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Davis Polk

Nora M. Jordan

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017

212 450 4684 tel
212 450 6824 fax
nora.jordan@davispolk.com

Advisers Act
Section 206(3)

CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN SECURITIES LLC

April 14, 2016

Mr. Douglas J. Scheidt
Chief Counsel
Office of Chief Counsel
Division of Investment Management
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Request for no-action relief: Section 206(3) and fractional shares

Dear Mr. Scheidt:

On behalf of J.P. Morgan Securities LLC ("JPMS"), we respectfully request that the staff (the "Staff") of the Division of Investment Management of the Commission advise us that the Staff will not recommend Commission enforcement action under Section 206(3) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), against JPMS or certain of its affiliates that are broker-dealers registered with the Commission ("broker-dealer affiliates"), if JPMS and the broker-dealer affiliates purchase fractional shares (as defined below) from advisory client accounts as described below.

1. Factual Background

JPMS is a wholly-owned subsidiary of JPMorgan Chase & Co., a publicly-held financial services holding company. JPMS is registered with the Commission as both a broker-dealer and investment adviser. Certain JPMS affiliates are also registered as investment advisers with the Commission (together with JPMS, each an "Adviser" and together the "Advisers"). The Advisers' investment advisory services include managing and exercising investment discretion over client accounts, through which the assets of their clients are invested in individual securities (as well as other instruments such as mutual funds and ETFs).

During the ordinary course of the Advisers' advisory services, their clients who hold exchange-traded equity securities in their accounts may sometimes receive interests which represent the right to receive the value of a fraction of a share (*i.e.* less than one full share) of equity ownership (such interests, "fractional shares" or "fractional interests").[1] Fractional shares are not issued by the issuer but rather are account entries meant to represent the portion of a whole share (held by a broker or another party) that an accountholder would be entitled to (including ongoing appreciation and depreciation) if fractional shares existed and could be traded in the marketplace. Fractional shares might occur as result of a transfer of an account with a fractional interest from a third party adviser, division of an account into multiple accounts (*e.g.* due to divorce) or where an Adviser is sponsor of a wrap program and a third party manager in the program deposits a fractional share into the wrap account. When it is time to sell the fractional share the Advisers must find an appropriate way to monetize the fractional share on behalf of the client in light of the fact that fractional shares are not supported in the market (*i.e.* fractional shares cannot be sold in the open market).

If the Adviser or one of its broker-dealer affiliates as an accommodation to a client purchases fractional shares from the client, the purchase from the client could be considered to violate Section 206(3) unless written disclosure is made and client consent is obtained on a transaction-by-transaction basis. However, given how irregularly fractional interests are received, how immaterial the monetary value of such interests is compared to a client's overall holdings, and that there is no potential for abuse and no risk of price manipulation for such principal sale transactions, transaction-by-transaction disclosure and consent appears unnecessary and is impractical and would place a disproportionate burden on the Advisers and their clients.[2]

2. Request for Relief

The Advisers propose that, as an accommodation to clients, when an account holds a fractional share and the Adviser decides to sell out of a position consisting of whole shares and fractional shares, the fractional shares will be purchased from the client by the Adviser or its broker-dealer affiliate on the same day and at the same price as the whole shares and if the whole shares are transferred out of the account via journal as a result of an non-sale event (*e.g.* closing of the managed account and transferring the shares to a brokerage account or the separation of an account into two accounts due to divorce), the fractional share will be sold to the Adviser or its broker-dealer affiliate using the same day's market closing price.

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[1] With respect to fractional shares of investment companies, relief is requested only with respect to (i) open-end companies registered under the Investment Company Act of 1940 (the "Act") that operate as exchange-traded funds and are not advised by an Adviser and (ii) closed-end companies that are either registered under the Act or have elected to be treated as business development companies under the Act and are not advised by an Adviser. Relief is not requested with respect to fractional shares of any other investment company.

[2] Application of Section 206(3) assumes that a fractional share is a security.

The Adviser will charge no commission or other compensation in connection with the purchase and the Adviser will disclose to clients the practice of purchasing fractional shares from clients (either via a separate disclosure document or in their advisory agreement or Form ADV).

3. Analysis

Section 206(3) of the Advisers Act prohibits an investment adviser from "acting as principal for his own account, knowingly to sell any security to or purchase any security from a client, or acting as broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction." Section 206(3) imposes a prior written consent requirement on any investment adviser that acts as principal in a transaction with a client, and is intended to address the potential for conflicts between the interests of the adviser and the client and the risk of self-dealing by the adviser.[3]

We believe that the purchase of fractional interests in the manner described above will not raise the conflicts of interests and self-dealing issue that Section 206(3) was meant to address. We note in that regard that (i) the price of the fractional interests will be determined by the market; (ii) the value of fractional interests received are expected to be immaterial with respect to each applicable client and with respect to the Advisers and their broker-dealer affiliates; (iii) the purchases of fractional interests are being done as an accommodation to clients and as part of the Advisers' ordinary-course advisory services; (iv) because the purchase of fractional shares will always be connected to the ordinary-course sale or transfer of the related whole shares in the client's account, the Advisers and their broker-dealer affiliates will not separately determine the timing of the principal transaction; (v) there are limited, if any, alternatives to the Advisers or their broker-dealer affiliates buying the fractional interests due to the illiquid nature of fractional interests; (vi) clients will be provided clear disclosure about the arrangements with respect to fractional interests; (vii) the Advisers and their broker-dealer affiliates will not benefit from purchase transactions involving fractional interests because the price paid for fractional interests will be equivalent to the market price of the respective full interests and the Advisers and their broker-dealer affiliates will not receive any transaction-based compensation in connection with the purchase; and (viii) such transactions and the principal sale nature of such transactions will be reflected on the trade confirmation and on each applicable client's account statement.

We believe that the proposed arrangement of providing prior written disclosure to investment advisory clients about the treatment of fractional shares together with the protective conditions outlined above, does not present the potential for conflicts of interests and risk of self-dealing that Section 206(3) was intended to address, is consistent with the Advisers' fiduciary duty and with the best interests of their clients, and meets the investor protection

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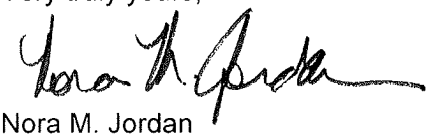
[3] *See* Interpretation of Section 206(3) of the Investment Advisers Act of 1940, Advisers Act Release No. 1732 (July 17, 1998).

objectives and satisfies the purposes of Section 206(3) of the Advisers Act. We also note that Rule 152a and Rule 236[4] under the Securities Act of 1933, as amended, exclude fractional shares from registration requirements and appear to indicate the Commission's recognition that fractional shares warrant different treatment than whole shares under the Federal securities laws.

For the foregoing reasons, we respectfully request that the Staff advise us that the Staff will not recommend Commission enforcement action against the Advisers or their broker-dealer affiliates if it proceeds as described above.

Thank you for your help with this matter. Please do not hesitate to call me at (212) 450-4684 if you need more information or have questions concerning this request.

Very truly yours,



Nora M. Jordan

bcc: Dawn Blankenship
Assistant Regional Director
Office of Compliance Inspections and Examinations

[4] Rule 152a provides a safe harbor for offers or sales of fractional interests to fall within the exemption from registration by Section 4(a)(1) of the Securities Act. Rule 236 also provides an exemption from Securities Act registration for aggregation of fractional shares in connection with certain transactions.