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## SEC Watchdog Points To JPM-SEC Talk Over Bear Buyout -Sources

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**DOW JONES**

WASHINGTON -(Dow Jones)- A J.P. Morgan Chase and Co. (JPM) executive sought assurances from a Securities and Exchange Commission official that J.P. Morgan wouldn't be sued for Bear Stearns's actions when his company took over the failing investment firm, according to a report from the SEC's internal watchdog.

In a semiannual report to Congress released Monday, the office of the SEC's inspector general said the J.P. Morgan executive didn't receive "broad assurances," but "he did receive some assurances with respect to ongoing and potential investigations related to the preacquisition conduct of the target investment bank."

SEC Inspector General David Kotz's report doesn't identify Bear Stearns or J.P. Morgan, and it doesn't name the two officials involved in the exchange. But several press reports from last year cited a request from Sen. Charles Grassley (R., Iowa) for an SEC investigation into an identical situation.

People familiar with the matter have confirmed that the inspector general's report refers to J.P. Morgan's acquisition of Bear Stearns.

Grassley asked about alleged inappropriate communications between a SEC enforcement officer, Linda Thomsen, and J.P. Morgan's general counsel, Stephen Cutler, about J.P. Morgan's acquisition of Bear Stearns. Thomsen is no longer employed at the SEC.

With assistance from the government, J.P. Morgan took over Bear Stearns in 2008 to rescue the failing firm. Regulators said Bear Stearns's collapse would have posed a severe systemic risk to the economy. This was months before the Wall Street meltdown that froze credit markets and forced several other financial firms to take on federal money and oversight.

The report said the discussions related to Bear Stearns and J.P. Morgan didn't directly violate the SEC's policy on external communications. But "the inclusion of other staff in the deliberative process or the communications would have helped avoid an appearance of impropriety stemming from the relationship."

The inspector general also found that a letter from the SEC's enforcement staff to J.P. Morgan disclosed nonpublic information by confirming that "there were ongoing investigations of the target investment bank."

The SEC should clarify its policies on the disclosure of nonpublic information and its discretionary release by senior staff, the inspector general recommended. The agency also should clarify under what circumstances staffers are obligated to seek formal approval before making decisions that could bind the SEC.

Probe Of R. Allen Stanford

The inspector general also is examining the SEC's investigation of R. Allen Stanford and how his Texas-based brokerage business issued some \$8 billion in fraudulent "certificates of deposit" from the Antigua-based Stanford International Bank, according to the report.

Stanford has close ties to Bernard Madoff, who is serving a 150-year prison term after admitting to a massive \$65 billion Ponzi scheme.

The SEC inspector general's office has been highly critical of the agency's oversight of the Madoff situation, citing several red flags that staffers should have caught much earlier to bring down the now-infamous mastermind of the massive fraud.

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