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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Attn: Ms. Jennifer J. Johnson, Secretary
Reference: Docket Number OP-1191, Policy Statement on Payments System Risk

Governors:

JPMorgan Chase Bank ("JPMorgan") is pleased to comment on the proposal by the Board of Governors of the Federal Reserve System's (the "Board") to update its policies related to risk management in payment and securities settlement systems (the "Proposal"). JPMorgan is the largest clearer of U.S. Dollar ("USD") wholesale payments in the industry, which gives JPMorgan a fundamental interest in the health and welfare of the payment systems. JPMorgan provides USD clearing services to institutional and corporate clients located in all major global markets.

The proposed changes to the Policy Statement would:

- Clarify the scope of the Policy Statement by defining the entities that are subject to it
- Simplify and clarify risk management requirements for payment systems
- Result in the adoption of the Recommendations for Securities Settlement Systems

JPMorgan supports the policy changes outlined in the Proposal. We recognize that it can be difficult to quantify and manage risk in payment systems. The Proposal makes a significant contribution to the ongoing effort to quantify and manage such risk.

JPMorgan's answers to the questions on page 5:

1. *Do the benefits of a bright line quantitative threshold based on a system's daily gross settlement value outweigh the costs of using more complex factors to determine whether a system is covered by the policy? Should more qualitative or judgmental criteria be used instead? If a quantitative threshold is appropriate, does a threshold of $5 billion a day continue to be reasonable? Should other quantitative criteria be considered?*

The threshold of USD 5 billion a day is immediately measurable and implementable and a reasonable and useful starting point. It provides a simple means to determine coverage. However, it does not consider other factors (beyond principal value) that contribute to risk, for example the six factors referenced in section C of the proposal. For this reason, the Board may wish to consider revising the criteria in the future to include measures beyond just principal settled. Additional criteria and measures might include transparency of operation and observation of industry best practice related to anti-money laundering (AML).

We welcome the greater specificity that this metric introduces to the policy and encourage further refinement in future.

2. *Is the definition of what constitutes a system, and explicit exemptions from this definition, reasonable and appropriate?*

Yes. The definition of what constitutes a system is reasonable and appropriate. The exclusions (notably bilateral relationships such as traditional correspondent banking) are also appropriate.

3. *Do the general policy expectations of a sound risk-management framework, laid out in part B of the revised policy, give more structure and specific guidance to system operators and participants than the current policy's primary focus on types of risks and the general need to manage these risks?*

Yes. To be managed, risk needs to be measurable. JPMorgan views the revisions to the risk policy as improvements to existing policy and a step in a continuing effort to better manage risk. JPMorgan would welcome further steps in this regard.

Further, regarding the general policy expectations of risk management set forth in part B of the revised Policy, we suggest that the Federal Reserve consider including a discussion of controls to limit, or manage, the risks to which payment systems are exposed as a result of institutions permitting customers or third party processors to have direct access to these systems. Although the payment systems rely on their participants to manage activity initiated in the participants' names, there is a current practice in which financial institutions "rent" out their numbers and permit customers or third party processors to initiate transactions (generally ACH transactions) directly into the payments systems. Many financial institutions that engage in this activity do not monitor or limit the dollar activity (except perhaps on a post-settlement basis), and in cases where the sponsored entity is a third party processor, the financial institution may not be aware of the nature of the underlying business activities. This introduces risks to the institutions, as well as risks to other participants in the payment system. We believe that the Board should consider including in the Payment System Risk Policy a requirement or recommendation for these arrangements to be subject to approval by the sponsoring Institution's Board of Directors or other senior management body and for the financial institution to review on an ongoing basis all payments introduced directly under the auspices of the financial institution. .

4. *In applying the Core Principles and the Recommendations, do the six criteria presented in the proposed policy appear reasonable for determining if a system is systemically important? Are there other factors that the Board should consider when determining whether a system is systemically important?*

The six criteria are reasonable and complete.

We complement the Board for its efforts to lead the industry in the advancement of sound risk management practice. We hope that our comments have been helpful to the Board. Should you have any questions with regard to our letter, please contact Roy DeCicco (email: roy.c.decicco@jpmchase.com; phone: 212-552-0731).

Very truly yours,

Julie

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