

CHINA TO ALLOW U.S. MUTUAL FUND SALES

After years of determined lobbying from American asset management firms, China agreed earlier this month to allow the sale of U.S. mutual funds within its country according to the U.S. Treasury. As China's rapid urbanization continues, the allure of its largely untapped emerging middle class has drawn interest in comparison to America's saturated and competitive industry space. Previously, firms operated as joint ventures with local Chinese partners and relied on vehicles called "Undertakings for Collective Investments in Transferable Securities" to access these foreign assets. At the end of 2009, China only accounted for \$381 billion of the \$22.9 trillion held in mutual funds and similar investment vehicles according to the Investment Company Institute (ICI). While skepticism exists regarding the Chinese government's candor, they appear to be opening the door for American opportunity.

FINRA DISCIPLINARY ONLINE DATABASE LAUNCHED

The Financial Industry Regulatory Authority ("FINRA") launched FINRA Disciplinary Actions Online, its new web-based searchable disciplinary actions database. Previously, those wishing to obtain copies of disciplinary actions were required to directly submit requests. With the advent of the new system, the public may access this information online free of charge. The platform allows users to perform searches by case number, document text, document type, action date, a combination of document text and action date, individual name and Central Registration Depository ("CRD®") number, or first name and CRD® number. Additionally, BrokerCheck®, which provides investors access to both broker information and disciplinary records, will link to the system allowing investors to seamlessly perform research.

FINANCIAL STABILITY OVERSIGHT COUNCIL: "SYSTEMICALLY IMPORTANT" DESIGNATION WILL ULTIMATELY BE A JUDGEMENT CALL

Despite working to institute quantifiable criteria, the newly-created Financial Stability Oversight Council ("FSOC") will ultimately rely on its own discretion for identifying systemically important financial institutions ("SIFIs"). "It is important to understand that the council needs to retain flexibility to exercise judgment as it considers both quantifiable metrics and the unique risks that particular firms may present to the financial system," said deputy Treasury secretary Neal Wolin while speaking to the Senate Banking Committee earlier this month. "Moreover, flexibility is needed because financial markets are dynamic and the designation process must take into account changes in forms, markets and risks." Potential SIFIs under consideration

HIGHLIGHTS

China will allow the sale of U.S. mutual funds domestically

FINRA launched its new web-based, searchable disciplinary actions database

The Financial Stability Oversight Council will rely on its own discretion to identify SIFIs

The SEC discussed several alternatives to prevent another run on money market funds

The GOP discussed a modification to Dodd-Frank's authorization to pay SEC employees who provide information that leads to potential enforcement action

will be afforded the opportunity to submit comments for FSOC review prior to designation as “systemically important.” Designation decisions, which will be reviewed on an annual basis, will require a two-thirds majority of the FSOC and support of the council’s chairman, Treasury secretary Timothy Geithner.

SEC CONSIDERING CHANGES TO MONEY MARKET FUND REGULATION

In early May, the Securities and Exchange Commission (“SEC”) gathered regulators, academics and executives from fund companies to discuss potential money market regulations. Among those in attendance, including Treasury Undersecretary Jeffery Goldstein, Federal Deposit Insurance Corp. Chairman Sheila Bair, and former chairman of the Board of Governors at the Federal Reserve Paul Volcker, discussion centered on the necessary course of action to protect against another “run on money market funds that spreads broadly throughout the financial system and has [a] potentially profound impact” according to SEC Chairman Mary Schapiro.

While unlikely to approve money market regulation prior to next year, regulators are discussing several alternatives. One of the more controversial proposals would require funds to maintain a floating-rate net asset value (NAV). This proposed regulation would eliminate shareholder ability to redeem shares for greater than their current market value. Other alternatives include the creation of an “industry sponsored emergency pool” to provide liquidity to money market funds facing emergency situations, and subjecting money market funds to banking oversight and regulation as special purpose banks.

HOUSE GOP PROMOTES IMPORTANCE OF INTERNAL COMPLIANCE SYSTEMS

As part of its vast financial reform, the Dodd-Frank Act authorizes the SEC to pay employees providing information that leads to a successful enforcement action. A potential legislative modification, put forth by Representative Michael Grimm, R-NY, at a hearing of the House Financial Services Subcommittee on Capital markets, would require whistle-blowers first report violations to their firms’ internal compliance systems before being eligible for SEC rewards. “The Dodd-Frank Act disincentivizes employees from reporting suspected fraud internally,” thereby ignoring the cost spent establishing such internal reporting systems. Ranking Democrat Representative Maxine Waters of California challenged Rep. Grimm’s proposal by underscoring whistle-blower protection against risks, such as firing and demotion, these employees would potentially expose themselves to when reporting violations internally.

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