United States Senate
Washington, DC 20510

April 21, 2010

Dear Senator,

I am writing to add my voice to the call by Americans for Financial Reform (AFR) and others including former Fed Chairman Paul Volcker for legislation that will seriously address the "too big to fail" problem. Having spent over twenty years on Wall Street, most of it at JPMorgan prior to its merger with Chase, I write from the perspective of a seasoned practitioner. My responsibilities at JPMorgan included managing numerous capital markets and derivatives businesses around the globe and serving as JPMorgan's representative on the Long Term Capital Management (LTCM) Oversight Committee. I am now an active private investor and the founder of the Capital Institute, a center of innovation focused on sustainable finance, which has joined the AFR coalition.

Scale and leverage are at the heart of the financial crisis, as they were in prior crises. One of the most astounding aspects of my experience with LTCM a decade ago was the incongruence between the scale of the fund's risk positions, and the leverage, relative to the normal trading volume and scale of the specific markets where the risk was placed. I believe scale imbalances resulting from the unprecedented growth of the large banks since LTCM represent a barrier to competitive financial markets, an unacceptable externality of latent systemic risk waiting to threaten the real economy, *again*, and an unacceptable concentration of economic and political power threatening our democracy.

I do not suggest that scale alone caused the financial crisis. But to suggest as some have that Canada has large banks (not by US standards) and faired relatively well does not disprove the thesis that excessive scale, leverage, and complexity pose an unacceptable risk to society. Addressing the policy challenge of "too big to fail, manage, govern and regulate" financial institutions is a highly complex task, fraught with risks of unintended consequences. Defining the ideal solution, within the context of political realities, will undoubtedly be on ongoing process lasting for years to come. It is in this context that I support Senators Sherrod Brown and Ted Kaufman's bill, the SAFE Banking Act. I believe we need hard limits on scale as a stop gap measure to contain escalating systemic risk while more nuanced and thoughtful risk and capital constraints can be structured and embraced on a global basis.

It is not credible to rely on "orderly liquidation" of too big to fail banks. It is self evident to me that the pending failure of any of these massive firms would certainly trigger a market panic with or without "orderly liquidation" provisions written into law. Market

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panics of this nature become self-fulfilling prophecies, necessitating government intervention on an unacceptable scale to limit the fallout to the real economy.

Effective regulation of today's large and complex firms is a topic beyond the scope of any legislation I have seen. However, I can say with confidence that limiting the scale and leverage of these firms is a necessary, though insufficient response. It is achievable with relatively simple and clear legislation such as the SAFE Banking Act.

In truth, I would argue for tighter constraints on scale, leverage, and complexity than the proposed limits in the bill. Arguments that such scale is necessary to meet customer needs or to serve shareholder interests ring hollow to me. Back in 2000, before JPMorgan merged with Chase, our CEO maintained that we were already big enough to meet all of our client needs. Our balance sheet was under $300 billion at the time. Whether he was right or wrong, JPMorgan's balance sheet has grown by a factor of about 8 since then, now standing at a staggering $2 Trillion. Yet despite this dramatic expansion of scale, the stock price has never since approached its 2000 high, even with the well-documented funding subsidies that continue today.

I challenge the existence of legitimate client needs in the real, productive economy that necessitate even half this scale. The value to shareholders as reflected in the languishing stock price of even the most well managed of the mega banks, JPMorgan, speaks for itself. The value to other stakeholders beyond management and senior bankers (who manage to extract extraordinary compensation) is difficult to identify. What's even harder to see is the latent systemic risk that rests with every citizen of the United States who stands behind the mega-banks against their will. It's as if society has sold put options on the entire system, waiting for the next time our government is forced to commit our future to bailing out the banks in order to save us. But rather than receiving any option premium, we pay for selling these put options in the form of zero interest on our savings (enabling more grotesque bonuses ahead of rebuilding capital) and monopolistic credit card fees and rates, while our small and mid-sized businesses that are the source of all net job growth in the real economy struggle for the credit they need to grow.

Financial system resiliency is weakened by the presence of our too big to fail, manage, or govern financial institutions. It is time to attack systemic risk with firm limits to scale. While not a panacea, it's a good place to start. Courage.

Sincerely,

John Fullerton
President & *Founder*