Waterside Enterprises, LLC

Report to

JP Morgan Chase Bank, N.A.

December 9, 2016

Respectfully Submitted:
Paul V. Bruce
Beth E. Weimer

Report to JP Morgan Chase Bank, N.A.
December 9, 2016

On December 18, 2015, the Securities and Exchange Commission ("SEC" or "Commission") granted a waiver of disqualification under Rule 506(d)(2)(ii) of Regulation D under the Securities Act of 1933 ("Securities Act") at the request of JPMorgan Chase Bank, N.A. ("JPMCB" or "Bank").[1] The waiver of disqualification was requested because on the same date, the U.S. Commodity Futures Trading Commission ("CFTC") instituted proceedings pursuant to Sections 6(c) and (d) of the Commodity Exchange Act making findings and imposing remedial sanctions as a result of JPMCB's failure to adequately disclose certain conflicts of interest to clients.[2] Because of the CFTC proceedings, JPMCB requested and received a waiver of disqualification pursuant to Rule 506(d) of Regulation D by the SEC for JPMCB and its subsidiaries (the "Rule 506 Entities").[3]

Rule 506(d)(2)(ii) of Regulation D provides that disqualification from certain regulated activities, in this instance, participation in private placements of select unregistered offerings, "shall not apply…upon a showing of good cause and without prejudice to any other action by the Commission, if the Commission determines that it is necessary under the circumstances that an exemption be denied."

In granting the waiver, the Commission determined that as part of the Rule 506(d)(2)(ii) showing of good cause, JPMCB would retain a qualified independent compliance consultant ("ICC" or "Consultant") not unacceptable to Commission staff,[4] to conduct a comprehensive review of the policies and procedures relating to compliance with Rule 506 of Regulation D. The ICC is charged with reviewing policies and procedures by the Rule 506 Entities including but not limited to, activities as investment manager and placement agent to private funds relying on Rule 506 of Regulation D. The ICC is required to complete its review and submit a written report to JPMCB on an annual basis for a period of five years following the Order.

JPMCB must require the ICC to test the Rule 506 Entities' policies and procedures relating to compliance with Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D. If the Consultant finds that Rule 506 Entities' policies and procedures have been reasonably designed to achieve compliance with their obligations under Rule 506 of Regulation D then the ICC shall certify annually to that finding.

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[1] Securities Act of 1933, Release No. 9993, December 18, 2015 ("Order").
[2] CFTC Docket No. 16-05, December 18, 2015.
[3] Together with JPMCB, the Rule 506 Entities include JPMorgan Chase Bank, N.A. Singapore Branch, Hong Kong Branch and Paris Branch; J.P. Morgan International Bank, Ltd., and J.P. Morgan (Suisse) SA.
[4] In addition, the Order requires the Consultant to enter into an agreement that provides that for the period of the engagement and for a period of two years from completion of the agreement, the ICC shall not enter into any other professional relationship with the Rule 506 Entities.

Waterside Enterprises, LLC ("Waterside")[5] was engaged as the Independent Compliance Consultant in March 2016 and according to the terms of the Order, conducted a comprehensive review of the policies and procedures in place in 2015 applicable to compliance with Rule 506 of Regulation D by the Rule 506 Entities.

Background

Under the federal securities laws, a company or private fund may not offer or sell securities unless the transaction has been registered with the SEC or an exemption from registration is available. Rule 506 of Regulation D is considered a "safe harbor" for the private offering exemption of Section 4(a)(2) of the Securities Act. Companies relying on the Rule 506 exemption can raise an unlimited amount of money and under Rule 506(b), a company can be assured it is within the Section 4(a)(2) exemption by satisfying the following five standards:

- Companies must decide what information to give to accredited investors, as long as the information does not violate the antifraud prohibitions of the federal securities laws;[6]
- The company may sell its securities to an unlimited number of "accredited investors" and up to 35 other purchasers;[7]
- The company cannot use general solicitation or advertising to market the securities;[8]
- Companies relying on the Rule 506 exemption must file a "Form D" electronically with the SEC after they first sell their securities;[9] and

[5] Waterside Enterprises, LLC, a financial services consulting firm, was established in 2003 by its two principals, Paul Bruce and Beth Weimer. Paul and Beth have over 60 years combined experience in the securities and insurance industries including working for regulators (SEC and FINRA [NASD]), and working as corporate officers, compliance officers and consultants. For this engagement, Waterside also retained two experienced independent consultants (Michael Raney and Robert Arndt) who have many years of broad financial services experience and who have worked with Waterside on other engagements.

[6] Unlike offerings registered with the SEC in which certain information is required to be disclosed, companies and private funds engaging in exempt offerings to accredited investors do not have to make prescribed disclosures. Clients in private placement offerings generally are made aware of information and risks through offering memoranda. The company must be available to answer questions by prospective purchasers and must make financial statements available to potential investors.

[7] According to the SEC, one principal purpose of the accredited investor concept is to identify persons who can bear the economic risk of investing in unregistered securities. An *accredited investor*, in the context of a natural person, includes anyone who: has earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, or has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

[8] In 2013, the SEC adopted amendments to Rule 506 of Regulation D (Release No. 33-9415; No. 34-69959; No. IA-3624; File No. S7-07-12) that, among other things, permit general solicitation of the private placement as long as the issuer takes reasonable steps to verify that the purchasers are accredited investors (Rule 506(c) of Regulation D). None of the funds within the scope of this review relied on Rule 506(c) of Regulation D.

[9] Form D is a brief notice that includes the names and addresses of the company's promoters, executive officers and directors, and some details about the offering, but contains little other information about the company.

- Companies must disclose certain regulatory actions, if any, taken against them to prospective clients of unregistered funds. Adopted in 2013, this requirement is referred to as the "bad actor" provision of Regulation D.[10]

Process of the Review

Initially, Waterside met with several members of Compliance, Legal and business department management in order to become familiar with business processes relevant to the private placement businesses of the Rule 506 Entities. We reviewed detailed process schematics outlining private equity and hedge fund business and supervisory processes for pre-offering approval, marketing and subscription activities of the Rule 506 Entities.

Waterside examined policies and procedures relating to the Rule 506 Entities' activities that would otherwise be disqualified pursuant to the CFTC action.[11] The Rule 506 Entities act as investment manager, placement agent, or issuer for hedge funds, private equity funds and structured notes that rely on the Rule 506 of Regulation D exemption from registration.

Waterside observed the application of various processes used by the Rule 506 Entities as well as control points, supervisory review practices, and systems used. Waterside reviewed written policies and procedures, guidelines, training materials, subscriber forms and "Frequently Asked Questions" ("FAQ") documents relating to marketing, onboarding and offering procedures, trade order management, accredited investor attestations, investment manager/discretionary account guidelines and supervisory management processes.

Waterside interviewed business management, supervisors and staff as well as Compliance and Legal management and staff focusing on the Rule 506 of Regulation D private placement business.

Waterside conducted testing, as required by the Order, of a statistically valid random sampling of transactions for products in scope that closed in 2015[12] to help ascertain whether the policies and procedures were reasonably designed to achieve their stated purpose, namely, compliance with Rule 506 of Regulation D.

In order to accomplish the review as required by the Order, Waterside became familiar with:

- Rule 506 Entities' business processes applicable to private placement activity relying on Rule 506 of Regulation D;
- offerings relevant to the Order;
- requirements of Regulation D; and
- written policies and procedures relevant to the requirements of Regulation D.

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[10] Release No. 33-9415; No. 34-69959; No. IA-3624; File No. S7-07-12.

[11] Accordingly, placements by J.P. Morgan Securities LLC (a U.S. registered broker/dealer) or placements relying on an exemption from registration offered by Regulation S of the Securities Act are not in scope for this review.

[12] For more detailed information on the sampling processes used, *see,* Appendix A.

Business processes: Waterside developed a review and testing methodology that, using process schematics provided by JPMCB, identified processes and control points in pre-offering approval, marketing and subscription processes to examine whether policies and procedures related to compliance with Rule 506 of Regulation D were reasonably designed and being followed.

Private placement offerings relying on the Rule 506 of Regulation D exemption from registering subject to the Order include: private equity funds, hedge funds (including the Global Access Program or "GAP" funds) and structured notes.

As discussed above, requirements of Rule 506 of Regulation D relevant to this review briefly include:

- Complying with the anti-fraud requirements of the Securities Act;
- Limiting sales of unregistered products to accredited investors;
- Engaging in no general solicitation of sales for the unregistered products;
- Filing a Form D when sales commence and periodically thereafter; and
- Disclosing certain regulatory or disciplinary events to prospective clients.

Waterside reviewed written policies and procedures relevant to private placements relying on the exemption from registration in Rule 506 of Regulation D that were in effect during our sample test period of calendar year 2015.[13]

As discussed more fully in Appendix A, Waterside developed and applied a statistically valid random sampling methodology to select the specific transactions to test for compliance with policies and procedures designed to comply with the requirements of Rule 506 of Regulation D.

The private placements relying on Rule 506 of Regulation D in scope for this review include:

Private Equity – The private equity funds in scope for this review were not registered with the SEC but they are subject to the same prohibitions against fraud. The Rule 506 Entities served as placement agent for 17 private equity offerings that closed in 2015 and maintained customer relationships with clients.[14] From the 17 funds, Waterside was provided a list of 1263 private equity transactions that closed in 2015. Using the statistical sampling methods delineated in Appendix A, Waterside requested and reviewed 397 transaction files.[15]

Hedge Funds – Hedge funds are subject to the same prohibitions against fraud as are other products, and their managers owe a fiduciary duty to the funds that they manage.[16] The hedge

[13] Waterside also reviewed existing and amended 2016 policies and procedures during the course of the review.

[14] For two private equity offerings that closed in 2015, clients were directed to send subscription agreements and other information directly to the fund administrator, thus by passing internal subscription processing by the Rule 506 Entities.

[15] Initially JPMCB identified 1250 private equity transactions that closed in 2015 as in scope. Another 13 client files were added, and from these 1263 transactions, Waterside reviewed a sample of 397 private equity transaction files. *See*, Appendix A.

[16] SEC Investor Bulletin: Hedge Funds, published by the SEC's Office of Investor Education and Advocacy (October 3, 2012).

funds offered in 2015 within the scope of the Order were developed by hedge fund managers and offered by Rule 506 Entities as placement agent. During 2015, the Rule 506 Entities had seven hedge fund offerings that were made in reliance on Rule 506 of Regulation D in which 43 client transactions closed. Due to the small number of transactions, Waterside deemed it impractical to develop a statistically valid random sample; rather we reviewed information for each of the 43 transaction files, which were in both brokerage accounts and in managed or discretionary accounts. Written policies, procedures and paperwork differ with regard to brokerage and discretionary accounts.

Global Access Program funds – This Rule 506 private placement offering consists of a variety of hedge funds or funds of funds designed to meet broad investment criteria for accredited investors depending on their investment risk tolerance. In 2015, there were 239 transactions that closed for the Global Access funds. For these offerings, JPMCB served as Investment Manager, so these offerings are in scope for the review of selected policies and procedures such as marketing guidelines. However, these offerings were made either to U.S. persons residing in the U.S. via J.P. Morgan Securities LLC, an entity outside the scope of the Order, or to non U.S. persons outside the U.S. under Regulation S, so no client transaction files were in scope for this review.

Structured Notes – Generally, structured bank notes are securities whose returns are based on, among other things, an index or indices based on the market performance of a basket of equity securities, interest rates, commodities, and/or foreign currencies. The investment's return is "linked" to the performance of a reference asset or index. Structured notes have a fixed maturity and include two components – a bond component and an embedded derivative.[17] During 2015, the Rule 506 Entities issued 119 structured notes under Rule 506 of Regulation D that typically did not guarantee any interest or principal at maturity.

For each of the 2015 structured products JPMCB served as issuer. All of these structured products were marketed and distributed by placement agents that were outside the scope of the Order. Since none of the Rule 506 Entities served as placement agent for the structured notes, we did no review of client transaction files.

Findings/Conclusions/Recommendations

For private equity offerings, the Rule 506 Entities served as placement agent and Waterside reviewed 397 client transaction files of the 1263 transactions that closed in 2015. We reviewed offering memoranda and other documents describing the private equities for compliance with the anti-fraud prohibitions of the Securities Act and we were satisfied that marketing, onboarding and offering policies, procedures and guidelines were designed to ensure compliance with Rule 506 of Regulation D.

All private equity client transactions were done in brokerage accounts and in the file review process, we determined that for all transactions in scope there was a valid Subscriber Information

[17] SEC Investor Bulletin: Structured Notes, published by the SEC's Office of Investor Education and Advocacy (January 12, 2015).

Form ("SIF")[18] in place that identified the client and included attestations of their accredited investor status.

We also reviewed the Subscriber Agreements submitted by brokerage clients for private equity offerings that included language referencing accredited investor status, and frequently included attestation language that stated that the client had not been made aware of the offering through a general solicitation. In all but 17 instances, Waterside determined that the required signatures on the Subscriber Agreement were visible and legible. We asked for and received additional information (such as more legible copies of signatures or written procedures documenting signature verification processes) on each of the 17 files, so that we were satisfied that written procedures were being followed in each instance for which we had questions.[19]

For hedge fund client transactions in scope, Waterside reviewed all 43 hedge fund transactions in brokerage as well as managed or discretionary accounts. We reviewed offering memoranda and other documents describing the hedge funds for compliance with the anti-fraud prohibitions of the Securities Act and we were satisfied that marketing, onboarding and offering policies, procedures and guidelines were designed to ensure compliance with Rule 506 of Regulation D.

The requirements for hedge fund transactions in brokerage accounts are similar to those for private equity – there must be a SIF as well as a Subscriber Agreement (or an Instruction to Subscribe document in EMEA [Europe, Middle East, Africa] including Switzerland) on file with attestations as to the accredited investor status of the client. We found all brokerage files to contain appropriate documentation.

With regard to hedge fund transactions in managed or discretionary accounts, the requirements are that each client must meet certain accredited investor and client suitability standards and must enter into a Investment Adviser agreement with the Rule 506 Entity to open a discretionary or managed account. Once a client has agreed to the terms of the fiduciary account, individual transactions in hedge funds are entered into at the direction and discretion of the Portfolio Manager. Waterside reviewed all discretionary account transactions in hedge funds that closed

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[18] The SIF is used to determine whether a client who is a prospective investor for an interest in a hedge fund, private equity fund or other private investment company is an accredited investor and is otherwise eligible to invest in a fund. By signing the SIF form, a subscriber is warranting that the information in the form is accurate and complete as of the date of the signature and that the subscriber will notify the Rule 506 Entity promptly of any change in information. Each SIF form is valid for one 12-month period beginning the first of the month following the client's signature, and a single signed SIF will suffice for each subscription made within the 12-month period. Part A of the SIF requires certain subscriber information (i.e., name, contact information, ownership type and tax information); Part B defines accredited investor status and requires subscribers to attest whether they meet the qualification requirements for natural persons or for entities. The SIF includes a signature page that represents, warrants and covenants that the information contained in the form is accurate and complete. An individual is required to print the name of the subscriber, any joint subscriber and sign and date the form. An entity representative must print the name of the subscriber, sign and date the form as an authorized signatory, and print the name of the authorized signatory

[19] As noted supra, note 15, for two private equity offerings, clients were directed to send subscription documents to the fund administrator rather than to the Rule 506 Entity; accordingly, Waterside reviewed SIF forms for those clients in our sample, but did not review subscription documents.

in 2015 and saw evidence of the portfolio manager's accredited investor attestation on behalf of the client or evidence that the clients otherwise met the accredited investor standard.[20]

As noted above, the Rule 506 Entities did not act as placement agent for any Global Access fund or structured notes that closed in 2015 that were issued under Rule 506 of Regulation D. Accordingly, Waterside did not review any client transaction data outside the scope of the Order. Waterside did review selected offering memoranda, Master Distribution Agreements and a sample of Private Placement Memoranda to determine that applicable policies and procedures, such as marketing guidelines were reasonably designed to achieve compliance with their stated purposes.

During the course of our review of written policies and procedures applicable to compliance with Rule 506 of Regulation D for transactions that closed within 2015, Waterside reviewed policies, procedures, guidelines, training materials, subscriber forms as well as "FAQ" documents that were in place in 2015. Additionally we reviewed amendments and updates to documents that were made in 2015 and 2016. We submitted numerous questions and comments on the written policies and procedures to Compliance and discussed proposed modifications and amendments that addressed our comments.

Waterside made the following recommendations for changes to existing policies and procedures:

1. Enhancing controls over the structure, numbering and version tracking of the documents we reviewed (policies and procedures, guidelines, training presentations and FAQs);
2. Making procedures more consistent across worldwide jurisdictions (where permissible and appropriate);
3. Clarifying which policies, procedures and documentation requirements apply to private equity transactions when subscribers are directed to send documents directly to a third party fund administrator bypassing the Rule 506 Entities' processing;
4. Clarifying requirements for specific documents (such as a client SIF or Subscription Agreement or Instruction to Subscribe) in individual jurisdictions to make readily apparent when differences apply in different jurisdictions;
5. Clarifying whether specific procedures apply to brokerage or discretionary accounts or both.

Management accepted all of our recommendations for changes to the policies and procedures and we have seen evidence of the amendments being approved and adopted during the course of

[20] In seven hedge fund transactions in discretionary accounts in Switzerland in 2015, one hedge fund was placed on the international trading platform without the "Regulation D flag" that normally would alert portfolio managers to check the accredited investor status of the client and make a portfolio manager attestation. The error was discovered and rectified in May 2015 and the process for placing hedge funds on the trading platform was changed to require a double check or "four eyes" process. Additionally, in 2016 back testing was done to ascertain that the clients in those seven transactions met accredited investor status. Waterside reviewed the back testing information as well as the written "four eyes" procedure to place an offering relying on Rule 506 of Regulation D on the international trading platform, and we were satisfied that the transactions were placed in accounts where the clients met accredited investor status.

this review. In our next annual review, we will conduct testing of client transactions that closed in 2016 and review those transactions against the 2016 policies and procedures.

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For this first Annual Report, Waterside conducted a comprehensive review of the policies and procedures relating to compliance with Rule 506 of Regulation D by the Rule 506 Entities, including but not limited to, policies and procedures relating to the Rule 506 Entities' activities as investment manager and placement agent to private funds relying on Rule 506 of Regulation D. In this first Annual Report, Waterside states that we have tested the Rule 506 Entities policies and procedures relating to Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D that closed in calendar year 2015.

Waterside hereby certifies that:

"JPMCB's policies and procedures designed to ensure compliance by the Rule 506 Entities with their obligations under Rule 506 of Regulation D are reasonably designed to achieve their stated purpose."

Waterside Enterprises, LLC

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Appendix A

Statistical Sampling Methodology for 2015 Private Equity Funds Transactions

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Statistical Sampling Methodology for 2015 Private Equity Funds Transactions

Language in the Order states "JPMCB shall require that the Consultant test the Rule 506 Entities policies and procedures relating to Rule 506 of Regulation D by conducting a statistically valid random sampling of transactions conducted in reliance on Rule 506 of Regulation D." As discussed in the Report, JPMCB prepared for Waterside a list of all private placement offerings in 2015. That list was further refined to reflect the offerings for which the Rule 506 Entities acted as placement agent for private equity funds relying on Rule 506 of Regulation D. From the client transactions that closed in 2015, Waterside applied the following statistical review approach.

The generally accepted purpose of utilizing a statistically valid random sampling process is to be able to review an abbreviated subset of a population and use the results of that review to draw conclusions about the entire population. To comply with the statistically valid random sampling requirements of the Order, Waterside used a methodology that was intended to optimize the sample size while maintaining statistical integrity.[1] The approach we chose is based on a normal approximation to a binomial distribution and the Central Limit Theorem, adjusted for a finite population.

For any given population, a Central Limit Theorem approach states that regardless of the distribution of the underlying population, any set of sufficiently large samples reviewed will follow an approximately normal distribution. Even if we do not know the distribution of the underlying population, this approach should routinely produce a valid sample. The method used allows us to determine a sample size for a given population based on three key criteria:

- Confidence Level relative to the standard normal distribution;
- Population Proportion estimate; and
- Margin of Error.

Confidence Level:

A confidence level or confidence interval gives an estimated range of values that are likely to include an unknown population parameter, the estimated range being calculated from a given set of sample data.[2] Relative to statistical sampling and sampling distributions of population

[1] Any number of statistical sampling approaches may be applied. Based on the education, training and experience of the Waterside review team, we selected a standard approach from a 1970 article by Krejcie and Morgan and documented in the Penn State University online course website under course 414/415: "Estimating a Proportion for a Small, Finite Population."

[2] Definition of confidence interval is from Valerie J. Easton and John H. McColl's Statistics Glossary v 1.1. (Available at: http://www.stats.gla.ac.uk/steps/glossary/confidence_intervals.html).

proportions, a 95% confidence level means that 95% of confidence intervals constructed from samples of a given size (n), will contain the true population proportion parameter. This implies that only 5% of confidence intervals constructed with the specified criteria will not contain the true population proportion. This also equates to an assumption that the population parameter being tested falls within two standard deviations of the predicted value of the parameter.

Population Proportion:

If we know nothing about the underlying population vis-a-vis the criteria for which we are sampling, we need to use a population proportion estimate, ("P") of .5. This is a common approach for situations such as election sampling where we anticipate about a 50/50 response for each of two candidates. This P of .5 leads to the largest sample size, since for every sample data element selected we are unable to predict whether we will get a positive or negative result.

If, however, we know or believe the population is skewed in one direction or another, in other words, we expect the clear majority of the items in the sample will be either positive or negative, we can select a more informed estimate of P and reduce the sample size while maintaining the accuracy and integrity of the sampling process. In other words, the better we can predict the population parameter for which we are testing, the smaller the required sample size.

For our purposes and to meet the terms of the Order, we reviewed the firm's policies and procedures, conducted interviews and observed control points applicable to the private equity private placement business of Rule 506 Entities relying on Rule 506 of Regulation D within the scope of our review. We also applied our experience in brokerage and other client focused businesses in which we see that if policies and procedures are reasonably designed to achieve their stated purposes, we generally find files containing the appropriate documents and signatures well in excess of 90% of the time.

Based on our review of the Rule 506 Entities policies, procedures and control points, including documents, interviews and observation, we concluded that those policies, procedures and processes would lead to similarly accurate and complete client files.

Using these inputs, we set our estimated sampling population proportion at 0.9. The ultimate test of that assumption is whether our sampling results demonstrated that at least 90% of the sampled files met the population parameter we were testing, i.e., do the transaction files show that the Rule 506 of Regulation D requirements are being met. If not, it could indicate that our population proportion assumption may be flawed. Since ultimately 100% of the files showed appropriate documentation, our assumption was supported.

Margin of Error:

The next key sampling criteria is Margin of Error. In other words, how predictive are our results? To refer again to election polling type sampling, we often see a result that is noted to be accurate within "plus or minus" 2% or 3%. This is the Margin of Error for that poll. We decided to use a margin of error of 2.5%, which is more conservative than the 3% frequently utilized in

practice. Thus, a result of 95% of files in good order in a sample would be indicative of an assumed population accuracy rate within the interval 92.5% to 97.5%.

Using these criteria to set a sample size:

Accordingly, for the purpose of this review, to test compliance with written policies and procedures as they pertain to the requirements of Rule 506 of Regulation D, we predicted (based on experience in the industry) that the required paperwork for at least 90% (Population Proportion) of the client transactions reviewed will be "in good order" (defined here as signed and dated by an appropriately authorized party and containing assertions that the client is an accredited investor). Additionally, we selected a Confidence Level for the population of "in good order" transactions of 95% with a 2.5% Margin of Error.

In summary, setting the Confidence Level at 95%, the Population Proportion estimate at .9, and the Margin of Error at 2.5%, we determined that an appropriate sample size from the population of 1250 private equity transactions originally provided to Waterside would be 384 (see table below).

Illustration of required minimum sample sizes based on: (1) Confidence Level (2) Population Proportion estimate and (3) Margin of Error:

Estimated Population Proportion, $\hat{P}$ =	90%			$\hat{P}$ =	50%	
Confidence Level =	95%			95%		
	Margin of Error, E =			Margin of Error, E =		
Population Size N =	3.0%	2.5%	1.0%	3.0%	2.5%	1.0%
100	80	85	98	92	94	99
500	218	263	437	341	378	476
1,000	278	357	776	517	607	906
1,250	295	**384**	919	576	690	1,107
10,000	370	525	2,570	965	1,333	4,900
25,000	379	542	3,038	1,024	1,448	6,939
100,000	383	551	3,342	1,056	1,514	8,763
1,000,000	384	553	3,446	1,066	1,535	9,513
Very Large	385	554	3,458	1,068	1,537	9,604

These tables clearly illustrate that it is for very large population sizes that we see the most optimum leveraging abilities of statistical sampling. However, a population of 1250 still provides a benefit to sampling.

To select which 384 transactions out of the population of 1,250 that would be included in our sample to test, we divided 1,250 by 384 to get 3.2552. We would thus need to review one out of every 3.2552 client files in the population to meet a minimum sample size under our statistical testing criteria.
We numbered the 1,250 private equity transaction files from 1 to 1,250 and to start the sample selection process, utilized a random number generator to select a number between 0 and 3.2552. The result of that selection was the number 2.7. To ensure we requested an adequate sample to

test, we added 3.2 (slightly less than 3.2552) to that starting point repeatedly, and in each case, rounded the result to the nearest integer.
Accordingly, we selected file numbers (using standard rules of rounding):

- 3 (closest to 2.7),
- 6 (closest to 5.9),
- 9 (closest to 9.1),
- 12 (closest to 12.3),
- 16 (closest to 15.5) and so forth,

until we had identified a sample of 390, which is more than the minimum sample size of 384 that our process would require for a statistically valid random sample, using the statistical criteria outlined above.

We subsequently made the following modifications to the sample set:

1. There were two private equity offerings that occurred in small numbers and were not selected in our random sample. Accordingly, we reviewed one transaction from each of those two offerings to increase our sample to 392, providing additional margin over the minimum of 384.
2. While verifying all the transactions that should be in scope, the Bank identified another 12 more private equity transactions that should have been included in the original 1250 population.[3] Continuing the same protocol and counting process as was used for the 1250, we included four of these 12 in our final sample of private equity transactions.
3. Finally, one additional transaction was determined to be appropriate to include,[4] so we included that file in our sample, which brought our total sample to 397 out of 1263.

If we test those results against the sample size required for a population of 1263, we find a minimum sample size of 385, so we are still comfortably over that with our sample of 397. All these adjustments are well within normal sampling practices.

At the culmination of the transactional review, we found 17 files for which we had questions and that required follow-up with JPMCB, or about 4.3% of the files reviewed. We thus noted that just under 96% of the files were clearly be in good order, i.e., complying with policies and procedures reflecting Regulation D control points from our analysis. Further, all of the files for which we had questions have subsequently been resolved or clarified by JPMCB to Waterside's satisfaction, bringing the 'in good order' percentage to 100%. The conclusions of the review are discussed further in the body of the report.[5]

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[3] These 12 files were transactions in which clients added money in 2015 to prior year private equity subscriptions, and were added to the private equity transactions closing in 2015.
[4] This final file was added because it was placed by a Rule 506 Entity under Regulation D as a transaction for a client who was a U.S. person residing overseas at the time of the transaction.
[5] With regard to hedge funds, the other transactional files subject to statistically valid random sampling, utilizing the same criteria as described above, any sampling for small populations (under 100, for example) leads to sample size of 85, so generally no sampling opportunity exists; the entire population should be reviewed. For that reason, when presented with a total transaction population of 43 hedge funds within the scope of the Order, Waterside elected to review all the files rather than attempt a sampling approach.

CERTIFICATION

I am the principal executive officer of JPMorgan Chase Bank, N.A. Pursuant to Section III.E of the Order under Rule 506(d) of the Securities Act of 1933 Granting a Waiver of the Rule 506(d)(1)(iii) Disqualification Provision issued by the Securities and Exchange Commission on December 18, 2015, I certify that I have reviewed the written report of Waterside Enterprises LLC, dated December 9, 2016.

James Dimon
Chief Executive Officer and President
JPMorgan Chase Bank, N.A.

Date: January 25 2017

CERTIFICATION

I am the principal legal officer of JPMorgan Chase Bank, N.A. Pursuant to Section III.E of the Order under Rule 506(d) of the Securities Act of 1933 Granting a Waiver of the Rule 506(d)(1)(iii) Disqualification Provision issued by the Securities and Exchange Commission on December 18, 2015, I certify that I have reviewed the written report of Waterside Enterprises LLC, dated December 9, 2016.

Stacey Friedman
General Counsel
JPMorgan Chase Bank, N.A.

Date: January 26 2017