquidity and other financial objectives within the framework of applicable, and often complex, legal, regulatory, tax and accounting rules and principles. Securitization, special purpose vehicles and derivatives are among the well-recognized techniques used to allocate risks, capital and cash flows to meet client objectives.

To make sure that our structured finance transactions comply in all respects with that framework, the business transactions approval process requires adherence to applicable policies as well as review and sign-off from internal legal/compliance, conflicts, tax and accounting policy groups (among others). Transactions involving a special purpose vehicle receive special scrutiny and must comply with a special purpose vehicle policy (administered by a SPV committee), to ensure that every such entity is properly approved, documented and monitored.

Primary responsibility for adherence with the policies and procedures designed to address reputation risk lies with the business units conducting the transactions in question. In addition to this framework, JPMC this year put in place a new set of procedures designed to reinforce our focus on reputation risk and provide a senior level of review of transactions with clients. Business units are required to submit to regional Policy Review Committees proposed transactions that may raise reputation risk for any reason but specifically including transactions

- where a material objective is to achieve a particular accounting treatment,
- designed to achieve a particular tax treatment,
- where there is material uncertainty about legal or regulatory treatment,
- with unusual or highly complex structures or cash flow profiles, or

-- which have as a significant purpose or effect the providing of financing but which take the form of derivatives.

The members of the regional policy review committees, including the Americas committee, are senior representatives of the business and support units (including tax and accounting policies) in the region. Transactions are reviewed from every angle that could affect reputation risk -- including, where applicable, the intended financial disclosure of the transaction by the client -- and the committee approves, rejects or requires further clarification or changes. The committees and their deliberations are overseen by a Policy Review Office, which I lead. Transaction review can be formally escalated by the committees to the Policy Review Office.

We at J. P. Morgan Chase believe that one of the tests of our leadership in the financial marketplace is to learn from our experiences and to adjust our practices in light of those experiences and the changing environment. I believe that the Policy Review process we have put in place and which I have just outlined, together with our business transaction approval policies and procedures, are well designed to enable us to meet this challenge.

I would be happy to respond to any questions the Chairman or other members of the Subcommittee may wish to put to me regarding the Policy Review Office or process.

[Committee Members](#) | [Subcommittees](#) | [Hearings](#) | [Key Legislation](#) | [Jurisdiction](#)
[Press Statements](#) | [Current Issues](#) | [Video of Select Hearings](#) | [Sites of Interest](#)