

# Safety of Client Assets

January 2009

BROKER DEALER SERVICES

## Account Protection At J.P. Morgan Clearing Corp.

JPMorgan Chase & Co. (NYSE: JPM), is a leading global financial services firm with operations in more than 60 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and governmental clients under its J.P. Morgan and Chase brands. Information about the firm is available at [www.jpmorganchase.com](http://www.jpmorganchase.com).

J.P. Morgan has always placed a high priority on protecting the assets of our clients.

Key components of the firm's commitment to protecting the safety of client assets include the following:

- The bank has built one of the strongest balance sheets in the industry and achieved some of the highest credit ratings from the leading rating agencies.
- Protective legal entity structure: J.P. Morgan Clearing Corp. (JPMCC) is a separately capitalized, guaranteed\* broker-dealer established for the express purpose of holding and financing all customer accounts and clearing and settling all customer transactions.
- Membership in SIPC provides protection for customers' accounts.

## Overview of Client Asset Protection

JPMorgan Chase & Co. Credit Ratings as of January 15, 2009

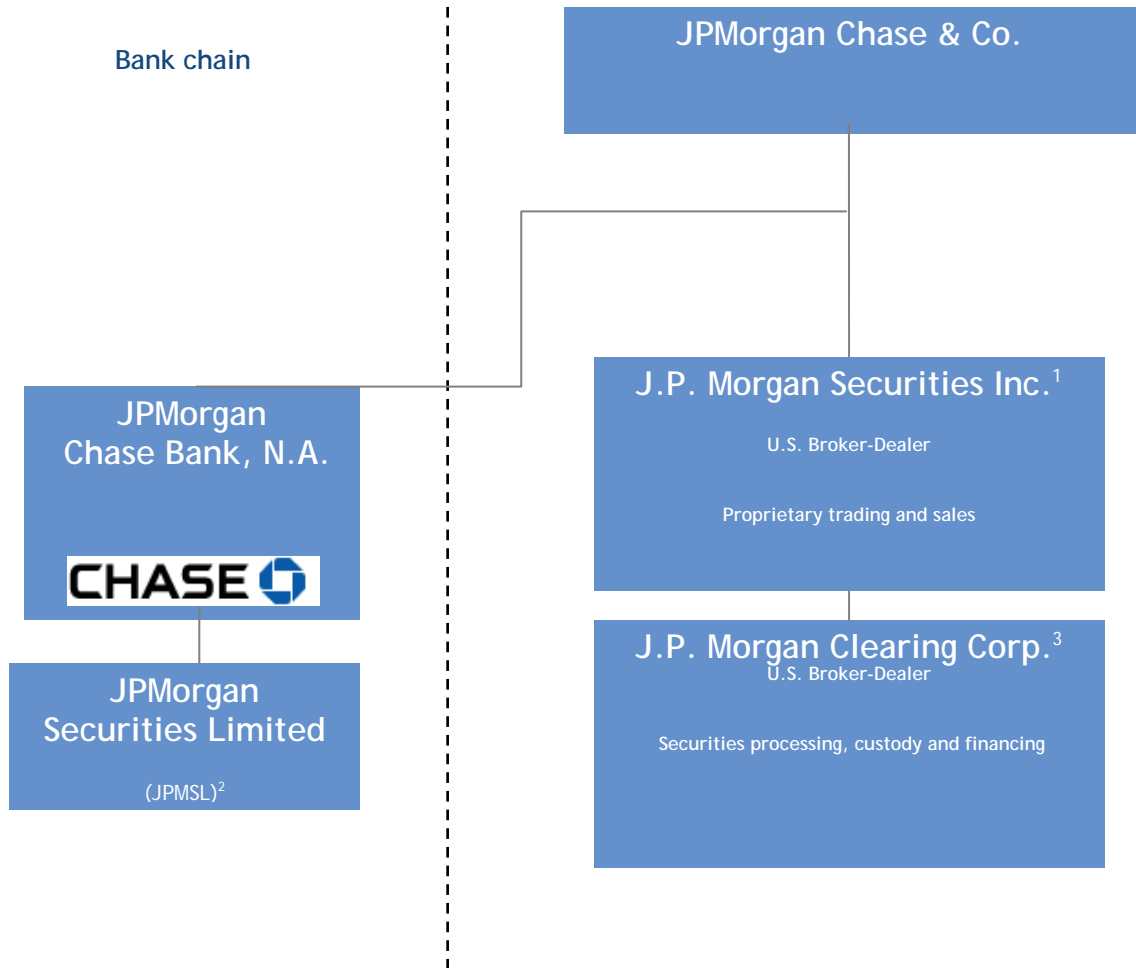
	Moody's	S&P	Fitch
<b>Commercial Paper</b>	<b>P-1</b>	<b>A-1</b>	<b>F1+</b>
<b>Senior unsecured</b>	<b>Aa3</b>	<b>A+</b>	<b>AA-</b>
<b>Subordinated</b>	<b>A1</b>	<b>A</b>	<b>A+</b>
<b>Junior subordinated</b>	<b>A1</b>	<b>A-</b>	<b>A+</b>
<b>Preferred stock</b>	<b>A2</b>	<b>A-</b>	<b>A+</b>

## Fourth Quarter 2008 Financial Highlights

- A+ rated
- Earnings of \$702 million on revenue of \$17.2 billion (Year-end 2008: earnings of \$5.6 billion on revenue of \$67.2 billion)
- Tier 1 capital remained strong at \$136.2 billion
  - o Tier 1 capital ratio of 10.8% (estimated)

\* J.P. Morgan Securities Inc. ("JPMSI"), a separately registered broker dealer and direct parent of JPMCC, guarantees the payment of all liabilities and obligations of JPMCC. To view JPMSI financials please go to: <http://investor.shareholder.com/jpmorganchase/financial.cfm>

JPMorgan Chase & Co. is financially strong and J.P. Morgan Clearing Corp. is a separately capitalized, guaranteed broker-dealer entity.



<sup>1</sup>As of October 1, 2008, J.P. Morgan Securities Inc. merged into Bear, Stearns & Co. Inc., which was renamed J.P. Morgan Securities Inc.

<sup>2</sup>JPMorgan Chase Bank, N.A. guarantees the obligations of JPMorgan Securities Limited (JPMSL)

<sup>3</sup>J.P. Morgan Securities Inc. guarantees the obligations of J.P. Morgan Clearing Corp. (formerly Bear, Stearns Securities Corp.)

## Protection of Customers of J.P. Morgan Clearing Corp.

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Customers of J.P. Morgan Clearing Corp. ("JPMCC") benefit from JPMCC's innovative structure as more fully described below. Additionally, JPMCC is regulated by and subject to the rules of the Securities and Exchange Commission ("SEC") the New York Stock Exchange and the Financial Industry Regulatory Authority. In the unlikely event of a liquidation of JPMCC, losses of cash or securities in the securities accounts of each JPMCC "Customer" (as defined under the Securities Investor Protection Act of 1970 ("SIPA")) are covered by the Securities Investor Protection Corporation ("SIPC"). As noted below, Customers under SIPA receive preferential treatment in any liquidation and are not general creditors of a failed broker-dealer.

## The Structure of JPMCC Provides Protection to Customers

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JPMCC is a separately capitalized, guaranteed broker-dealer established for the express purpose of holding and financing customer accounts and clearing and settling customer transactions. JPMCC does not engage in proprietary or market making activities and, other than borrowing securities or funds (or similar transactions) to finance customer activities, JPMCC avoids any perceived risks associated with engaging in those activities.

## SEC Rules and Regulations Provide Customer Protection

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*(As used in the discussion in this paragraph of SEC rules and regulations, capitalized terms have the meanings assigned to them under the SEC rules and regulations.)*

JPMCC is a broker dealer registered with, and regulated by, the SEC. In compliance with the SEC rules and regulations for the protection of customers, JPMCC maintains all customers' Fully Paid and Excess Margin securities as required under Rule 15c3-3(b) of the Securities Exchange Act of 1934. JPMCC maintains such securities in its possession or in a location that has the controls required by the SEC to protect such securities from claims of third parties, in conformity with the SEC rules. Based upon a formula prescribed in the SEC's rules, net Customer Free Credit Balances (if any), or the equivalent thereof in Qualified Securities, not required to be used for the settlement of Customer transactions or the financing of Customer margin debt are held by JPMCC in an account segregated for, in the words of the SEC rules, "the exclusive benefit of Customers". As a result, such funds and Qualified Securities are not available for JPMCC's proprietary use. Compliance with SEC and similar rules are subject to review by the regulatory agencies that are charged with their enforcement.

## Membership in SIPC Provides Protection for Customers' Accounts

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*(As used in the discussion in this section of SIPA and SIPC, "Customer" and each other defined term has the meaning assigned to it under SIPA.)*

JPMCC is a member of SIPC, which was created by Congress to protect Customers of securities brokers and dealers and to promote public confidence in the securities markets in the United States. Customers of a member of SIPC that fails financially are afforded special benefits under SIPA. These special benefits provided under SIPA are relevant only if the broker-dealer that carries a Customer's account fails and is liquidated under SIPA.

Although there can be no assurance of what occurs in any specific situation if a member of SIPC fails, in a liquidation under SIPA, Customer accounts of a failed firm are intended to be transferred to another SIPC member firm. If that were to occur, the transfer would usually occur within a week of the failure. If their accounts are transferred, Customers may deal with their accounts after their transfer in the same manner as if their original broker-dealer had not failed.

If a Customer's accounts are not transferred to another SIPC member firm, such Customer is entitled to receive the cash and securities in its accounts, minus any obligations the Customer owes to the failed broker-dealer. If there were not enough cash and securities to make distributions in full to all Customers, each Customer would receive a distribution, on a pro rata basis, of Customer Property held by the failed broker-dealer to the extent of the Net Equity that was in such Customer's accounts, determined as of the date of the filing of the petition with respect to the SIPC member. **Customers are not considered general creditors of a failed broker-dealer, and receive distributions from Customer Property ahead of general creditors. General creditors of the failed broker-dealer do not receive any Customer Property unless all Customers are first satisfied in full.**

If the distributions from Customer Property are not sufficient to satisfy Customers' claims for the Net Equity in their accounts, SIPC protection would be available to satisfy Customer claims for any remaining shortfall in their Net Equity, up to \$500,000 per Customer (of which up to \$100,000 may be for cash claims).

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The coverage described above covers losses of cash or securities from Customer accounts at JPMCC if it were to fail and be unable to meet its obligations to its Customers. The coverage does not cover any losses from changes in the market value of investments after a liquidation commences, from delays in the liquidation process, losses of assets not eligible for SIPC protection (such as futures, options on futures, foreign exchange transactions, commodity contracts, precious metals contracts, or any investment contracts that are not registered as securities) or losses incurred by persons that are not "Customers" under SIPA. Although created by Congress, SIPC is not a government agency. It is a non-profit membership corporation which receives its revenue from those brokers and dealers that are required by law to be SIPC members and from its own investments.

A bank or brokerage firm that is a Customer and that is acting for its own trading account is entitled to participate in the preferential distribution of customer property in a SIPA liquidation, but it is not eligible for SIPC advances if there is a shortfall in such a liquidation.

We hope that this summary has been useful. These matters are complex and it is not possible to address all issues in a very general summary such as this one. Should you have any questions regarding SIPC coverage, please consult your own legal counsel, or visit the SIPC web-site at [www.sipc.org](http://www.sipc.org).

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