

PROPOSED FIDUCIARY RULES CONTINUE TO ATTRACT INDUSTRY ATTENTION

On December 5, fifty-three House GOP members sent a letter to Department of Labor (the “DoL”) Secretary Hilda Solis, asking her to exercise caution should the DoL decide to re-propose the fiduciary rule it withdrew back in September. As mandated by the Dodd-Frank reform legislation, regulators were required to determine whether broker-dealers should be subject to the same fiduciary duties applicable to investment advisers. Currently, broker-dealers are required to provide “suitable” advice to clients at the point of sale. By openly aligning their politics with the brokerage industry’s interests, House Republicans believe it is absolutely “imperative that the department...recognize the broad range of financial products and services currently available and avoid costly new regulations that may reduce choice among qualified service providers and investment products.” The DoL has indicated its intention to ultimately re-propose its rule in early 2012.

Concurrently, the SEC has also been drafting its own rule aimed at outlining the fiduciary duties governing the broker-investor relationships. According to SEC Chairman Mary Schapiro during a December 8 interview with the InvestmentNews, the SEC continues to seek a “business-neutral model” whereby brokers may continue to charge commissions for principal-trading and proprietary products. “We’re still working on trying to put the data together and work constructively with market participants and investors on what a rule might look like,” she added. As with the DoL’s projections, the SEC expects to complete its fiduciary rule in 2012.

HIGHLIGHTS

The DoL and SEC are each drafting rules outlining the proposed fiduciary duties of broker-dealers to their investors

Concern expressed to the SEC regarding the proposal to float the NAV of MMMFs

Bill to shift oversight of IAs from the SEC to SROs likely will not be introduced until next spring

The FDIC, the Fed and the OCC may eliminate bank reliance on credit ratings

BIPARTISAN GROUP OF SENATORS EXPRESS CONCERN REGARDING FLOATING NAV PROPOSAL

In their November 4 letter to SEC Chairman Mary Schapiro, a bipartisan group of six senators expressed concern regarding proposals to float the net asset value (“NAV”) of money market mutual funds (“MMMF”). The SEC has made MMMF reform a priority, and the group believes “forcing money market funds to abandon their stable \$1.00 per share price and ‘float’ their net asset value will likely have significant consequences for retail investors, companies, and municipalities.” Particularly, the Senators believe that such reform would consequently cause:

- Increases in tax and recordkeeping costs of investors;
- Decreases in the available investor access to money market instruments;
- A disruption to the flow of money into MMMFs thereby increasing the cost and burden of raising capital and straining corporate and municipal financing; and
- Potential negative implications to consumer lending, including less accessible and costlier credit and loans.

The Senators acknowledged the enormous pressures facing the SEC, including opposition from key industry players such as the Investment Company Institute and have indicated that they remain hopeful the SEC will continue to engage in an active and meaningful dialogue throughout the rulemaking process in 2012.

SRO LEGISLATION DELAYED UNTIL SPRING

The office of House Representative Spencer Bachus (R-AL), who serves as Chairman of the House Financial Services Committee, confirmed to the InvestmentNews on December 6 that legislation to shift the oversight of investment advisers ("IAs") from the SEC to one or more self-regulatory organizations ("SROs") would "probably not be introduced until next spring." The bill, which was scheduled for introduction in December 2011, is widely expected to center on the SEC's January 2011 findings that it lacks the resources to examine registered advisers. Despite the delay, many investment advisers objecting to the anticipated proposal continue to believe that Chairman Bachus desires the Financial Industry Regulatory Authority ("FINRA"), the SRO for broker-dealers, to assume such regulatory responsibility.

FDIC, FED, AND OCC CLOSE TO ELIMINATING BANK RELIANCE ON CREDIT RATINGS

A proposal released by the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency will no longer require U.S. banks to consider credit ratings when determining risks associated with trading account assets. The proposal, if adopted, would advance Dodd-Frank's ultimate goal of removing influential nationally recognized securities ratings organizations, such as Standard & Poor's Rating Services, Moody's Investor Services, and Fitch Ratings, Inc., from regulatory financial reporting systems. Under the current system, U.S. banks currently rely on credit ratings when calculating the required amount of capital reserves in light of the risk to debt, including mortgage-backed securities.

For more information, please speak to your relationship manager or visit jpmorgan.com/wss.

To subscribe to Regulatory Alert, please send a request to reg.admin.shared.mailbox@jpmorgan.com and type "SUBSCRIBE to Regulatory Alert".

The e-mail address from which you send such requests will be added to our mailing lists. Please allow five to 10 business days for us to process your request.

To unsubscribe to Regulatory Alert, please send a request to reg.admin.shared.mailbox@jpmorgan.com and type "UNSUBSCRIBE to Regulatory Alert".

The e-mail address from which you send such requests will be removed from future mailings. Please allow five to 10 business days for us to process your request.

Regulatory Alert is a publication of J.P. Morgan Worldwide Securities Services, intended to inform our clients and friends of developments in the industry and to provide information of general interest. It is not intended to constitute accounting, legal or tax advice and should not be relied upon as such. This publication contains a summary of the subject matter (and is subject to change without notice) and is provided solely for general information purposes. J.P. Morgan does not make any representation or warranty, whether expressed or implied, in relation to the completeness, accuracy, currency or reliability of the information contained in this publication nor as to the legal, regulatory, financial or tax implications of the matters referred herein. This brochure does not constitute a solicitation in any jurisdiction in which such a solicitation is unlawful or to any person to whom it is unlawful. Issued and approved for distribution in the United States by JPMorgan Chase Bank, N.A. and regulated by the Office of the Comptroller of the Currency.
