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Managing Director

April 6, 2005

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street,NW
Washington, DC 20549-0609

Subject: 4-497 Feedback on 2004 Implementation of Sarbanes-Oxley

Dear Mr. Katz:

J.P. Morgan Chase & Co. ("JPMC") is pleased for this opportunity to share with you our feedback with respect to our observations regarding the implementation of Sarbanes-Oxley Section 404 ("S404") based upon the regulations defined by the Securities Exchange Commission and the Public Company Accounting Oversight Board ("PCAOB") standards.

JPMC is a leading global financial services firm with assets of more than $1.2 trillion and operations in more than 50 countries.

JPMC successfully implemented S404 for the year ended December 31, 2004. As a financial institution that has been, for over a decade, applying the framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to satisfy the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), management believes that incremental benefit was derived in this implementation year.

As a matter of public policy management feels that S404 largely achieved its objectives of holding key members of management, the board of directors and the auditors directly accountable for their actions and increased protection of Investors by ensuring the accuracy and reliability of corporate disclosures.

Specifically, JPMC realized the following benefits related to the implementation of S404:

- Management explicitly linked "key" controls over financial reporting to published financial statement line items. This provided increased transparency between key business processes, applications, organizations and controls, highlighting the potential impact of deficiencies on published financial information.
- In this implementation year, S404 work provided an opportunity and mechanism for all organizations within the firm to review and confirm their dependencies on each other, review Service Level Agreements (SLAs) and as such to better identify, document and firm up the control handshakes at the 'seams'.

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- Documentation requirements of S404 has resulted in more current, better quality documentation of key processes and controls and heightened the awareness of operational management to the need to continually assess the effectiveness of key controls. As such it has re-enforced our existing control self assessment processes.

As part of planning S404 work for 2005, JPMC management has conducted a post implementation review of the processes to comply with and the benefit derived from certain aspects of our S404 work in 2004. The opportunities for improvement identified can be categorized into three broad groups: 1) internal JPMC processes (governance, communication, reporting), 2) interactions with the external auditor (governance, communication, guidance) and 3) PCAOB requirements and interpretations thereof.

This memo addresses the specific opportunities related to PCAOB guidance and interpretations thereof. The comments are organized according to three key processes: Scope, Testing, and Evaluating and Assessing Deficiencies. The key messages across the processes are:

- The standards should emphasize a risk based approach and re-visit instances where "all or any" is defined in the requirement.
- The external auditor should be given more latitude to determine the level and extent of the procedures and testing to be performed.
- The quantitative thresholds guidance established by the accounting profession for defining significant deficiencies should be revisited to improve comparability across organizations.

SCOPE

Observations

- The standard requires scope to include all accounts that could contain material misstatements, individually or when aggregated (PCAOB Standard 2, paragraphs 60 & 61). The accounting profession has provided quantitative guidance (based on planning materiality) and qualitative guidance (to include any additional accounts based on risk / judgment). Qualitative guidance could be used to add additional accounts into scope that did not exceed the quantitative thresholds but was not similarly able to be used to limit scope of accounts passing the quantitative threshold but which management felt were inherently less likely to show a misstatement i.e. those for which processes are highly 'straight through' with minimal manual intervention.
- Current guidance resulted in testing coverage well in excess of the initial targets indicated by the accounting profession (of 60%).
- This exhaustive and detailed process level control testing did not yield substantial new information relating to deficiencies in control.

Recommendations

- Further guidance from the accounting profession should be developed allowing for a greater use of professional judgment in identifying significant accounts and disclosures to be evaluated as apart of our S404 attestation.
- Planning materiality quantitative thresholds should be set at different levels for the Balance Sheet and Income Statement.
- Re balance / re emphasize reliance on firm wide and high level controls that provide management oversight to detect or prevent deficiencies rather than daily transaction controls.

TESTING

Observations

- JPMC's testing approach was to require management to perform the testing rather than hire a third party to drive management's accountability for the controls. Per the guidance this required the external auditor to test a significantly higher percentage of the key controls then if a third party performed the testing. We believe this penalizes firms that opt to re-enforce management's accountability by requiring them to perform the testing.
- The firm may not have leveraged as fully as possible the existing control self assessment (CSA) process for management's testing per PCAOB Release No. 2004-001, paragraphs 40 and 126.
- The firm is not currently able to rely on the work of the firm's external auditor on outbound SAS70's to limit scope for S404 (per PCAOB FAQ from June 23rd – Question # 24 and SEC FAQ from June 24, Question #14). Although external audit must opine on both management's assessment as well as the control environment itself, this seems inefficient and duplicative.

Recommendations

- Consideration should be given to rotational plans for certain accounts / processes (i.e. only test certain controls in a limited number of months or quarters or limit sample sizes for testing).
- In post implementation years external audit should be able to limit testing samples and place greater reliance on the results of management's testing in reaching their opinions – testing samples should be expanded by both management and external audit by exception.
- Explore additional guidance on how firms can leverage their existing CSA processes.

EVALUATING AND ASSESSING DEFICIENCIES

Observations

- "When forming an opinion on the effectiveness of Internal Control over financial reporting, the auditor should evaluate all evidence obtained from all sources" (PCAOB Standard 2, paragraph 127). This requirement to evaluate "all known deficiencies" in addition to those deficiencies identified within the S404 scope created significant additional work, adding 'noise' to the deficiency analysis yielding little additional benefit in terms of better understanding the robustness of controls over financial reporting or our ability to properly attest to our internal controls over financial reporting.

- If management plans the scope and approach to S404 correctly then any ‘other’ deficiencies not compensated for will by definition be inconsequential or would be identified through the course of test work.
- As previously noted, further guidance on the ‘definitions’ and quantitative thresholds for the severity of deficiencies and their relevance to different aspects of financial reports would be beneficial as given the level of judgment required in determining severity, it is unlikely that there is comparability across the industry on 2004 S404 results.
- The deficiency analysis process should rely on management’s judgment to determine which deficiencies warrant monetary quantification for aggregation purposes.
- Specifically, not all inconsequential issues should be quantified and aggregated where the impact is clearly minimal, quantification and aggregation should be focused on significant deficiencies.

<u>Recommendations</u>

- Remove requirement to include “all known deficiencies” from the deficiency analysis and to aggregate them into management’s assessment, focusing on deficiencies specifically identified in the scope of properly planned S404 work.
- PCAOB to work with accounting firms to improve guidance on categorization of deficiencies.

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JPMorgan Chase appreciates the opportunity to provide our views on this important matter. We believe our proposed modifications would improve the efficiency of companies' compliance with the standard, without weakening its effectiveness. We would be pleased to discuss our comments or answer any questions you may have.

Very truly yours,

Marianne Lake