

**Benjamin Franklin:** “Those who surrender freedom for security will not have nor do they deserve, either one”

- Car Levin 19<sup>th</sup> September 2013 : « **the whole issue of misinforming investors and the public is conspicuously absent from the SEC findings and settlement** »

The size of the penalties is testimony to the great damage risky derivatives bets can do, and that's important. However, the whole issue of misinforming investors and the public is conspicuously absent from the SEC findings and settlement. Our PSI investigation showed that senior bank executives made a series of inaccurate statements that misinformed investors and the public as the London Whale disaster unfolded. Other civil and criminal proceedings apart from this settlement are continuing, so there is still time to determine any accountability on that matter.

<https://votesmart.org/public-statement/814938/levin-statement-on-settlement-and-penalties-in-jpmorgan-london-whale-trades#.V1Ei4ZyLTMw>

- **The economist 17<sup>th</sup> September 2013: “when the fine is a crime...”**

JPMorgan Chase was deeply concerned about the suspect trades, and far from being complacent. It had ratcheted up scrutiny as problems became evident. It has also been forthcoming about what occurred. It would be a surprise if any of the justification for the fines given during their announcement goes beyond what JPMorgan Chase has already said. What is unlikely to be mentioned is the fact that the losses were entirely contained within JPMorgan Chase itself, with the bank continuing to produce record profits.

All of this raises a question about whether losing money itself has become a crime—and whether that is a reasonable approach. Ordinarily, advancing this view would be JPMorgan Chase's job, but America's large banks are now increasingly subject to broad and vague regulations. There is little doubt that the bank had little choice but to settle. In addition to the whale case, it has recently been hit by a series of other investigations.

Many of JPMorgan Chase's competitors privately believe that the actions against the bank are less retribution for any legal offense the bank might have committed than punishment for Mr Dimon's willingness to attack the deluge of rules as counter-productive. And then, they say, there is the bank's ability to afford stiff fines. If so, these fines truly are a crime.

<http://www.economist.com/blogs/schumpeter/2013/09/jpmorgan-chase>

### **July 2012 earlier article**

IT has been a bumper summer for corporate fines and settlements. In the past three months alone firms in Britain and America have agreed to pay out over \$10 billion because of wrongdoing. But the economics of crime suggests that fines imposed by regulators may need to rise still further if they are to offset the rewards from lawbreaking. The latest allegations of bad behavior are a familiar brew of overcharging, mis-selling and price-fixing. Banks have been the worst offenders.

Assessed against this methodology, even apparently hefty fines look pretty weak. Recent big penalties (see right-hand chart) have been far lower than a crime calculus of this sort would suggest is needed, even allowing for the fact that some firms, like Barclays, get discounts for co-operating with the authorities. Britain looks particularly lenient. Its antitrust laws impose fines of up to 10% of revenues; American regulators levy penalties of up to 40%, and the European Commission goes up to 30%.

<http://www.economist.com/node/21559315>

**Table of Key Items**

<b><u>FACTS</u></b>	<b><u>REALITIES</u></b>	<b><u>KEY DATES</u></b>
<a href="#"><u>Tranche Book</u></a>	<a href="#"><u>Bank Strategic Hedge</u></a>	<a href="#"><u>November 2011</u></a>
<a href="#"><u>Special Valuation</u></a>	<a href="#"><u>No Budget, No Limit</u></a>	
<a href="#"><u>Bruno Iksil role</u></a>	<a href="#"><u>Jamie Dimon commands</u></a>	
<a href="#"><u>Collapse with the IB</u></a>	<a href="#"><u>Share Buyback and Basel III</u></a>	<a href="#"><u>December 2011</u></a>
<a href="#"><u>Missing reserves</u></a>	<a href="#"><u>Notorious lack of liquidity</u></a>	<a href="#"><u>23<sup>rd</sup> March 2012</u></a>

**The ‘London Whale’ story is born**

- [30<sup>th</sup> March 2012: ‘Holiday time’](#)
- [3<sup>rd</sup> April 2012 ‘Post Mortem and Run off’](#)
- [4<sup>th</sup> April 2012: ‘They say the book made \\$600 Million...’](#)
- [5<sup>th</sup> April 2012: Ina Drew emails ‘Partnership and drawdown’-\\$600 million confidential information leak](#)
- [6<sup>th</sup> April 2012: London Whale articles](#)
- [9<sup>th</sup> April 2012: S9 tranche reserve only](#)
- 13<sup>th</sup> April 2012 ‘tempest in a teapot’
- [20<sup>th</sup> April 2012: collateral ‘dispute’](#)
- [25<sup>th</sup> April 2012: MRM report](#)
- [30<sup>th</sup> April 2012: ‘I want to see the positions’](#)
- [10<sup>th</sup> May 2012 10-Q report ‘statements’](#)
- [13<sup>th</sup> June 2012: “it morphed into something”](#)
- 12<sup>th</sup> July 2012 restatement
- 15<sup>th</sup> Jan 2013: task force report
- 15<sup>th</sup> March 2013: Senate report
- 13<sup>th</sup> August 2013: ‘A voice of reason’
- September-October 2013: Levin, The Economist and the Fines of JPM
- October 2014 Comptroller report: FED and OCC
- July 2015: FCA (maximum deterrence, FSMA 2000, final notice appeals, no disclosure, leaks, Byrne and partner statements)
- September 2015: droits de réponse
- February 2016: Macris-FCA final notice

**Few useful references**

Task Force Report (January 2013)

Senate Report (March 2013)

First Batch of Exhibits of the senate report (March 2013)

Second Batch of Exhibits of the senate report (November 2013)

13<sup>th</sup> August 2013 DOJ-FBI-SEC press conference

10-Q and 8-K filings of JPM -July 2012 slides from JPM

September 2010 Barclays Conference-Jamie Dimon slides

2011 JP Morgan Annual Report

PWC Financial institute October 2010 on Basle III

2000 FSMA ACT

1948 Human Rights European convention

## The facts

- ‘tranche book’

*Senate report:*” For example, in the first half of 2011, the CIO reported multiple, sustained breaches of its stress limits and **attributed those breaches to increased activity in its “synthetic credit (tranche) book.”**<sup>1266</sup> The CIO’s stress limits were triggered eight times, sometimes for weeks at a stretch, from January to June 2011.<sup>1267</sup> The bank notified the OCC about those stress limit breaches, like other internal risk limit breaches, in the **bank’s** regular Market Risk Management (MRM) Reporting emails which listed risk limit breaches and in its **weekly Market Risk Stress Testing** reports.<sup>1268</sup> In those reports, the CIO attributed all of the CIO’s stress limit breaches to changes in its “synthetic credit (tranche book).”<sup>1269</sup> In the first breach of the year, for example, which occurred on **January 27, 2011**, the CIO continued to breach the limit for seven weeks in a row, peaking at 50% over the limit.<sup>1270</sup> [table of key items](#)

*Task Force report on this stress limit violation:* “95 An earlier limit breach within CIO appears to have been part of the impetus for a review of CIO’s limit structure begun by CIO’s Head of Market Risk in the summer of 2011, described below. **Beginning in March 2011**, CIO’s aggregate stress loss limit was in breach for some time. The breach, which was discussed among the Chief Investment Officer, the Firm-wide Chief Risk Officer, and the CIO Head of Market Risk, appears to have been caused principally by activity **unrelated to the Synthetic Credit Portfolio**, in CIO’s international rates sector. [table of key items](#)

*Senate report:* “footnote 960: 12/22/2011 email from Javier Martin-Artajo, CIO, to **Ina Drew and John Wilmot, CIO, “RWA – Tranche Book,”** JPM-CIO-PSI 0000032-034, at 033. See also 12/22/2012 email from Javier Martin-Artajo, CIO, to Bruno Iksil, Patrick Hagan, Julien Grout and Samir Patel, CIO, “urgent ----- : Rwa,” JPM-CIO-PSI 0001227 (requesting specific estimates for the amount of RWA reduction that could be achieved by each of the listed “model reduction[s]” by the end of the first quarter of 2012).” [table of key items](#)

*Senate report:* “The next day, **January 19, 2012**, to follow up on the prior day’s meeting, Mr. Martin-Artajo sent Ms. Drew an email describing four scenarios for reducing the SCP’s RWA that had been discussed during the meeting: “Ina, [A]s a follow up from yesterday[’]s conversation regarding the tranche book I would like to further clarify the different scenarios and assumptions for each of them. The first scenario is the one discussed when you were in London an[d] is a scenario that we reduce our book to the agreed [RWA] target at year end 2012 of 20.5 Bln but the current model used by QR remains. This ... strategy ... would have high trading costs and a higher risk profile so that we could also have a **large drawdown** [loss].” [table of key items](#)

*Senate report:* “In an e-mail to Mr. **Hogan** on January 20, Mr. Goldman explained that “position offsets to reduce [the CIO] VaR” were happening daily. With respect to the implementation of a new VaR model, Mr. **Weiland** informed Firm-wide Market Risk that CIO was in the final phase of a model review for a **“new VaR model for the tranche book” (meaning the Synthetic Credit Portfolio)** and that the new model was expected to result in a lower VaR for CIO. [table of key items](#)

*Senate report:* “**Mr. Goldman** conveyed the same argument to his boss, Chief Risk Officer John **Hogan**: “Two important remedies are being take[n] to reduce VaR .... 1. Position offsets to reduce VaR are happening daily. 2. Most importantly, a new improved VaR model that CIO has been developing is in the near term process of getting approved by MRG and is expected to be implemented by the end of January. The estimated impact of the new VaR model based on Jan 18 data will be a

**CIO VaR reduction in the tranche book by 44%** to [\$]57mm [million], with CIO being well under its overall limits.”<sup>985</sup> [table of key items](#)

*Senate report:* “<sup>45</sup> Also on February 3, Mr. Wilmot sent an email to Mr. Braunstein requesting **“approval to raise [CIO’s] 1Q12 RWA by \$7bn to \$167bn.”** Mr. Wilmot explained that it was a **“one quarter request”** and that CIO believed they were “on target to achieve the \$160bn level for 2Q12-4Q12.” Mr. Wilmot wrote that CIO was **“less confident in the RWA reduction from the MTM book, specifically the tranche book** which is where [CIO hoped] to continue to achieve significant reductions throughout the year.” [table of key items](#)

*Senate report:*” **On March 2, 2012**, a QR quantitative expert, Kevin Krug, who was responsible for running the CRM calculations, emailed Pete Weiland, the CIO’s Chief Market Risk Officer, with the CRM results for January and February.<sup>1080</sup> Mr. Weiland expressed surprise at the huge CRM figure and questioned the results: “These results, if I understand them, suggest that there are scenarios where the **CIO tranche book could lose \$6 billion in one year. That would be very difficult for us** to imagine given our own analysis of the portfolio.”<sup>1081</sup> Mr. Weiland forwarded the results to Mr. Martin-Artajo, head of the CIO’s equity and credit trading, stating: **“We got some CRM numbers and they look like garbage** as far as I can tell, 2-3x what we saw before.”<sup>1082</sup> Mr. Weiland told the Subcommittee that by “garbage” he meant, not that the results were negative, but rather that they were unreliable.<sup>1083</sup>[table of key items](#)

*Senate report:* “**Footnote 675** The reference to “6 bps” is to a policy of the CIO’s Valuation Control Group which allowed the CIO to report derivative values for the IG credit index that could vary from the midpoint market prices by up to 6 basis points. See **4/20/2012 email from Jason Hughes, CIO**, to Edward Kastl, JPMorgan Chase, **“Credit Index and Tranche Book,”** JPM-CIO-PSI-H 0006636-639, at 636 (listing tolerance levels for 18 credit derivative positions). [table of key items](#)

*Senate report:* “**Mr. Braunstein and Ms. Drew met the following day, on April 6.** Mr. Braunstein asked Ms. Drew to **provide a detailed overview of the Synthetic Credit Portfolio’s position** by the following Monday, **April 9.** Later on April 6, **Mr. Braunstein sent Mr. Dimon a brief update on his discussions** that day regarding the Synthetic Credit Portfolio. He informed Mr. Dimon that he **“[s]poke with Ina. Would like to add a liquidity reserve<sup>73</sup> for [the] Series 9 Tranche Book (approx 150mm).** Wilmot will be sending e-mail detailing analysis.” Mr. Braunstein also informed Mr. Dimon of the overview he had just asked Ms. Drew to prepare by April 9, and added that he was **“working with [the Investment Bank] to make sure there are no similar positions in the [Investment Bank’s] book.... Separately think we need to look at coordinating between the CIO and [Investment Bank] approaches.** Have talked to John Hogan about this as well.”<sup>74</sup>[table of key items](#)

*Senate report:* “**On April 20, 2012, Daniel Vaz sent an email to the CIO with a subject line “URGENT ::: Huge Difference for iTraxx & CDX trades,” asking the CIO to check its marks.**<sup>778</sup> The CIO collateral disputes were so large that even JPMorgan Chase senior personnel took note. On April 20, 2012, Chief Risk Officer **John Hogan** sent an email to Chief Financial Officer **Douglas Braunstein** stating: **“This isn’t a good sign on our valuation process on the Tranche book in CIO. I’m going to dig further.”**<sup>779</sup> The largest single dispute involved Morgan Stanley which contested credit derivative valuations that it contended were overstated by more than \$90 million.<sup>780</sup> Morgan Stanley told the Subcommittee that the marks it had assigned to the derivative positions in question were in line with JP Morgan’s Investment Bank, but diverged significantly from the marks used by the CIO.<sup>781</sup> It explained the problem in an email sent to JPMorgan Chase as follows: “We completed our initial analysis and it shows two different prices used depending **if the tranche is done through the CIO desk vs the JPM dealer desk.** We [Morgan Stanley] have

significant MTM [mark to market] breaks on positions facing the CIO trades whereas trades facing you[r] dealer desk are very much inline.” 782[table of key items](#)

- ‘special valuation process’

**Ina Drew: “an extra basis point you can tweak at whatever it is I'm trying to show”**

Senate Report: “ footnote 771 4/19/2012 Subcommittee transcription of recorded telephone conversation among Bruno Iksil, Julien Grout, and Luis Buraya, CIO, JPM-CIO-A 00000018 (**Mr. Iksil:** “...we have to be careful, not to be too stretched.” **Mr. Buraya:** “I can imagine the next headline ‘*JP Morgan is hoarding cash. They are not marking the stuff in the right place.*’ I can see it happening.”... **Mr. Iksil:** “...all we have to do is *stick to our method. I agree, not change anything.* I think our method is good. **Mr. Buraya:** “...we do the exercise on Monday [April 23], or *we are marking where we see it. We give it to Jason.* ... **Mr. Iksil:** “...and if they want us to line 500 [million] lower, so be it. So be it. Right? There’s nothing wrong with it. But we have to address the problem, right?”). See also “JPMorgan restates first-quarter results, citing trader marks,” Reuters (7/13/2012) [table of key items](#)

**Senate report:**” 773 See 4/20/2012 email from Mark Demo, JPMorgan Chase, “Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors,” JPM-CIO 0003590-596, at 592. See also 4/20/2012 email from Mark Demo, JPMorgan Chase, to John Wilmot, CIO, and others, “Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors.” JPM-CIO-PSI-H 0000141-0151, at 0142 (“This is a **weekly report that we in IB Collateral produce** that reflects the 10 largest collateral disputes for the week. You should know that in our top 10 this week, we have quite a few disputes that are largely driven by mtm [mark to market] differences on CIO London trades. If I look at the total mtm differences across the CIO book facing the G- 15 – **the mtm difference totals over \$500MM.** ... The collateral team also provided a time series which shows the overall difference **growing through March to approx[imately] \$500mm at March month end. March month end was tested as satisfactory by VCG.**”). This email was forwarded to **Ina Drew and Irvin Goldman, CIO, on 4/23/2012.** See also 4/23/2012 email from Ina Drew to Irvin Goldman, CIO, “Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors,” JPM-CIO-PSI-H 0000141-151, at 141. [table of key items](#)

*Senate report:* “Four days later, **on April 17, 2012,** in a recorded telephone conversation, Ms. Drew told Mr. Martin-Artajo: “[S]tart getting a little bit of that mark back ... so, you know, **an extra basis point you can tweak at whatever it is I’m trying to show.**”<sup>768</sup> When asked about this telephone conversation, **Ms. Drew told the Subcommittee that the traders had told her they were being “conservative in the bid offer,”** and **she wanted them to be more aggressive.** “If the position is starting to mean revert,” Ms. Drew said, she wanted them to “show it.”<sup>769</sup> Her recommendation that the CIO traders “tweak” the marks, as well as her explanation that **she wanted them to be less conservative in their analysis,** provide additional evidence of the **imprecise and subjective nature of the marks** assigned by the bank to its credit derivative holdings. On April 17, the SCP showed a gain of \$10 million, after eight consecutive days of losses.<sup>770</sup>[table of key items](#)



**Ms. Drew told the Subcommittee that the traders had told her they were being “conservative in the bid offer,” .....see the senate report actual transcript below**

**Ms. Drew:** I saw Hogan. I delivered the message on what we can and cannot deliver on limits this week or next. That we are doing an **appropriate review, that there is a divergence between the single name system that's [Indecipherable.] the number and the index system**, and he needs to take the pressure off in terms of penciling in a number quickly. **Mr. Martin-Artajo:** Ok. **Ms. Drew:** I think he's fine with that. And what we can pencil in, we will, but **we don't have to do everything**. And then I just wanted to get a really brief update on, you know, what the P&L might look like. **It looked like the curve, the forward curve was flattening** a little. **Mr. Martin-Artajo:** Yes. We are going to be showing a slight positive today. I just want to confirm that with Bruno. I think we are going to be up like somewhere around \$20 million today, ok? So this is the first, this is a big event for us, because we are starting to get money back. The guys are a little bit unsure, because we are not trading in the market. Maybe, maybe, maybe there's a little bit more money in the trade. I, I want them to just show me what they think is for sure, ok? So I think we are going to be up probably somewhere in the \$20 million, ok? Somewhere around that. **Ms. Drew** That, that's on the curve? **Mr. Martin-Artajo:** That's on the curve. It's a little bit on the curve. And, you know, if we mark the full, the full, I think, I think, to be honest with you Ina, **we don't know where the market is trading**, so really- **Ms. Drew: I understand.**

**Mr. Martin-Artajo:** Because the bid/offer spread is a little bit wide, **it's getting better every day so we are within the bid offer spread. Now, that means that probably the real P&L is probably like \$50, but I'm going to show about half of that, ok?** I just want to make sure that we don't, because I, I, I really want to make sure what we put in the P&L what we know for sure. And, so we are, but it is very important, because this is the first day that we are -If you forget about the idiosyncratic thing that happened yesterday in Rescap, I mean - this is a, **this is a market that actually is starting to trade a little bit better for our position. It is slightly better.** I'm not saying that this is going to be a fast process, but it, it is important that we start getting positive numbers now, right? **Ms. Drew: The curve that I put on, Menashe put on the screen for me with Julien's help**, that it was starting to, point upwards slightly. **Mr. Martin-Artajo:** Yeah. Yeah, it is starting to get a little better. The only thing is I don't know how much it's trading and I don't want to, I, I, I don't want to show the P&L until these guys confirm. I mean we are normally quite conservative in that. And, and I, you know, you know, if, if, if the price gets outside the, the bid-offer spread, then we mark that, ok? So, **so 3 bps as you know is 150 bucks. Ms. Drew: Yeah. Mr. Martin-Artajo:** So the instruction to you that we have here is probably around \$100 million, ok? So I don't want them to show \$100 million today if they are not sure, ok? So, so just for you to know that, you know, it's about, you know, you know, if this is, you know, we need to have a real, sort of 3bps move to, to, to recognize that. I hope it happens and, if it happens between now and the end of the day or, or, whenever it happens, I'll show you. I'll let you know, ok? I'll send you an email when, if, if things are improving. **Ms. Drew: Here's my guidance. It's absolutely fine to stay conservative, but it would be helpful**, if appropriate, to get, to start getting a little bit of that mark back. **Mr. Martin-Artajo:** Exactly, I know. **Ms. Drew:** If appropriate, so you know, **an extra basis point you can tweak at whatever it is I'm trying to show**, you know, with demonstrable data and if not, then the description is, you know, we have a conservative mark but the curve is starting to trend [Indecipherable.] - **Mr. Martin-Artajo:** Ok, I will write that. I will write that. It's just that I don't want to do it until I'm sure, ok? Because I, I, **I know that we need this. I know that we need the reversal, and it does help our case enormously, right?** It starts to give us a little bit of credibility that I've lost by, by explaining this in, in, in such a bad way, really.

*Senate report Page 55 upon American Airlines bankruptcy filing in late November 2011.” Ina Drew told Jamie Dimon that the gains were about \$400 million, triggering a massive payout to the CIO and others holding the short side of the position. <sup>337</sup>The CIO traders later claimed internally that they made \$550 million,<sup>338</sup> but did not record the profits all on the same day.<sup>339</sup> “[table of key items](#)*

**Senate report page 138:** “According to Ina Drew, the large collateral disputes generated a series of questions internally about the CIO’s valuation process. **She told the Subcommittee that Jamie Dimon “felt that one way to find out [about the validity of the disputes] was to ask Mr. Macris, Mr. Martin, and Mr. Iksil to narrow the bid-offer spreads.** Over a period of a few days, you should see a narrowing of the disputes. Then we would find out if the disputes were real or not.”<sup>783</sup>

## Defend the P&L

*Senate Report: Footnote 577:* “See, e.g., **1/30/2012 email from Bruno Iksil, CIO, to Javier Martin-Artajo, CIO, “there is more loss coming in the core credit book,” JPM-CIO-PSI 0001225 (“The guys have a huge skew trade on and they will defend it as much as we do .... It is pointless to go for a fight.”); 1/30/2012 email from Bruno Iksil, CIO, to Javier Martin-Artajo, CIO, “core credit,” JPM-CIO-PSI 0001226 (“they really push against our positions here everywhere. there is more pain to come in HY too.”). [table of key items](#)**

*senate report footnote 578* “**1/31/2012** email from Bruno Iksil CIO, to Javier Martin-Artajo, CIO, “hello, quick update in core credit...”JPM-CIO-PSI 0001229 (“**I went to ISMG and advised that we set the book for long risk carry the time for us to see whether we really need to fight in mars.”).**”

*Task Force Report: ”*  
*December 2011*

- **One of the traders** raised concerns with senior members of the Synthetic Credit Portfolio team about P&L volatility that could accompany an effort to reduce RWA by selling protection.

*January 2012*

- On January 30, **one of the traders** wrote to another trader expressing concerns about the **lack of liquidity** in the market and the fact that **any additions to the positions**, notwithstanding any near-term benefits, would ultimately increase the risks and size of the Synthetic Credit Portfolio, as well as its sensitivity to price moves and trading costs.
- On January 31, a senior member of the Synthetic Credit Portfolio team **forwarded to Ms. Drew** an e-mail exchange between himself and **one of the traders**, which included an e-mail from another of the traders. That **senior member** expressed the view that the Synthetic Credit Portfolio was not behaving as intended and that financial performance was “**worrisome**”; the trader’s underlying e-mail noted that **the losses were large because the notional size of the positions was large**, and that the Synthetic Credit Portfolio was losing money on a number of positions.

*February 2012*

- On February 2, according to **one of the traders**, he advised Ms. Drew and another trader that the Synthetic Credit Portfolio could experience additional losses of \$100 million, and explained that it was possible that they did not have the right long position in light of the characteristics of the IG-9 position and the relevant market dynamics.

*Task Force report:* “**Throughout February**, the traders continued to add to their investment-grade long positions, and also at this time began to add significantly to their high-yield short positions. It appears that among the reasons for at least some of this trading (and possibly other trading during the first quarter) was that **the traders sought to “defend the position”**

or “defend the P&L.” The phrase was not defined in a consistent way by the traders who used it, but it appears to be a response to one or more concerns expressed by the traders throughout much of the first quarter.” [table of key items](#)

*Exhibit 15 Us Senate report March 2013:*

“From: Achilles Macris

Sent: Thu, 01 Mar 2012 11:10:42 GMT

To: 'Martin-Artajo, Javier X' <javier.x.martin-artajo@jpmorgan.com>

Subject: priorities

Hey Javier,

Here are some thoughts: • **Focus on the metrics and P+L of the synthetic book. I am worried** that the \$20b RWA committed by year-end, is too aggressive, **If we need to Actually reduce the book; we will not be able to defend our positions** .... We need to win on the methodology and then the diversification. Hogan, doesn't not understand the book and it should be **explained through Ashley etc. Let's meet Ashley soonest.** As this would be driving all things important to us, it would be important to **focus on the P+L** and the post methodology.' RWA, 'should be what it takes to achieve the P+L ... .. **We need to find a low RWA spread trade for size.** Something between George and Tolga. Maybe Austria or EU, and buy \$15b spread with low RWA ..... **OR, step-in 'and buy the RMBS at new tights** if you think that would generate issuance .... **In Credit, to focus on some MtM low hanging fruit.. .... to assist the B/E for Bruno** etc Thanks, Achilles . , [table of key items](#)

*Task Force Report:* “On March 1, the day after the CIO Business Review, **an executive with responsibility for the Synthetic Credit Portfolio** e-mailed one of the traders to express concern that if the traders needed to “[a]ctually reduce the [Synthetic Credit Portfolio]” in order to decrease RWA, they would not be able to “defend” their positions. **This e-mail appears to address the concern that an unwind of positions to reduce RWA would be in tension with “defending” the position.** The executive therefore informed the trader (among other things) that CIO would have to “win on the methodology” in order to reduce RWA.

[table of key items](#)

*Task force report:* “The trader described his plan in a series of e-mails to another trader. On **March 15**, he sent an e-mail explaining that “[t]his [] may be **the solution: let the book run off.** So I prepare it for this outcome.” Similarly, on March 19, he wrote to some of the other traders that his proposed strategy was to “**let the P&L fluctuate while not defending**, just maintaining the upside on defaults over time.” Further, he wrote, “the solution proposed amounts to be longer risk and let the book expire carrying the upside on default: I think we own [] a very good position for a size that is also significant . . . .” [table of key items](#)

*Senate report:* “On **March 23**, 2012, Ms. Drew ordered the CIO traders to “put phones down” and stop trading.<sup>550</sup> According to Ms. Drew, she took that action during a video conference meeting with CIO personnel in London attended by Mr. Macris, Mr. Martin-Artajo, Mr. Iksil, and other CIO staff.<sup>551</sup> **She explained that Mr. Martin-Artajo had told her that they were trading in the market to “defend” their positions.**<sup>552</sup> Ms. Drew said that he had told her that counterparties were increasingly pushing the valuation of the positions, and by “defending,” CIO could push back.<sup>553</sup>“[table of key items](#)

## US GAAP standards



**1993 “Group of 30” report made by Paul Volcker and Denis Weatherstone, JPMorgan CEO: “**

Derivatives portfolios of dealers should be **valued based on mid-market levels less specific adjustments**, or on appropriate bid or offer levels. Mid- market valuation adjustments should allow for expected future costs such as unearned credit spread, close-out costs, investing and funding costs, and administrative costs.” [table of key items](#)

Page 58, the report details the ‘best practices’ as endorsed by the banking sector: «

- **Independent risk management** function (analogous to credit review and asset/liability committees) that provides senior management **validation of results** and utilizations of limits.
- Independent **internal audits** which verify adherence to the firm’s policies and procedures.
- A **back office** with the technology and systems for handling confirmations, documentation, payments, and accounting.
- A system of **independent checks and balances throughout the transaction process, from front-office initiation of a trade to final payment settlement.**  
“[table of key items](#)”

**OCC October 1993 report page 20: “**

The operations department, or **another unit or entity independent of the business unit, should be responsible for ensuring proper reconciliation of front and back office databases on a regular basis.** This includes the verification of **position data, profit and loss figures**, and transaction-by-transaction details.

Banks that engage in financial derivatives activities should ensure that the methods they use to value their derivatives positions are appropriate and that the assumptions underlying those methods are reasonable.

**Dealers and active position-takers** should have systems that accurately measure the value of their financial derivatives portfolios. The **pricing procedures** and models the bank chooses **should be consistently applied** and well-documented. Models and supporting statistical analyses should be validated prior to use and as market conditions warrant.

The **best approach** is to value derivatives portfolios **based on mid-market levels less adjustments**. Adjustments should reflect expected future costs such as unearned credit spreads, close-out costs, investing and funding costs, and administrative costs. Most limited end-users (and some traders) may find it too costly to establish systems that accurately measure the **necessary adjustments for mid-market pricing**. In such cases, banks may price derivatives based on bid and offer levels, provided they use the bid side for long positions and the offer side for short positions. This procedure will **ensure that financial derivatives positions are not overvalued**.

Banks adopting mid-market pricing should recognize that **mid-market prices are not observable** for many instruments. In those cases, banks should derive unbiased estimates of market prices from prices in similar markets or **from sources that are independent of the bank's traders**. The bank's operations staff should develop procedures to verify the reasonableness of all pricing variables or, if that is not possible, **should limit the bank's**

exposure through position or concentration limits and develop appropriate reporting mechanisms.

Traders may review and comment on prices. When material discrepancies occur, senior management should review them. If, in an extenuating circumstance, senior management overrides a back office estimate, it should prepare a written explanation of the decision." [table of key items](#)

Senate Report footnote 675: The reference to "6 bps" is to a policy of the CIO's Valuation Control Group which allowed the CIO to report derivative values for the IG credit index that could vary from the midpoint market prices by up to 6 basis points. See 4/20/2012 email from Jason Hughes, CIO, to Edward Kastl, JPMorgan Chase, "Credit Index and Tranche Book," JPM-CIO-PSI-H 0006636-639, at 636 (listing tolerance levels for 18 credit derivative positions). [table of key items](#)

*Task Force Report on 30<sup>th</sup> March:* "Mr. Goldman pressed the trader for estimates, and he responded that he was expecting the losses to be significant because he would not be "defend[ing]" the position. He further stated that he did not want to "fight" and increase the position, and added that they should have "stopped doing this three months ago and just rebalanced the [Synthetic Credit Portfolio]." He also asked Mr. Goldman (who had called him at Ms. Drew's request) not to share these estimates with Ms. Drew because the market had not yet closed and, given the size of CIO's positions, a small movement could result in a significant change in the profits and losses. » Ms. Drew told the Subcommittee that, in her view, "you buy or sell something based on value, not to defend your position,"<sup>554</sup> an approach that Mr. Iksil confirmed as reflective of her philosophy.<sup>555</sup>[table of key items](#)

Senate report footnote :742 See 3/30/2012 email exchange between Irvin Goldman, CIO, and Javier Martin-Artajo, CIO, "Any better numbers so far?," JPM-CIO 0003564-565 ("No further progress on estimate yet. Will update you again in one hour." "As I mentioned to Keith, Ina wants a summary of breakdown when u have it bid offer attribution etc."). See also transcript of recorded telephone conversation between Irvin Goldman, CIO, and Javier Martin-Artajo, CIO, JPM-CIO 0003555 and JPM-CIO-PSI-A 0000069 ("Mr. Goldman: "Ina just called me...she was curious if you had any range of estimate about what the day is going to look like." [table of key items](#)

Senate report "Controller's Assessment. The Controller's office began its work reviewing the CIO's marks in early April 2012. In a late April email responding to a bank colleague's inquiry into the CIO's valuation practices, an analyst described how the CIO had valued the SCP positions in March: "There were differences between the [CIO] desk and the independent marks at month end. The desk marked the book at the boundary of the bid/offer spread depending on whether the position was long or short. We then applied a tolerance to make sure the prices were within tolerance and the majority of positions were. We had a small number of positions where they fell outside these tolerances and hence the adjustment that was passed."<sup>809</sup> In another email, the same analyst wrote: "At March month end the CIO FO [front office] marked their book at the most advantageous levels based

on the positions they held in specific indices and tranches.”<sup>810</sup> These emails show that, **by late April, the Controller’s office was fully aware that, in March 2012, the CIO had used the “most advantageous” prices “at the boundary”** of the relevant bid-ask spread to value its derivative positions, and that the CIO prices differed from the values being assigned to the same positions by “independent” pricing services.” [table of key items](#)

## NBIA

*Senate report* “In fact, the **original authorization** for the CIO to trade in credit derivatives indicated that the **CIO should** use the Investment Bank’s marks, because **the Investment Banker was a market maker in the product**.”<sup>726</sup>[table of key items](#)

*Senate report : Is the OCC ‘unaware’?*

“In 2006, JPMorgan Chase approved a request by the CIO to create a new credit derivatives trading portfolio as part of an internal “New Business Initiative Approval” (NBIA).<sup>1217</sup> Typically, the bank does not share NBIA’s with the OCC, and the OCC told the Subcommittee that **it was unaware of whether it received a copy of the 2006 NBIA** that gave rise to the CIO’s Synthetic Credit Portfolio.<sup>1218</sup>

1217 See **7/17/2006** New Business Initiative Approval Chief Investment Office, JPM-CIO-PSI-H 0001142; see also Chief Investment Office New Business Initiative Approval Executive Summary, JPM-CIO-PSI-H 0001354.

1218 Subcommittee briefing by the OCC (11/29/2012) (Fred Crumlish). See also, e.g., 5/16/2012 email from Fred Crumlish, OCC, to Elwyn Wong, OCC, “here is redline and new final,” OCC-00003507 at 3508 (**describing the OCC’s general awareness of a “macro-hedge against the credit risk of the bank’s balance sheet using credit default swaps” starting in 2007 and 2008**) [table of key items](#)

*Senate report: “*

**“Valuation Control : CIO is not a market maker and uses the Investment Bank’s risk and valuation systems to transact its products. As such CIO is a price taker** using prices and valuation inputs **controlled and determined by the market making businesses of the bank**. CIO’s Valuation Control Group coordinator will ensure that where pricing adjustments are identified from the month end price test process for market making groups in the Investment Bank, that where CIO holds the same positions the adjustments are also discussed with/applied to CIO.”<sup>625</sup>“

**In November 2007, JPMorgan Chase’s internal audit** group conducted an audit of “CIO Global Credit Trading,” characterizing it as a **“First Time Review of New Business, Product or Service.”**<sup>201</sup> The audit report stated: “Chief Investment Office (CIO) **credit trading activities commenced in 2006 and are proprietary** position strategies executed on credit

and asset backed indices.” The audit made no mention of hedging or credit stress loss protection, and contained **no analysis of the credit trading activity in terms of lowering bank risk**. It also did not identify any assets or portfolios that were being hedged by the credit derivatives. The audit rated the CIO’s “control environment” as “Satisfactory,” but noted, among other matters, that the **CIO’s Valuation Control Group committed multiple “calculation errors” when testing the prices of the credit derivatives**.<sup>202</sup>

Footnote 201 11/29/2007 “CIO Global Credit Trading,” JPMorgan Chase & Co. Audit Department Report, JPM-CIO-PSI-H0006022-023

*Footnote 210* “Subcommittee interview of Mike Sullivan, OCC (8/30/2012); 5/22/2008 “Chief Investment Office New Business Initiative Approval,” prepared by CIO, on “Credit and Equity Capability,” OCC-SPI-00081631, at 6. **A part of the NBI form called “Post-Implementation Review” which was “to be completed at the time of approval” was left blank.** Id. at 19.” [table of key items](#)

### **Task force “expectations” in 2013....**

Notwithstanding any genuinely held views on the validity of quoted prices or the integrity of counterparties’ trading activities, **both U.S. GAAP and Firm policy required that CIO make a good-faith estimate of the exit prices<sup>59</sup> for a reasonably sized lot of each position,** and assign values reflecting those estimates.<sup>60</sup>

*Footnote 59* **Neither U.S. GAAP nor the Firm policy required CIO to mark to the “crude mids.”** Accounting Standards Codification paragraph 820-10-35-36C notes that “if an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value . . . .” While paragraph 820-10-35-36D notes that **mid-market pricing is not precluded from being used “as a practical expedient,”** such conventions are not required and good faith estimates of the appropriate exit price are necessary.

*Footnote 60* See n. 59. **By convention, the exit price is estimated for normal trading size,** and CIO was not required to estimate the prices it would have received if it attempted to sell its entire (large) position at once. [table of key items](#)

### **CIO is a client of the IB for its collateral and margin calls**

#### ***OCC October 1993 report: Page 21***

**“Participants in the financial derivatives markets have experienced significant losses because they were unable to recover losses from a defaulting counterparty** when a court held the counterparty had acted outside of its authority in entering into such transactions. National banks, especially dealers, should ensure that their counterparties have the power and authority to enter into derivatives transactions, and that the counterparties’ obligations arising there from are enforceable. Similarly, a national bank also should ensure that its rights with respect to **any margin or collateral received from a counterparty are enforceable** and exercisable. **The bank should be able to use such margin or collateral to offset actual losses** upon the default of the counterparty. A national bank also should reasonably satisfy

itself that the terms of any contract governing its derivatives transactions with a counterparty are legally sound. This is especially important with respect to **provisions governing (i) the timing of the termination of outstanding transactions and (ii) the calculation of settlement amounts payable** to or between parties upon the termination of a transaction or an agreement.

**The Board of Directors should ensure that the bank maintains sufficient capital to support the risk exposures (e.g., market risk, credit risk, liquidity risk, operation and systems risk, etc.) that may arise from its derivatives activities.** Significant changes in the size or scope of a bank's activities should prompt an analysis of the adequacy of the amount of capital supporting those various activities by senior management and/or the Board of Directors.

Douglas E. Harris Senior Policy Advisor to the Comptroller "[table of key items](#)

*Senate report page 6* “That change in valuation methodology resolved the collateral valuation disputes in favor of the CIO’s counterparties and, at the same time, put an end to the mismarking.” [table of key items](#)

*Senate report page 15:* “**Hid Massive Losses. JPMorgan Chase**, through its Chief Investment Office, hid over \$660 million in losses in the Synthetic Credit Portfolio for several months in 2012, by allowing the CIO to overstate the value of its credit derivatives; ignoring **red flags** that the values were inaccurate, including conflicting Investment Bank values and counterparty **collateral disputes, and supporting reviews** which exposed the SCP’s questionable pricing practices but upheld the suspect values.” [table of key items](#)

*Senate report Page 30:* “**To ensure payment** of the amounts owed, the parties often require each other to **post cash collateral**, with the **amount of collateral changing over time in line with the changing value** of the credit default swap.” [table of key items](#)

*Senate report page 100:* “Because derivative values often fluctuate, parties to a derivative agreement often agree to post cash collateral on an ongoing basis to cover the cost of settling the derivatives contract. **The amount of cash collateral that has to be posted typically changes periodically to reflect the fair value of the derivative.** »[table of key items](#)

*Senate Report:* “However, by 2012, the CIO was not using the Investment Bank’s marks (if it ever did), leading to a growing valuation discrepancy between the two entities within JPMorgan Chase. This discrepancy not only drew the SCP valuations into question overall, they also caused problems because the CIO and Investment Bank were sometimes on opposite sides of the same credit derivative trade, and settling those trades using the Investment Bank marks would result in much larger losses for the SCP than it would otherwise record using its own, more favorable marks.”<sup>727</sup>[table of key items](#)

**Mr. Macris and Mr. Martin-Artajo communicated a variety of concerns in emails and telephone conversations,** including that the Investment Bank was competing with the CIO, **assigning unfavorable marks to positions where the SCP held the opposite side of the trade,** and disclosing information about the CIO’s positions to the marketplace at large.<sup>728</sup> In



response, a senior Investment Bank executive, Daniel Pinto,<sup>729</sup> investigated the allegations and determined they were untrue.” [table of key items](#)

**Senate report second batch of exhibits disclosed in November 2013: “**

**From:** Bates Paul T

Sent: 22 April 2012 13:32

**To:** Stephan, Keith~ Macris, Achilles 0, Martin~Artajo, Javier X

Cc: Lewis, Phil; Enfield, Keith

**Subject:** Fw: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors

Below is Fridays mail from the collateral team that raised the issue. It breaks out the overall disputes as at 18 April of \$515mm per cp (ABS mtm of these positions is approx. \$39bn difference is only 1.5% of this), Morgan Stanley is the biggest dispute at \$117mm this is what triggered the collateral review. **This is mostly tranches as it is on our bilateral trading and the majority of the index trades are facing ICE.** The biggest difference by instrument is the Itraxx Series IG 10year 22~100 tranche which is approx \$95mm. **Collateral disputes are not uncommon at the firm level.** We do occasionally get collateral disputes~ the bau process is for MO to check the bookings and tie out positions and **for VCG to confirm the mark.** MO have confirmed with the collateral team that the positions have been fully tied out with the counterparty other than a very small number of trades with an immaterial variance that have parameter breaks. Currently **VCG are working on validating that the book is marked within thresholds** {focusing on the top 19 instrument differences which is about 90% of the total) and are looking to completing this tomorrow morning. The desks were given the break down on Friday as well. VCG will also look at any findings from their work as well. **The collateral team also provided a time series which shows the overall difference growing through March to a approx. \$500mm at March month end. March month end was tested as satisfactory by VCG,**

Thanks

Paul »[table of key items](#)

**IB FVP: CIO Front Office does not use Totem or MarkIT for estimate P&L**

**Senate report page 103: “**In 2010, a CIO internal procedure for testing the accuracy of CIO asset valuations stated that “[i]ndependent and reliable direct price feeds are the preferred method for assessing valuation. In general, third party prices/broker quotes are considered the next best pricing source.”<sup>626</sup> It also indicated that the CIO’s price testing group obtained independent and reliable direct price feeds **from the “Finance Valuation & Policy Group (‘FVP’) within the Investment Bank”** for “select CIO products,” and that in other cases, the **“IB FVP team conducts price testing of select positions” for the CIO.** It also noted that “[i]ndependent prices are obtained from various external sources (Markit, Totem, etc.) and applied to CIO positions for price testing purposes.”<sup>627</sup> These documents indicate that, to value its credit derivatives, the CIO was to use the same “prices and valuation inputs” as the Investment Bank and to work closely with the Investment Bank’s valuation team, drawing in part on independent pricing information from valuation services like Markit and Totem. The evidence indicates, however, that was **not how the CIO actually operated in the case of the Synthetic Credit Portfolio** in 2012. In 2012, there was little or no evidence that CIO personnel valuing SCP credit derivatives coordinated their review with the Investment Bank, used Investment Bank prices, or relied on daily prices supplied by independent pricing valuation services.” [table of key items](#)

**Senate report page 136:** “The CIO’s mismarking of the SCP appears to have finally ended in May 2012, as part of a concerted effort by JPMorgan Chase to resolve a series of collateral valuation disputes with CIO counterparties that **began in March** and intensified throughout April.<sup>773</sup>...**Ina Drew told** Subcommittee that the CIO did not typically have collateral disputes, and that “**large disputes over \$200 million had not happened before**” 2012.<sup>774</sup> At their peak in mid-April 2012, the CIO collateral disputes involved \$690 million.<sup>775</sup> **The collateral disputes were escalated to the attention of Ms. Drew.**<sup>776</sup>“[table of key items](#)”

**Senate report page 246:** “Additionally, the OCC found “unsafe and unsound practices” in the CIO’s valuation processes, especially noting that “**[t]he CIO did not use collateral differences with its trading counterparties as an information source for potential valuation issues.**”<sup>1423</sup>[table of key items](#)”

**Senate report: page 140** “ On **April 27**, 2012, JPMorgan Chase sent its Deputy Chief Risk Officer **Ashley Bacon** to the London CIO office to **examine the marks** in the SCP book. Mr. Bacon told the Subcommittee that, **sometime in May**, he required the CIO to mark its positions at the midpoint and to use the same independent service used by the Investment Bank to value its derivative positions.<sup>800</sup>“[table of key items](#)”

**Senare report footnote :801** “Id. See also Subcommittee interview of Douglas Braunstein, JPMorgan Chase (9/12/2012) (Mr. Braunstein: “**Ashley Bacon abandoned the traders marks in early May because we directed them to mark at the mid. The collateral disputes were noise in the markets that could be problematic.**”)” [table of key items](#)

The Task Force report does not make one single mention of the word ‘collateral’ .....

- **‘Bruno Michel Iksil role’**

***February 2016 letter:*** “Publicity surrounding the losses sustained by the CIO of JP Morgan typically refers to “the London Whale” in terms that imply that one person was responsible for the trades at issue. In fact the losses suffered by the CIO were not the actions of one person acting in an unauthorized manner. My role was to execute a trading strategy that had been initiated, approved, mandated and monitored by the CIO’s senior management.

Not only were my actions “not unauthorized” in 2012, but I was instructed repeatedly by the CIO senior management to execute this trading strategy. Since the early weeks of 2007, when the ‘strategic credit tail hedging book’ was being ramped up, I was to execute in the markets the strategies as approved in details by the CIO management in the first place. The ‘tail hedging book’ of JP Morgan had been using mostly ‘*synthetic credit correlation products*’, commonly named as ‘credit indices’ and ‘tranches’.”

***Task Force report footnote 2:*** “ The description of “what happened” is not a technical analysis of the Synthetic Credit Portfolio or the price movements in the instruments held in the Synthetic Credit Portfolio. Instead, it focuses on the trading decision-making process and actions taken (or not taken) by various JPMorgan personnel. The description of activities described in this Report (including the

trading strategies) is **based in significant measure on the recollections of the traders** (and in particular the trader who had day-to-day responsibility for the Synthetic Credit Portfolio and was the primary architect of the trades in question) and others. **The Task Force has not been able to independently verify all of these recollections.**" [table of key items](#)

*Task force report page 3:* "...Ina Drew, and responsibility for implementing these changes belonged primarily to her, together with the Synthetic Credit Portfolio's **managers and traders**. "*Footnote 4:*" The names of certain UK-based individuals have been excluded from this document **in order to comply with United Kingdom data privacy laws.**" [table of key items](#)

*February 2016 letter :* "In March 2011, I was suddenly ordered to work on the RWA (Risk Weighted Asset) figure of the book, which was calculated based on the new 'Basel standards' for "synthetic credit correlation products" (known under the label "Basel 2.5" or "Basel III" later). The 'tail hedging book' RWA figure alone, here at CIO, had to be reduced "as much as possible". I learnt then that the RWA figure was computed and communicated by "QR", a JPM risk control team running the computation for the whole firm. During a CIO meeting in London late March which was devoted to this 'RWA reduction', Mrs Drew explained that this 'top priority' resulted from the recent share buyback project of Jamie Dimon. I elevated then to Mrs Drew in person and other CIO managers many issues faced by the 'Synthetic Tranche Book': it would be very difficult to 'liquidate' the legacy exposures in the markets. The difficulties for the CIO book related to its size and its visibility in the markets. My comments were based on months of active reduction during 2009 and months of 'passive' reduction during 2010 of the book positions. The market activity and traded volumes were going down since 2009 which induced a poorer and poorer liquidity for all synthetic tranches and for all credit indices. None of this was new. It was just getting worse and worse."

*Senate report page 50-51-52....56:*" According to one of the head SCP traders, Javier Martin-Artajo, by **April and May of 2011**, the VaR limit and average utilization on the Synthetic Credit Portfolio had dropped, reflecting a dramatic reduction in its size.<sup>306</sup> In June 2011, however, the **CIO determined that the credit markets might deteriorate** due to uncertainty in Europe,<sup>307</sup> bearish.<sup>308</sup> According to Mr. Macris, **Ms. Drew thought** there would be more defaults.<sup>309</sup> The CIO credit traders began to re-evaluate the SCP's trading strategy. According to Mr. Iksil, the **CIO wanted to have a "smart short,"** Together, these signs suggested that more rather than less credit protection was needed. <sup>310</sup> meaning one that did not cost much, but provided effective protection against corporate defaults. **Mr. Martin-Artajo** later told the JPMorgan Chase Task Force investigation that he **proposed doing a combination of long and short trades**, similar to a strategy he had proposed, and the CIO had used, earlier that year to benefit the CIO if there were defaults.<sup>311</sup> More specifically, beginning in mid-2011, the CIO traders began to buy credit protection against defaults by purchasing short credit derivatives referencing "high yield" or higher risk companies; at the same time, they sold credit protection against defaults by purchasing long credit derivatives referencing "investment grade" or lower risk companies.<sup>312</sup>..... At the beginning of 2011, the SCP's notional size was \$4 billion; by the end of 2011, it was \$51 billion, a more than tenfold increase.<sup>316</sup> **Most of this growth occurred in the first half of 2011.** .... Instead, Mr. Martin-Artajo instructed Mr. Iksil to do "forward trades."<sup>324</sup> ..... **Mr. Macris also told the investigation that the traders – and he – knew they were using "dangerous" instruments.**<sup>330</sup> .... **Ina Drew told Jamie Dimon that the gains were about \$400 million.** The CIO traders later claimed internally that they made \$550 million,<sup>338</sup> but did not record the profits all on the same day.<sup>339</sup>..... **Ms. Drew** told the Subcommittee that it was **not merely coincidence** that the traders profited from the American Airlines default, but that they **deserved "some credit"** for having taken the position *in fact*, **she told the CIO traders to**

**try to repeat their performance in 2012.**<sup>350</sup> **Mr. Macris** told the JPMorgan Chase Task Force investigation that he viewed the 2011 gain as a **great event for the CIO.**<sup>351</sup> [“table of key items](#)

*Senate report page 59:* “The compensation data for both Mr. Macris and Mr. Martin-Artajo, which shows them receiving incentive pay worth millions of dollars each year, indicates that their compensation moved in tandem with and reflected SCP profits, which peaked in 2009 with \$1 billion in revenues, and then diminished in 2010 and 2011.<sup>362</sup> **Mr. Iksil’s pay did not follow the same pattern**, however, peaking instead in 2010.”

*Senate report page 62:* “Mr. Iksil later told the JPMorgan Chase Task Force investigation that then-CFO **John Wilmot told the traders** in December 2011, that notwithstanding the \$37 billion reduction in **RWA during the earlier part of 2011**, he wanted an additional reduction in RWA of \$25 billion.<sup>387</sup> Mr. Martin-Artajo told the internal investigation that **Ms. Drew** had told the traders that they might need to **reduce the SCP even “more” and “faster”** to reach the desired RWA outcome.<sup>388</sup> [“table of key items](#)

*February 2016 letter :* “In June 2011, some important decisions were taken by CIO managers about this book. Starting in July 2011, I was instructed in particular to execute a freshly approved strategy called the *‘forward spread investment trades’*. Throughout the summer of 2011, I was ordered to keep executing this strategy despite my repeated warnings on my very limited ability to trade in almost non-existent markets. The instructions were conflicting: I was ordered to grow some credit indices and some tranche positions in the context of the *‘forward spread investment trades’* and I still had to work to reduce the RWA figure (as per the new Basel standards) but without reliable information from the JPM firm-wide Market Risk control “QR” team.

In September 2011, I undertook a trip to NY and met with Mrs Drew, Mr Weiland, some JPM Market risk “QR” employees (Anil Bangia and JF Christory) and John Wilmot (CFO for the CIO) in person. I described the very difficult market conditions, the elevated execution costs and lack of proper relevant information on the RWA figures.

Beginning in December 2011, the market making desk on ‘tranches’ of the JPM Investment Bank had just closed its activities (commonly named ‘credit hybrids’ at JPM). I was instructed to try collapse the CIO tranche positions with the Investment Bank (IB) but the IB market makers declined my invitations to enter in negotiations. The tranche market offered almost no liquidity after that. I raised alarms verbally to my management, including Mrs Drew and Mr John Wilmot between the 9<sup>th</sup> and the 15<sup>th</sup> December, about the potential for large losses induced by future unwind costs. Contrary to the last 5 years, CIO closed its book early that year, on the 16<sup>th</sup> December 2011. Large protections in tranches expired on the 20<sup>th</sup> December 2011 and were not renewed. I was ordered to set the book ‘long risk’, renew those expired tranche protections with credit indices this time, and keep growing the ‘forward investment spread trades’. All this would grow the notional size of the book rather than reduce it. “

*Senate report page 63:* “**According to Mr. Iksil, Ms. Drew was mindful of the \$400 million gain the SCP** had achieved by having default protection on its books to profit from the American Airlines bankruptcy. Mr. Iksil told the JPMorgan Chase Task Force investigation

that, in early December 2011, **Ms. Drew instructed him to “recreate”** the American Airlines situation, because those were the kinds of trades they wanted at the CIO: the CIO “likes cheap options.”<sup>398</sup> Thus, as he described it, he was told to maintain the SCP’s default protection in order to position the CIO to profit from future American Airlines-type defaults.<sup>399</sup> **Ms. Drew confirmed to the Subcommittee that she gave guidance to the traders to position the book for another gain like in late 2011.**<sup>400</sup> On January 4, 2012, the CIO traders prepared a presentation for Ms. Drew, John Wilmot, and Irvin Goldman that set out the execution costs for unwinding the SCP. The cover email stated: “[P]lease find attached a grid for the Core credit Book RWA reduction scenarios .... Currently **any major reduction will lead to a very high cost through proportional reducing.**” In short, Ms. Drew indicated her preference to avoid reducing the SCP book in a way that would reduce its default protection and the opportunity to profit from future corporate defaults. That presentation estimated the execution cost for achieving a \$10 billion reduction in RWA to be \$516 million.<sup>402</sup> The presentation also identified the possible lost profits from eliminating default protection if one or two corporations were to declare bankruptcy.<sup>403</sup> On January 10, 2012, Javier Martin-Artajo, head of CIO equity and credit trading, sent an email to Ms. Drew informing her that initial efforts to unwind the SCP were proving costly: **“Bruno has been unwi[n]ding some of these pos[i]tions opportunistic[al]ly.** The other side of the P/L [profit and loss] is that it has been somewhat **costly** to unwind too so net net we have actually lost a little bit of money to unwind.” **Ms. Drew responded: “Let’s review the unwind plan to maximize p l [profit/loss]. We may have a tad more room on rwa.”**“[table of key items](#)

*Task Force report page 5:* “On April 5, Ms. Drew informed the JPMorgan Operating Committee that the *Wall Street Journal* and Bloomberg were planning to run stories about CIO’s trading and **specifically about one trader, who was referred to in the articles as the “London Whale.”** CIO was asked to and did provide information and analyses about the Synthetic Credit Portfolio to JPMorgan Chief Executive Officer Jamie Dimon, Chief Financial Officer Douglas Braunstein and Chief Risk Officer John Hogan. »[table of key items](#)

*Task Force page 7:* “These observations reflect the Task Force’s view that direct and principal responsibility for the losses lies with the traders who designed and implemented the flawed trading strategy. They also reflect the Task Force’s **view that responsibility for the flaws that allowed the losses to occur lies primarily with CIO management but also with senior Firm management.**” [table of key items](#)

*Task Force page 11 January 2013:* “(5) **certain of the traders** did not show the full extent of the Synthetic Credit Portfolio’s losses; »[table of key items](#)

*Task Force report page 29:* “On or about January 18, Ms. Drew, Mr. Wilmot, Mr. Weiland and two senior members of the Synthetic Credit Portfolio team met to further discuss the Synthetic Credit Portfolio and RWA reduction. **According to a trader who had not attended the meeting,** after the meeting ended, one of the Synthetic Credit Portfolio team members who had attended the meeting informed him that **they had decided not to reduce** the Synthetic Credit Portfolio, and that the trader’s focus in managing the Synthetic Credit Portfolio at that point should be on profits and losses..... **Management therefore instructed** the relevant trader to avoid similar losses on defaults in the future, and to ensure that the Synthetic Credit Portfolio had appropriate “jump-to-default” protection in place.<sup>32</sup> »[table of key items](#)



*Senate report page 67:* “In preparation for the meeting, **Mr. Iksil provided Ms. Drew a written presentation with key information about the SCP.**<sup>434</sup>

*Footnote 427* Id. (According to **Mr. Martin-Artajo, “Achilles told me every day every minute that he would be angry with P&L loss.”**).

*footnote 428 1/30/2012* email from Bruno Iksil, CIO, to Javier Martin-Artajo, CIO, JPM-CIO-PSI 0001225 (**Mr. Iksil also warned: “there is more loss coming in core credit book”**). [table of key items](#)

*Senate report page 73:* “Accordingly, on January 26, 2012, Mr. Iksil prepared a presentation for the CIO’s International Senior Management Group (“**ISMG**”) **advocating a new trading strategy** in which the CIO would buy more long credit derivatives.<sup>458</sup> The ISMG was, as its name indicates, a group of **senior managers within the CIO’s International Office**, including Mr. Macris, Mr. Martin-Artajo, and CIO risk personnel, including Keith Stephan.<sup>459</sup> The ISMG participants were resident in the CIO’s London office, and Ms. Drew attended their meetings when she was in London.<sup>460</sup> Ms. Drew told the Subcommittee that she considered the ISMG to be the appropriate level for an SCP strategy review.<sup>461</sup> **The Iksil presentation began by noting that “the credit book ha[d] a YTD [year-to-date]” loss of \$100 million and was expected to lose another \$300 million.**<sup>462</sup> [table of key items](#)

*Senate report page 77-78:* “On January 30, 2012, Mr. Iksil sent his supervisor, Mr. Martin-Artajo, an email **warning of additional losses and poor liquidity** in the credit markets, and seeking guidance on what to do. He noted that the trading strategy called for purchasing more credit instruments – **adding “notionals” – which “increase[d] the issues** with the risks and the size” of the portfolio. “[W]e have to report a loss in the widening today, much less because the book has a long risk bias. Comes month end and we cannot really prevent the forward spreads from moving up .... To trade ... is costly and leads to increase in notionals. We need to discuss at this stage I guess: All I see is that liquidity is so poor that we just add notionals with the stress. So that improves the outright final P&L [profit and loss] number but this increases the issues with the risks and the size, as well as our sensitivity to price moves and trading costs .... **[T]he only one I see** is to stay as we are and **let the book simply die** ....”<sup>489</sup>..... “[T]he control of the drawdown [loss] now is generating issues that make the book only bigger in notionals .... [T]he **notionals become scary** and [the] **upside is limited** unless we have really unexpected scenarios. In the meantime, we face larger and larger drawdown pressure versus the risk due to notional increase. **Please let me know the course of action I should take here.**”<sup>490</sup> [table of key items](#)

*Task Force report page 33-34-35:* “By January 26, the Synthetic Credit Portfolio was roughly balanced, as measured by CSW 10%.<sup>42</sup> **One of the trader’s** contemporaneous e-mails reflect that he understood this, but also reflect that he **began to have concerns – which he shared** with other members of the Synthetic Credit Portfolio team – about the continued mark-to-market losses in the Synthetic Credit Portfolio. Around the same time, in light of these losses, **an executive responsible** for the Synthetic Credit Portfolio **directed the senior-most trader** to focus solely on the Synthetic Credit Portfolio to the **exclusion of his other responsibilities**. On January 31, that executive sent an email to the same trader – which he also forwarded to Ms. Drew – in which he stated that the Synthetic Credit Portfolio was not behaving as intended and described the Synthetic Credit Portfolio’s performance as “worrisome.” In the same e-mail, he included one of **several late January e-mails reflecting another trader’s concern** about the Synthetic Credit Portfolio’s positions.<sup>43</sup> In that e-mail, the trader explained that, as designed, the Synthetic Credit Portfolio “would lose money now

on a default in us hy and make money if the default occurs in ig world.” According to this trader, however, the high-yield positions were losing more money than expected, and the investment-grade positions were earning less money than expected (*i.e.*, the **price movements were not correlating as expected, leading to mark-to-market losses**)..... In separate e-mails on January 30, the same trader suggested to another (more senior) trader that CIO should **stop increasing “the notionals,” which were “becom[ing] scary,” and take losses (“full pain”) now; he further stated that these increased notionals would expose the Firm to “larger and larger drawdown pressure versus the risk due to notional increases.”**..... By early February, the trader’s concern about the losses – including his lack of understanding as to why they were occurring – prompted him to **request a meeting with his managers, including Ms. Drew**, in order to discuss the Synthetic Credit Portfolio. He prepared a presentation for the meeting, which he sent to the more senior trader on February 2. The presentation was provided to **Ms. Drew and an executive** responsible for the Synthetic Credit Portfolio on February 3.<sup>44</sup> **The trader did not present his slides at the meeting**..... The executive with whom he conferred also **instructed a senior trader to travel to JPMorgan’s New York offices to see what could be done to remove the RWA constraint from the Synthetic Credit Portfolio.**” [table of key items](#)

*Senate report page 79:* “According to the key trader, Bruno Iksil, at the beginning of February, Ms. Drew asked him how much the book would lose if the positions were reduced, and he responded “a lot,” because the **IG9 long positions were not liquid enough to sell easily**.<sup>495</sup> Apparently neither Ms. Drew nor any other CIO manager told the traders to stop the book’s acquisitions or reduce any of the growing SCP positions. Instead, over the course of February, the CIO traders increased the size of the IG9 forward position from \$75 billion at the beginning of the month to \$94 billion at the beginning of March.<sup>496</sup>”[table of key items](#)

## • ‘unwind with the IB’

*Senate report: footnotes 56* 3/26/2012 email from Irvin Goldman, CIO, to Achilles Macris, Javier Martin-Artajo, and John Wilmot, CIO, “**Tranche Plan**,” JPM-CIO-PSI 0001267. [Emphasis in original.]

*Task Force Report:* “**In early April, Mr. Wilmot raised questions with Ms. Drew** about whether the traders could effect the RWA reduction without an unwind of positions.” [table of key items](#)

*Senate report :* “In an email dated April 3, 2012, Achilles Macris informed Ina Drew that a QR analyst “is now in our office and he is 100% involved with the RWA projections of our book and ways to bringing it lower.”<sup>1101</sup> Ms. Drew forwarded the email to the CIO’s Chief Financial Officer John Wilmot who responded: “I don’t get the sense of clarity that we know what is driving the RWA (economic risk versus VaR, stress VaR, CRM and IRC) or the P&L [profit and loss] – or **more importantly that either will be manageable going forward.**”<sup>1102</sup> Mr. Wilmot also wrote: “**We haven’t made the case of how this book runs off and whether risk can be managed effectively.**”<sup>1103</sup> »[table of key items](#)

*Senate report exhibits published in November 2013:*

-- Original Message ----From: Drew, Ina  
Sent: **Thursday, April 05, 2012 05:58 PM**

To: Dimon, Jamie; Zubrow, Barry L; Staley, Jes~ Cutler, Stephen M; Maclin. Todd; Braunstein, Douglas; Erdoes, Mary· E; Smith, Gordon; Peloo, Douglas B.; Bisignano, Frank 1; Hogan, John J; Cavanagh, Mike

Subject: CIO

I want to update the operating committee on what is going on with the credit derivatives book in CIO especially given a wsj article which will come out tomorrow. One of the activities in cio is a credit derivatives book which was built under Achilles in London at the **time of the merger**. The book has been extremely profitable for the company (circa 2.5 billion) over the last several years. Going into the crisis, we used the instrumentation to hedge mortgage risk and credit widening. Recently, in December, the book outperformed as it was positioned in for "jump" risk or default risk throughout the summer as a relatively inexpensive hedge for fallout from weak markets during the european crisis. The fourth quarter 400 million gain was the result of the unexpected american airlines default **Post December 2011 the macro scenario was upgraded and our investment activities tuned pro risk, the book was moved into a long position** The specific derivative index that was utilized has not performed for a number of reasons. In addition the position was not sized or managed very well Hedge funds that *have* the other side are actively and aggressively battling and are using the situation as a forum to attack us on the basis of **violating the Volcker rule** Having said that, we made mistakes here which I run in the process of working through. **The drawdown thus far has been 500 mil dollars but nets to 350 mil** since there are other non derivative positions in the same credit book. The earnings of the company were not affected in the first quarter since *we* **realized gains out of the 8.5 billion of value built up in the securities book**. John Hogan and his team have been very helpful. I wanted **my partners** to be aware of the Situation and I will answer any specific questions at oc monday.

**Have a good holiday,** »

--- Original Message ---From: Dimon, Jamie

Sent: **Thursday, April 05, 2012 06:00 PM**

To: Drew, Ina

Subject: Re: CIO

Ok. Send me some info. **Also how does it relate or not to our wind down credit exotics book?**

“From: Drew, Ina <InaDrew@jpmorgan.com>

Sent: **Thu, 05 Ap' 2012 22:08:57 GMT**

To: Dimon, Jamie <jamie.dimon@ipmcnase.com>

Subjed: Re: CIO

**If you are referring to the wind down in the ib credit exotics book, it is separate.** Achilles and I targeted the CIO tranche and derivative activity *as* a reduction item (I specified in **last bus review**) due to the high rwa it draws under basle III. We have also had issues with QR that have made the rwa outcome less predictable. **However we are working with Ashley and Venkat to see IF both the ib and CIO positions could be moved out into the winters fund. I have been assessing the trade off between P&L and RWA** for the second quarter. I can go over all the technicals with you at any time. **I wanted to this week but understood you were on vacation.**

[table of key items](#)

***Senate report second batch of exhibits, disclosed in November 2013 only, page 1560:***

“From: Macris. Achilles 0 <achilles.o.macris@jpmorgan.com>

Sent Fri, 23 Mar 2012 10:43:52 GMT

To: Drew~ Ina <InaDrew@jpmorgan.com>

Subject: This is not Normal

FYI~It's really strange what is going on here\_ .....

Javier and team here feel "surrounded" and blindsided in terms of methodology etc. I think that we will need to intervene and somehow mediate this issue with the **IB (Investment Bank) and insure- the unbiased role of Ashley and Risk management.**

Let's please decide and coordinate on our exact course of action, as this issue is really taking a worrisome direction that **could be embarrassing for the firm.** Clearly, the **IB knows our positions as well as the "checkmate"** in terms of capital treatment. **They will certainly like to settle with CIO** and close their short position in IG. The positive for CIO is that we are *long* IG when the market is moving tighter and tighter. We have the "right" position on this. Therefore, if we could afford the RWA, time and gravity will be working in our favour. The negative for CIO remains the capital utilization and the unpredictability of the capital utilization,

**The problem with "settling" with the IB and help closing their shorts**, is that CIO will be substantially short the market, post settlement. **This is not where we I would like us to be in the middle of this strong market.**

More in our meeting on this.

Best,

Achilles [table of key items](#)

From; Iksil. Bruno M

Sent: 23 March 2012, 09:17

To: Martin-Artajo, Javier X

Subject: Ade will try to contact you on your mobile

He has been approached by IB guys who wanted to know in the detail, our position on IG9. they were very specific. He will call you to give more color.

***Senate report second batch of exhibits, disclosed in November 2013 only, JPM-CIO 0003496: March 23<sup>rd</sup> Phone call between Keith Stephan and Javier Martin-Artajo:***

MR. ARTAJO : **This is Ina. Ina has to decide this with, with Jess.** KEITH: Jess. MR. ARTAJO: With Jess staley basically. Otherwise it is going to be a **shit show. These guys are putting things on the street. It is a fight between JPMorgan and JPMorgan in the street. This is a stupid thing**, okay. So, you know, the problem that we have is that we've been trying to optimize our book. We didn't know how it works.....KEITH: I think it's – I think, and you and **I discussed this briefly before I left on Tuesday**, I think that's a function of the fact that if you look at what that thing does as sort of the on the run **correlation series**, it remains the thing that looks like the cheapest instrumentation to **hedge your sort of single name exposure in the ratings and all the rest**. So there's a **perpetual bid to kind of continue to just, you know, lift protection on IG9 ten year** and at the same time they end up the other way around I think. Because what you do is sell protection on the other. MR. ARTAJO: **That's right. So they end up with having a mirror position with ours**, right. ....MR. ARTAJO:... **So they are manipulating the market** and we have to stop it. .Because now it is coming to me from the market. The market is asking us what the fuck are we doing. We have a large position. And that's last thing you want. Then **you need to stop that**. I told Peter, this is all the way up. **It might go to Jamie Dimon then**. KEITH: Just to, **just to add like a little bit more color and this is like a random anecdotal thing**. But some like junior fucking kid called **Ari Wechsman** who works in credit. MR. ARTAJO: What?

KEITH: There's a junior kid who works in market risk for credit, credit markets who apparently **was calling the market risk guys in CIO in New York** saying, hey,. we've had like two standard deviation distortion in this main versus cross over decompression and **apparently it's all because of a big prop trader called Bruno in CIO**. That's just for you to know, right. So-- **MR. ARTAJO: That is nasty, man, that is nasty**. KEITH: What that means is that the **traders in credit flow are telling that to their risk guys and just spreading shit**. MR. ARTAJO: That's right. But we need to stop that. . KEITH: I don't know how to get in front of it. I don't know. I mean the only thing we can do is what you're suggesting now, which is **Ina has to have that conversation with Jess and someone has to say knock it the fuck off because we look like idiots in the street**. MR. ARTAJO: That's right. **We need to stop this exactly.** [table of key items](#)

*Senate report , first batch of exhibits disclosed in March 2013, Exhibit 30:*

From: Martin-Artajo, Javier X  
Sent: Friday, March 23, 2012 06:48 AM  
To: Drew, Ina  
Cc: Macris, Achilles 0  
Subject: Synthetic Book - URGENT

Ina,  
during the last week we have been trying to work on our best path for the Synthetic Book trying both to reduce our overall RWAs and get the book in a balanced way. **The problem with this has been that we have engaged in a dialogue with Risk Management ( Ashley Bacon) with QR (Venkat) and the IB (Guy America and Daniel Pinto) and this has resulted In a heightened alert about our positions in the IB and is really hurting us in various ways**. While we have been. reducing the VAR and SVAR we have increased our overall RWAs because of the increase of the IRC ( New to CIO given the problems that we highlighted with QR) and also **we have worse marks against our current book**.

We are left here with two options:

**option A : We do not settle with the IB** : we do not change the current book and exceed the RWA that is going to be in the region of 44-47 Bln (this has to be confirmed by QR next week) . This option will have a bad month end mark P/L impact 0 to -150-200 MM. This is our favored choice that gives us time to correct mistakes with QR / positive carry and upside on defaults. We would still need to reduce RWA by reducing our IRC or **joining the IB with reducing the CRM outside**. So this will be a mark to market P/L problem and we are left with a book that has positive carry and upside on defaults.

**Option B : we settle with the IB** : we close the extra long position' with the IB and we will have a book that is not as well balanced will have a short bias, will reduce RWA by 10-15 Bin and have an impact on P&L that could be as large as - 350 MM. This loss will be, permanent and would leave the book with a small negative carry and option on defaults but a permanent loss for the book. In any case it is very important that we need to let the IB know that we need to talk to them to **stop this negative espiral** that we are seeing in the market because **we have disclosed too much information to them** and we are severely affected by this. **Specifically on the long IG 9 position that is getting the attention of the market.** I need to discuss this as soon as possible

regards“[table of key items](#)

“From: Drew, Ina <Ina.Drew@jpmorgan.com>



Sent: Fri, 23 Mar 2012 11:13:55 GMT

To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>

CC: Macris, Achilles O <achilles.o.macris@jpmorgan.com>

Subject: Re: Synthetic Book - URGENT

You guys need to get Irv and call Hogan and explain. I can give him a heads up. **Smart to involve Ashley.** More later [table of key items](#)

*senate report 2<sup>nd</sup> Batch of exhibits disclosed in November 2013 page 1482 to 1488: phone call on March 30<sup>th</sup> done by Irv Goldman to Javier Martin-Artajo: Olivier Vigneron was co-head of 'Credit Hybrids' until November 2011 and moved to QR under Venkat*

"**Javier Martin-Artajo:** ...I know that this still not great, but it is a number that is a little bit more palatable so that whatever **Plan B** is and there are a number of different things that we can do in Plan B that gets us to where we want to be. **That is what I am working on now.** And uh ... I think I am getting good help from you guys, from Venkat. I like this guy, he is practical, think he understands the issues. Communicates well, said he is okay lending us help from that. **Olivier is going to work exclusively for us for three months**, right. He is going to sit on the desk and coordinate all of the things I am trying to do with me, you, Keith, and \_\_\_\_ . **I think he is going to do that, think that is great**, have someone to look in depth in the book, that has enough experience to do that, **he has done that himself**. I think this is good news. I think **John Hogan spoke with Ina and maybe Achilles**, I don't know who. And it is okay, Venkat is fine. I think this is good news. Doing as well as we can. I am sorry I created this headache for all you guys. I did not expect it to be this way." [table of key items](#)

## • 'missing liquidity reserve'

*Senate report page 246 :* «The OCC examiners picked up on red flags signaling that the bank may have been engaged in mispricing, such as **its collateral disputes and low reserves amount**. What the OCC did not know at that point was whether the mismarking was the result of **inadequate procedures and policies at the bank or a deliberate effort to hide or downplay losses in the SCP.**» [table of key items](#)

### Off the run rule

**Senate report:** "Douglas Braunstein served as JPMorgan Chase & Co.'s Chief Financial Officer (CFO) from **July 2010 to December 2012**. He was also a member of the firm's Executive and Operating Committees.<sup>26</sup> In November 2012, JPMorgan Chase announced that Mr. Braunstein would step down from that post at the end of the year, and he has since become a Vice Chairman of the holding company.<sup>27</sup> In his capacity as CFO, Mr. Braunstein was charged with overseeing and certifying the accuracy of the firm's financial reporting, and ensuring adequate capital and liquidity, among other duties.<sup>28</sup>

**Michael Cavanagh** has served as **Co-CEO of the Corporate and Investment Bank since July 2012**, and is a member of the firm's Executive and Operating Committees.<sup>38</sup> Prior to that position, he served as **CEO of the firm's Treasury and Securities Services from June 2010 to July 2012**.<sup>39</sup> Before that, Mr. Cavanagh served as the firm's **Chief Financial Officer from September 2004 to June 2010**.<sup>40</sup> **In May 2012, Mr. Cavanagh became head of the JPMorgan Chase & Co. Management Task Force** established to conduct an internal investigation of the CIO losses.<sup>41</sup> **Daniel Pinto is currently the other Co-CEO of the Corporate and Investment Bank.**<sup>42</sup> [table of key items](#)

*Senate report footnote 69:* “**Internal Audit** issues three ratings: Satisfactory, Needs Improvement, and Inadequate. The latter two are considered “adverse” ratings. CIO VCG received a “**Satisfactory**” rating in its prior audit of CIO EMEA Credit on **February 26, 2010**

*US Senate report :* “In addition to reviewing the SCP book, the VCG was responsible for calculating and monitoring the amount and categorization of any liquidity and concentration reserves established for the SCP derivatives.”<sup>647</sup>

*Footnote 647* See **5/21/2010 CIO-VCG Procedure: Valuation Process**, OCC-SPI-00052685, at 6 (“In assessing the reasonableness of fair value measurements that are subject to testing, **VCG will consider whether such measurements appropriately reflect liquidity risk, particularly in the case of instruments for which CIO maintains either a significant/concentrated position and/or if the market for given instrument can be observed to be less liquid.**

*Footnote 168* Id., Appendix 4, at 35. One JPMorgan document used a more restrictive definition, defining “off-the-run” indices as **“any index older than 4 series – for example, the current on the run CDX series are 13, therefore, all indices series 9 and older are considered off the run”**). **5/21/2010 “CIO-VCG Procedure: Valuation Process,”** OCCSPI-00052685, at 15.

*Footnote 1504* **6/29/2010 JPMorgan Chase & Co., “Risk Policy: Model Risk Policy”** JPMC-Senate/Levin 000026, at 33 (“Annual Review. Each LOB must ensure all of its models are re-assed annually in light of: new developments in the literature or internal or commercially available models; changes in the market for the product (e.g. **availability of liquid quotes** for model input or major growth in volume); change in the features of the product or portfolio; back-testing of the model and experience with effectiveness of its application; the **materiality of model risk.**”) . [table of key items](#)

### **Bonocore**

*Senate report:* “Joseph Bonocore served as the Chief Financial Officer (CFO) of CIO during Mr. Weiland's tenure before Mr. Wilmot took over and Mr. Bonocore became JPMorgan Chase's Corporate Treasurer.<sup>898</sup>

**John Wilmot:** From **January 2011** to mid-May 2012, Mr. Wilmot was CIO's Chief Financial Officer, **reporting to Ms. Drew, with “dotted line” reporting to Mr. Braunstein.** Prior to serving as the CFO of CIO, Mr. Wilmot was responsible for Bank Owned Life Insurance and JPMorgan Partners Private Equity Investments within CIO. Mr. Wilmot has announced his resignation and is expected to leave JPMorgan in 2013

*Footnote 898 :* “Subcommittee interview of Joseph Bonocore, JPMorgan Chase (9/11/2012). **Mr. Bonocore served as CFO for CIO from September 2000 to November 2010**, after which time he served as firmwide Corporate Treasurer until his departure from JPMorgan Chase in October 2011 for personal reasons. Id” [table of key items](#)

### **IB FVP**

**Senate report:** “In 2010, a CIO internal procedure for testing the accuracy of CIO asset valuations stated that “[i]ndependent and reliable direct price feeds are the preferred method for assessing valuation. In general, third party prices/broker quotes are considered the next best pricing source.”<sup>626</sup> It also indicated that the CIO’s price testing group obtained independent and reliable direct price feeds from the “Finance Valuation & Policy Group (‘FVP’) within the Investment Bank” for “select CIO products,” and that in other cases, the “IB FVP team conducts price testing of select positions” for the CIO. It also noted that “[i]ndependent prices are obtained from various external sources (Markit, Totem, etc.) and applied to CIO positions for price testing purposes.”<sup>627</sup> [table of key items](#)

### **FCA November 2010**

***FCA and Achilles Macris final notice February 2016:*** “

As Mr Macris knew, during 2010 and 2011 the number of participants in the synthetic credit market had been shrinking and investment banks that had provided liquidity had started to cease or reduce their activity.

In addition to the Firm’s regulatory obligation to maintain an open and cooperative relationship with the Authority, from 1 October 2010 CIO in London had been the subject of a more detailed supervisory relationship with the Authority (referred to by the Authority as a ‘**close and continuous’ supervision regime**). Mr Macris understood close and continuous supervision to mean that the Authority had identified the CIO function as an important function within the Firm and that the **disclosure required from the Firm about CIO’s activity would be more detailed and more frequent**.

4.6 On 9 November 2010 the Authority advised the Firm in writing of particular matters relating to CIO about which it wished to be kept informed. Although not addressed to him, Mr Macris received a copy of the Authority’s letter. The matters in relation to which the Authority said it wished to be kept informed included:

(1) ‘*Any significant growth in assets or change in [CIO’s] EMEA portfolios...*’

(2) ‘*[A]ny significant change in levels of risk appetite, or material change to portfolio mandates or risk limits allocated to CIO EMEA.*’

(3) ‘*[M]aterial changes to the portfolio or EMEA strategy.*’ [table of key items](#)

### **Audit report**

***Senate report second batch of exhibits disclosed in November 2013: Internal audit report made in December 2011:*** “CIO Credit-Market Risk and Valuation Practices issued March 2012 rated **Needs Improvement** identified the following issues:

- **CIO valuation practices** where a number of risk & valuation models have not been reviewed by Model Review Group and included the absence of a formally applied price sourcing hierarchy, **insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserves for significant credit indices positions) and the lack of formally documented/consistently applied price testing thresholds,**

- **Stress testing** where There is no documented methodology to outline key testing components (e.g computational method and shock factors used) or assess limitations such as off-line risk measurement, **missing risk factor and curves**,
- **The SAA book; (\$140bln Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework and relevant SAA stress testing results are not measured against corresponding limits.**
- EMEA CIO is currently using **unapproved models in the calculation of risk (including VaR)** and associated risks; measurement methodologies have **not been appropriately documented and/or catalogued.**
- **The control process around the off-line VaR calculation needs to be enhanced to ensure completeness and accuracy of Credit trade data used in the offline calculation of VaR”** [table of key items](#)

### **‘Lack of Liquidity’**

*Senate report footnote:* “1283 See 1/31/2012 email from Jaymin Berg, OCC, to Fred Crumlish, OCC, “CIO Quarterly Meeting,” OCC-SPI- 00004695. Mr. Wilmot told the Subcommittee that these notes were accurate. Subcommittee interview of John Wilmot, CIO (9/11/2012). The only contrary evidence provided to the OCC contradicting the representation made in the January 2012 meeting that the SCP would be “decreasing in size” was in a CIO internal audit report that was forwarded to the OCC two months later. See 2011 4th Quarter JPMorgan Chase CA Quarterly Summary of Global Chief Investment Office, at OCC-SPI-00002481. This audit report stated: “Going into the new year [2012], the plan is to expand the derivatives trading book to nominal of at least \$47 billion by the end of January 2011.” Id. at 2. When reviewing that audit report, Mr. Wilmot explained, first, that the date given in the report, “January 2011,” was likely a typographical error given that **the document was prepared in the fourth quarter of 2011.** Subcommittee interview of John Wilmot, CIO (9/11/2012). Secondly, he explained that the stated plan to increase the SCP by \$47 billion was not familiar to him; he stated there was no such plan to increase notionals. Id. From the OCC’s perspective, while the OCC did not directly confront the bank about the audit report’s plan for the SCP, Mr. Hohl told the Subcommittee that when the OCC received the fourth quarter 2011 audit in March 2012, it was already out of date, and he dismissed the stated plan to increase notionals because **Mr. Wilmot had already told him differently at the end of January 2012.** Subcommittee interview of James Hohl, OCC (9/6/2012).” [table of key items](#)

### **Senate report first batch of exhibits disclosed in March 2013, EXHIBIT 7: “**

From: **Drew, Ina** <Ina.Drew@jprnorgan.com>

Tue, 10 Jan 2012 17:05:41 GMT

To: Martin~Artajo, Javier X <javier.x.rmartin-artajo@jprnorgan.cQm>.

CC: Macris, Achilles 0 <achilles.o.rnacris@jprnorgan.com>

Subject: Re: International Credit Consolidated P&L 09-Jan-2012

**Let's review the unwind plan to maximize p I. We may have a tad. more room on rwa.**

PIs schedule asap.

From: Martin-Artajo, Javier X

To: Drew, Ina

Cc: Macris, Achilles 0

Sent: Tue Jan 10 12:01:01 2012

SUBject: RE: International Credit Consolidated P&L 09-Jan-2012

**Total reserve is 30 MM.** I do not think that we will have a release for sometime unless we get an opportunity. Bruno has been unwinding some of these positions opportunistically . The

other side of the P/L is that it has been somewhat costly to unwind too so net net we have actually lost a little bit of money to unwind.

From: Drew, Ina

Sent: 10 January 2012 16:17

To: Martin-Artajo, Javier X

Cc: Mactis, Achilles 0

Subject: RE: International Credit Consolidated P&L 09-Jan-2012

OK, thanks. Can you forward the schedule for releases, ie: **what is the release planned given the budgeted reduction?**

From: Martin-Artajo, Javier' X

Sent: Tuesday, January 10, 2012 11:05 AM

To: Drew, Ina

Cc: Macris, Achiiles 0

Subject: RE: International Credit Consolidated P&L 09-Jan-2012

**Management line is the release of P /L that comes from unwinding off the run positions. This is an adjustment that was made in 2009 for illiquidity of the credit derivatives book. In a way it is a reserve release for illiquid indexes.**

From: Drew, Ina

Sent: 09 January 2012 21:25

To: Martin-Artajo, Javier X

Cc: Macris, Achilles 0

Subject: FVII: International Credit Consolidated P&L 09-Jan-2012

The management line is?? Thanks

“Total Core: -\$30 Million YTD” [table of key items](#)

*Senate report first batch of exhibits disclosed in March 2013, EXHIBIT 52: “*

**From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>**

**Tue, 03 Apr 2012 11:45:24 GMT**

**To: Drew, Ina <Ina.Drew@jpmorgan.com>**

**Subject: RE:**

Here is my general reaction to this and to the **document circulated last night:**

1. I don't get the sense of clarity that we know what is driving the RWA (economic risk versus VaR, stress VaR, CRM and IRC) or the p&l- or more importantly that either will be manageable going forward
2. We are a **significant player in a market that is less liquid**, hence any attempt to manage p&l or capital away from an "as is" approach will either result in **p&l dislocation** or RWA constraints (a la 4Q11/1Q12)
3. **We haven't made the case of how this book runs off** and whether risk can be managed effectively within a fixed maturity, is that we can de-risk without creating continual tail risk further out past **tranche maturities. This plane will never land.**
4. **We also haven't made the case of what it costs to significantly decrease the size of the book** (in my mind the only certain way to reduce RWA)

I profess to probably being the least knowledgeable about this book amongst the senior team, so that **leads me to be skeptical** when we aren't directly answering questions. I think we have moved beyond the commercial utilization of this book in some jump-to-default capacity as it exhibits neither acceptable risk/return profiles nor **market liquidity characteristics to justify capital.**

-----Original Message---**From: Drew, Ina**

Sent: Tuesday, April 03, 2012 6:52 AM



To: Wilmot, John

Subject: Fw:

**Read before the meeting**

----- Original Message -----From: Macris, Achilles 0

Sent: Tuesday, April 03, 2012 06:27 AM

To: Drew, Ina

Subject: RE:

OK -- maybe to follow-up the "background" that I send to John when we asked him for Olivier's help? The situation is as follows: - Javier and team believe that the book is currently balanced for risk and P+L. - Clearly maintaining this "neutrality" will be resulting in higher RWA than we originally anticipated. - Olivier is now in our office and he is 100% involved with the RWA projections of our book and ways to bringing it lower. Nevertheless, I don't believe that we will be able to be precise in our RWA targeting as there are still several moving pieces in methodology etc. The best we can do for the next week(s) is to operate with RWA ranges as opposed to exact targets. Javier believes that retaining the existing book "as is" will generate no less than \$750m in P+L until the end of the year and clearly much more if we experience defaults and the value reversal on IG forwards. - Unfortunately, the above "as is" approach will likely result in a minimum of \$45b RWA at the end of the year and likely in a \$46-52b range. - If we can't allocate these levels of RWA, and we must reduce it, then the pace of the reduction would be very relevant for the P+L. In order to maintain risk neutrality in the book, we will need to be reducing the liquid on the run IG, parallel to reducing the short HY. **The lack of liquidity in HY**, would likely delay the pace of IG liquidation and thus RWA reduction. Projecting a 50% reduction of the IG/HY by the end of the year, will be reducing RWA to the mid \$30s. An orderly reduction will preserve *over* 60% of the P+L of the "as is" scenario *above*. Specifically, this approach would retain the jump to default but it will realize less carry than the *over* \$2m daily, as of now. My recommendation is the gradual reduction to a \$35b RWA target by year-end. I realize that this is higher than what we *have* all hoped for. **I am very concerned by over-acting in the market relative to our size and poor liquidity.** We really need to minimize our market involvement and focus our *activity* to certain RWA reduction plans (pre-priced by *Olivier*) while utilizing liquidity in an orderly way.

Best,

Achilles

-----Original Message-----From: Drew, Ina

Sent: 03 April 2012 00:39

To: Macris, Achilles 0

Subject:

After we finish our *review* tomorrow, I will need you to prepare a short summary for hogan and jamie. We can talk about how to best present **the gameplan**. [table of key items](#)

### **OCC "figure do not add up"**

*Senate report second batch of exhibits disclosed in November 2013 page 1602, April 6<sup>th</sup>, Achilles Macris wrote:* " I also have no doubt that both time and events are heating our position. **I am however unsure on the potential magnitude of an "one touch" draw-down for Q2 which is highly dependent on marks.** Both Javier and Bruno continue to be extremely concerned about the confidentiality around our specific large exposures. **The press seems to be referring to CIO position size which is different to the overall JPM size on the same instruments.** Additionally, there were some specific HF's calling our team and

trying to get information from both front-office and infrastructure personnel (!). As you know, I am not regularly giving much credence to such rhetoric.”

*Senate report page 150 on April 9<sup>th</sup> for the \$155 million ‘incremental liquidity reserve’:* “As the CIO CFO **John Wilmot explained to Mr. Dimon and Mr. Braunstein:** “Credit Tranche markets have always been considered less liquid (compared to Index markets) and Liquidity reserves are therefore computed and taken. However, in the past, the Liquidity Reserve associated with these **6 Series-9 Tranche positions** was not taken because their markets were deemed sufficiently liquid. **The additional +\$155 Million Liquidity Reserve was taken due to the inclusion of these 6 Series-9 tranche positions;** this reflects the market’s reduced liquidity.”<sup>838</sup> When asked about the reserve, CIO head Ina Drew professed not to know its purpose. She told the Subcommittee that in December 2011, a “\$30 million reserve was taken by finance at year-end against the position. I don’t know what kind of reserve it was, exactly. There hadn’t been reserves previously. This was probably a liquidity reserve.”<sup>839</sup> [table of key items](#)

**Senate report:** “On May 9, 2012, the OCC held a meeting with JPMorgan Chase about the CIO, which was attended by the bank’s **Chief Risk Officer John Hogan.**<sup>1388</sup> At the meeting, an OCC examiner asked Mr. Hogan when he realized the SCP books had been mismarked, and according to the examiner, **Mr. Hogan responded that the books were not mismarked.**<sup>1389</sup> The OCC told the Subcommittee that it was **not satisfied** that his response was accurate.<sup>1390</sup> The bank later conceded that the SCP positions were mismarked.<sup>1391</sup> The OCC told the Subcommittee that **Mr. Hogan’s quick dismissal of the mismarking allegation was surprising at the time.** Criticisms of the **CIO’s valuation practices had been reported by the bank’s internal auditors<sup>1392</sup> and OCC<sup>1393</sup> since the beginning of the year.** In addition, by the time of the meeting in May, the CIO was facing multiple collateral disputes with counterparties claiming the CIO was overvaluing the SCP assets, disputes which, at their largest point, totaled \$690 million.<sup>1394</sup> As one OCC examiner said at the time, **“Does not add up.”<sup>1395</sup>** Either the CIO’s counterparties in the collateral dispute were wrong, or the CIO’s pricing was wrong,<sup>1396</sup> and its reserves were inadequate.<sup>1397</sup> **Not more than a week later, the CIO began to settle its collateral disputes by agreeing to the prices demanded by its counterparties,<sup>1398</sup> but it took another two months for JPMorgan Chase to reveal to the OCC,** as well as to the public, that the CIO traders had, in fact, been mispricing the SCP assets.<sup>1399</sup> The bank told the Subcommittee that it had believed the CIO was using good faith marks for the SCP book until it began reviewing telephone calls by CIO personnel in June and decided it had to restate the SCP values.<sup>1400</sup> [table of key items](#)”

**Footnote 1388** See, e.g., 5/10/2012 email from Michael Kirk, OCC, to Fred Crumlish and James Hohl, OCC, “My opinion on yesterday’s meeting,” OCC-00005302, at 303 (“**I wasn’t satisfied with the comments made about the valuation process and thresholds** yesterday, so we have some follow up here. ... Valuation was one of the things Hogan said they are looking at.”); Subcommittee interview of Michael Kirk, OCC (8/22/2012).

**Footnote 1389** Subcommittee interview of Michael Kirk, OCC (8/22/2012); 5/9/2012 email from Michael Kirk, OCC, to Fred Crumlish, OCC, “today’s meeting,” OCC-00005509. See also 6/29/2012 email from Michael Kirk, OCC, to Elwyn Wong, Scott Waterhouse, and Fred Crumlish “2nd Wilmer Hale Call,” OCC-SPI-00071386, at 386 (“On that very first daily call, Hogan discussed that earlier there had been a large collateral dispute with their counterparties. I questioned him on how it was resolved and he said **JPM eventually agreed to the counterparties marks.... I then followed with a question relating to what I described as**

**mismarked books** to which Hogan forcefully stated JPM books were not mismarked; leaving both Elwyn and me ... puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect.”).

**Footnote 1392** See March 2012, 2012 Continuous Audit Quarterly Summary of Global Chief Investment Office, OCC-SPI- 00004614, at 4168 (identifying as a problem “CIO VCG practices where risk & valuation models have not been reviewed by Model Review Group and included the absence of a formally applied price sourcing hierarchy, insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserves for significant credit indices positions) and the lack of formally documented/consistently applied price testing thresholds.”).

**Footnote 1393** Subcommittee interview of Jaymin Berg, OCC (8/31/2012); **3/9/2012 Supervisory Letter JPM-2012-09 from Scott Waterhouse, OCC, to Ashley Bacon, JPMorgan Chase, “Examination of FSI Stress Testing Framework,” (Citing a Matter Requiring Attention: “Methodology for valuation should be described.”)** [Sealed Exhibit].

**Footnote 1396** Subcommittee interview of Elwyn Wong, OCC (8/20/2012). **The OCC’s logic was the same as that used by others at JPMorgan Chase, as when Daniel Pinto, then a senior executive with JPMorgan Chase’s Investment Bank, argued with SCP trader Javier Martin-Artajo that the Investment Bank’s marks were accurate because, unlike the CIO, the Investment Bank had no collateral disputes.** See 3/23/2012 recorded telephone conversation among Achilles Macris and Javier Martin-Artajo, CIO, and Daniel Pinto, Investment Bank, JPM-CIO-PSI-A 0000140. [table of key items](#)

## **The realities supporting the facts**

- **‘strategic hedge for the firm’**

**Task Force Report:**” “Through the Synthetic Credit Portfolio, CIO generally sought to establish positions that would generate revenue during adverse credit scenarios (e.g., widening of credit spreads and corporate defaults) – in short, to provide protection against structural risks inherent in the Firm’s and CIO’s long credit profile.<sup>20</sup> The positions in the Synthetic Credit Portfolio consisted of standardized indices (and related tranches<sup>21</sup>) based on baskets of credit default swaps (“CDS”) tied to corporate debt issuers.” [table of key items](#)

**Senate report footnote:** “657 Javier Martin-Artajo, head of CIO equity and credit trading, reported: **“If we ever had a loss over \$5 million, Ina calls me at night.”** JPMorgan Chase Task Force interview of Javier Martin-Artajo, CIO (partial read out to Subcommittee on 9/6/2012). See also 2013 JPMorgan Chase Task Force Report, at 50, footnote 64.” [table of key items](#)

**Senate report footnote:** “287 Subcommittee briefing by JPMorgan Chase (8/15/2012) (Greg Baer, Chetan Bhargiri); Subcommittee interview of **Jamie Dimon, JPMorgan Chase (9/19/2012)** (stating that the synthetic credit portfolio was a “fat tail hedge” against the

**CIO's investment portfolio, which would also benefit the bank generally**); Subcommittee interview of Ina Drew, CIO (9/7/2012) (explaining that the SCP's purpose when it was established was to hedge firmwide risk, but then changed to hedge the CIO's investment portfolio against credit risks during a stress event); Subcommittee interview of John Wilmot, CIO (9/11/2012); Subcommittee interview of Douglas Braunstein, JPMorgan Chase (9/12/2012); Subcommittee interview of John Hogan, JPMorgan Chase (9/5/2012) (characterizing the SCP as a hedge against macro credit risk). [table of key items](#)

**Senate Report:** "As noted above, the 2006 New Business Initiative (NBI) that formally authorized the CIO to engage in credit trading said the purpose was to **address the bank's "cyclical exposure to credit."**<sup>232</sup> In particular, according to JPMorgan Chase senior officials, the SCP was intended to provide the bank with **protection during the financial crisis: it was a "macro" "anticipatory" hedge against "tail events."**<sup>233</sup> Tail events are developments viewed as highly unlikely, but very costly if they do occur.<sup>234</sup> JPMorgan Chase told the Subcommittee that during the financial crisis the key tail event that the SCP was insuring against was an unexpectedly large number of corporate defaults.<sup>235</sup> JPMorgan Chase CEO Jamie Dimon testified before the U.S. Senate that the purpose of the SCP was to make "a little money" in a benign environment and more substantial returns for the bank if there was a credit crisis, so that those returns would offset other losses.<sup>236</sup> In a **March 2012** internal presentation, Ms. Drew described the CIO's key mandate as follows: **"Optimize and protect the Firm's balance sheet from potential losses, and create and preserve economic value over the long term."**<sup>237</sup> Despite these and other descriptions of the SCP as a "hedge" or "protection" against potential bank losses, in over five years, no CIO document spelled out exactly what the SCP was meant to hedge. **The initial 2006 NBI approval document stated that the credit trading activities would be used to "manage corporate credit exposures,"**<sup>238</sup> [table of key items](#)

**Senate report footnote 207** "Subcommittee interview of Ina Drew, CIO (9/7/2012); see also 5/13/2012 **email exchange with Jamie Dimon**, JPMorgan Chase, "Synthetic Credit QA\_2," JPM-CIO-PSI 0017385 ("The Chief Investment Office has utilized the 'synthetic credit portfolio,' which is a portfolio of credit derivatives, **to construct a hedge against other risks on JPMC's balance sheet**. This activity has been part of the CIO portfolio construction and risk management since 2007."). [table of key items](#)

**Senate report exhibit 68:** "From: Crumlish, Fred  
TO: Fred Brosnan, Mike; Belshaw, Sally; Pfinsgraff, Martin; Waterhouse, Scott  
Cc: Wilhelm, Kurt; Banks, George; Fursa, Thomas; Hobl. James; Kamath, Jairam; Kirk. Mike; Monroe, Christopher; Swank. Todd; Wong, Elwyn  
Subject: JPM CIO / IG9 "whale" trade  
Date: Tuesday, April 17, 20 12:43:33:00 PM

**On Monday 4/16** OCC and FRB examiners met with Ina Drew and several members of CIO staff and risk management to discuss the JPM synthetic credit book in view of recent press reporting. This message provides a summary of our discussion, followed by a more the detailed summary. It focuses specifically on recent changes to the synthetic credit book.

- JPM's CIO has been using a synthetic credit (credit derivative) portfolio since 2007. **It was initially set up to provide income to mitigate other significant credit losses that would surface under a broad credit stress scenario. Since it wasn't possible to tailor a specific hedge to the JPM balance sheet as a whole, this portfolio was constructed.** As the investment portfolio grew in 2007-2009, the synthetic credit portfolio was used to hedge stress and jump to default exposures in that portfolio as well.

- CIO's credit derivative position was managed to provide around **\$1 billion to \$1.5 billion . income in credit stress scenarios against firm wide losses of \$5 billion to \$8 billion.**
- In late 2011, in view of a change in perception in the state of the economy, **CIO managers decided** to reduce high-yield (HY) credit protection however after the AMR bankruptcy and with Kodak expected to file for bankruptcy, the markets for **CIO's HY indices weren't liquid** enough to use them to unwind CIO's position.
- **The IG 9 index, which is much more liquid than HY indices**, includes five "fallen angels" that allowed it to be used to reduce a "good part" of CIO's HY position, so it was used to reduce the HY protection.
- **The IG 9 market is not illiquid as it trades around \$10 billion daily and spread changes for this index are in line with peer indices.** The IG 9 curve has steepened in a move of around 65 standard deviations, and there has been strong buying of deferred contracts, implying that the buyers are certain that there will be no defaults in the next 9 months and nearly certain that there will be defaults next year. In view of events, however, **JPM is conducting a "post mortem"** of the IG 9 situation and its impact and share results with OCC and when completed.

**The CIO began using credit derivatives around 2007 as part of its mandate to manage structural balance sheet positions.** CIO only uses credit derivatives on indices, not specific names. Initially CIO bought protection (shorted risk) on mortgages using ABX, and high yield indices to mitigate some of the firm's balance sheet credit exposure. **At this time CIO investments were highly concentrated in Agency pass-through mortgage securities, and the structural credit risk was in the lines of business.**

Through the financial crisis deposit inflows combined with lower loan demand to leave the firm with significant excess funds. As part of its mandate to invest, when appropriate, in high credit quality, liquid investments, the CIO began purchasing low credit risk, top of the capital structure securities to use the excess funds. While high quality, these investment securities have more credit risk than the U.S. Agency pass-throughs that continued to be held, so that structural credit risk in the investment portfolio increased along with portfolio growth.

**Throughout this the CIO continued using index credit default swaps (CDSs) to mitigate some of the structural credit risk in the investment portfolio and the lines of business other than the investment bank, which manages its own credit risk exposure. While there are liquid markets for many credit derivative indices, the markets are not deep enough to fully hedge a multi-trillion dollar balance sheet.** CIO's credit derivative position was managed to provide around \$1 billion to \$1.5 billion income in credit stress scenarios against firmwide losses of \$5 billion to \$8 billion. CIO managers decided to reduce the high yield credit derivative protection around Thanksgiving last year. After the AMR bankruptcy filing on November 29, 2011, the firm profited from its credit derivative positions as anticipated, but **high yield index derivatives had limited liquidity** as demand increased. CIO managers thought that it wouldn't be possible to reduce the high yield credit derivative position by using the indices that created it; the **best available hedge product was the IG 9 index, which has good liquidity as an investment grade index** and a high yield component as five of the index companies are "fallen angels" i.e., companies that have fallen below investment grade since the index originated. **This was the reason that JPMCB began selling IG 9 CDSs; going long IG 9 credit risk (selling CDSs) would neutralize some of the short high yield credit risk position (long CDSs).**

JPM provided the CIO notional CDS exposures as requested, along with a summary of the synthetic credit portfolio maturity profile and results of a 10% credit spread widening (CSW). **The CIO CDS portfolio includes exposure to JPMC's IB along with third parties.** The third-party counterparties are all major banks or broker/dealers. The stress results show that the CDS portfolio net exposure cannot be judged by looking at notional exposures alone. An



example given is the ITraxx Main 20Jun13 position; the notional exposure is \$28 billion long risk suggesting a loss if credit spreads widen, but the 10% CSW shows a profit of \$68 million because of equity tranche protection that is part of the position ..

**The synthetic credit portfolio's position now provides around \$434 million income in the credit crisis stress scenario.** Very generally, the portfolio risk profile is short high-yield risk against long investment grade risk and short short-duration (to year end 2012) investment grade risk against long long-duration investment grade risk, i.e. a credit curve flattener. The portfolio VaR was \$59.2 million on April 5th. **The portfolio is reported in CIO positions and subject to all of the JPMC market risk management systems.** Through the indices used, the portfolio provides credit protection on 588 names. 121 of them are from the IG 9 index, which currently gives an average \$146 million jump to default at market recovery gain per name. This position is stable until December 20, 2012 when \$32 billion of short dated protection rolls off along with \$4 billion of protection on IG 9 equity tranches, and the average jump to default at market recovery becomes a loss of \$572 million per name. **Before that happens, CIO managers feel they have time to adjust the portfolio to compensate without roiling the IG 9 market.**

In addition to inclusion in the firm-wide stress scenarios, CIO managers routinely run other stress scenarios to assess portfolio performance in a variety of circumstances. **The synthetic credit portfolio is seen to provide stress loss protection in an environment of significant credit deterioration with defaults or perception of imminent defaults.** CIO managers have been surprised that the IG 9 market has been so willing to take on and sell so much protection, regardless of what JPMC did. **The market is not illiquid as the IG 9 trades around \$10 billion daily.'** The spread changes for this index are in line with peer indices. Many market participants have been strong buyers of deferred contracts, implying that they had complete certainty there would be no defaults in the next 9 months and near certainty that next year there will be defaults. The IG 9 curve has steepened in a move of several standard deviations. CIO managers said that the curve steepening move was around 6.5 standard deviations from the mean. **A review of the IG 9 situation is being done, and it will be shared with the OCC and Fed when completed.**

Attendees:

**JPM:** CIO attendees: Ina **Drew** Chief Investment Officer, John **Wilmot** CIO CFO, Achilles **Macris** CIO Managing Director EMEA (telephone), Javier **Artajo** CIO Managing Director EMEA (telephone), Irv **Goldman** Market Risk Management Managing Director, Pete Weiland Market Risk Management: Managing Director, **Keith Stephan** Market Risk Management Executive Director EMEA (telephone), **Greg Baer** Managing Director Associate General Counsel, **Joe Sabatini** Managing Director Head Supervisory Relationship

**OCC attendees:** Fred Crumlish, James Hohl, Mike Kirk

**Fed attendees:** Anna Iacucci, two others

[table of key items](#)

*Senate report first batch of exhibits disclosed on March 2013, Exhibit 85 extracts from Achilles Macrsi to Ina Drew and Jamie Dimon on April 8<sup>th</sup> 2012:"*

**From:** Macris, Achilles 0 <achilles.o.macris@jpmorgan.com>:

**Sent** Sun, 08 Apr 2012 23:14:32 GMT

**To:** **Drew, Ina** <Ina.Drew@jpmorgan.com> .

**CC:** Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John@jpmchase.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Macris .

**Subject:** Synthetic Credit Summary .

Hi Ina,

Following up from our earlier call, here is a summary of our synthetic credit activity, results and outlook for Q2. **Year-to-date the synthetic book is - \$525MM. Offsets in other credit positions limit the Q1 loss to -\$350MM, while the Q1 CIO Int'l financial income was +\$830MM including the synthetic book.** The Q1 'TRR (including OCI delta) is \$3.2bln year to date. . The synthetic credit book, as a dedicated hedge to our credit longs, continues to be short HY. In Q4, we decided ' to neutralize the risk profile of this book for two reasons: a) the large realized gains around the AMR events, and b) given our large investment program in cash credit securities and related view.

Our attempt to neutralize the book has been unsuccessful. We ended up losing a predictable - 575MM on HY shorts, however the IG hedge delivered only +50MM. Although investment grade performed very well In Q1. And the "relationship between HY and IG also worked in our favor, two idiosyncratic factors rendered our hedge ineffective:

1. **Our longs, IG.9 and ITX.9 forwards, are in the off-the-run curves** which steepened +24bps. Excess liquidity and the pro-risk environment drove carry traders to the front -end.

2 **our longs underperformed the on-the-run indices as they contain specific high-risk names** 'in the old series (CDX.IG.9 contains Radian, MBIA, Countrywide, ILFC, iStar Financial, RR Donnelly; ITraxx.S9 contains Hellenic Telecom, Banco Espirito Santo, Portugal Telecom, Dixons, Elec. de Portugal). The reason', however that we have chosen these IG proxies is because these are the very names that we are short **in HY instruments** .

Therefore, although thus far unsuccessful, these **IG proxies** best neutralize and balance our synthetic books to event' risk. This has been reflected in the VaR and Stress VaR. Overall, we still remain short these names' with a pro-default jump risk profile. The book is overall risk balanced, given the cross-market long/short and has positive carry of \$2MM/day, while retaining upside on defaults (see graph below) .

For final Q2 we estimate a P&L range of -150MM to +250MM. Intra-quarter P&L would exceed this range, but not significantly. The above estimate does not include P&L on default events, which is significantly positive, as shown in graphs below. It is my impression that the recent market attention to our IG.9 activities maybe due to the market's incorrect perception that we are outright long IG.9 index with a related default risk profile. We are not . . I think it would be much more likely that the significant market shorts in IG.9 10YR will need to be covered. Many dealers hold significant shorts in IG.9 against legacy CDO portfolios, and as hedges to illiquid single-name

Inventory' Related to IG.9, the most rewarding, short-term catalyst for CIO would be an MBIA related default event and subsequent curve flattening. Alternatively, a settlement or **positive case outcome for MBIA** would be bullish and would support a **rally in the forwards**. Our **P&L profile in this case would be in the above range of - 150 to +250MM**, and more carry dependent. Unfortunately this scenario would tie up augmented RWA further forward.

Best, Achilles

[table of key items](#)

- 'No budget, No limit'

*Task Force Report page 118: “*

Enhancements to the limits structure (as of December 6 2012) include 67 redesigned VaR, stress and non-statistical limits, including both global and regional Level 1 and Level 2 limits; 80 new asset class concentration limits for the **AFS securities portfolio, applicable to both CIO and Treasury**; 60 new single name limits for the CIO Municipal AFS portfolio; and 53 new country exposure limits, also **applicable to both CIO and Treasury, as a subset** to the Firm-wide Country Exposure Limits. **New limits** related to geographic concentration, curve risk, single name risk, and compression risk **were made specifically applicable to the Synthetic Credit Portfolio during the second and third quarters of 2012** (while it continued to be held by CIO, before it was transferred to the Investment Bank and effectively closed out).”

[table of key items](#)

### *2011 Annual report (disclosed on 29<sup>th</sup> February 2012)*

Page 107....

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office (“CIO”), corporate staff units and expense that is centrally managed. **Treasury and CIO manage capital, liquidity and structural risks of the Firm.** The corporate staff units include Central Technology and Operations, **Internal Audit**, Executive Office, **Finance**, **Human Resources**, Marketing & Communications, **Legal & Compliance**, Corporate Real Estate and General Services, Risk Management, Corporate Responsibility and Strategy & Development. Other centrally managed expense includes the Firm’s occupancy and pension related expense, net of allocations to the business.

**Corporate reported net income of \$411 million** (with \$400 million ‘windfall gains’ from American Airlines..), compared with net income of \$670 million in the prior year. Net revenue was \$3.3 billion, including \$1.6 billion of securities gains. Net interest income in 2011 was lower compared with 2010, primarily driven by repositioning of the investment securities portfolio and lower funding benefits from financing the portfolio.

Page 111... about the CIO AFS books

**Substantially all of the securities portfolio is classified as available-for-sale (“AFS”) and used primarily to manage the Firm’s exposure to interest rate movements and to invest cash resulting from excess liquidity. Securities increased, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment.** This repositioning increased the levels of non-U.S. government debt and residential mortgage-backed securities, as well as collateralized loan obligations and commercial mortgage backed securities, and reduced the levels of U.S. government agency securities. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 107–108, and Note 3 and Note 12 on pages 184–198 and 225–230, respectively, of this Annual Report.

Page 125-126...

**Overlaying line of business risk management are four corporate functions** with risk management-related responsibilities: **Risk Management, the Chief Investment Office, Corporate Treasury, and Legal and Compliance.**

The **Chief Investment Office and Corporate Treasury** are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, interest rate and foreign exchange risk, and **other structural risks**.

The committees meet frequently to discuss a broad range of topics including, for example, **current market conditions and other external events, risk exposures, and risk concentrations** to ensure that the impact of risk factors are considered broadly **across the Firm's businesses**.

**Risk reporting: The Firm reports risk exposures on both a line of business and a consolidated basis.** This information is reported to management on a **daily, weekly and monthly basis**, as appropriate. There are **nine major risk types** identified in the business activities of the Firm: **liquidity risk, credit risk, market risk, interest rate risk, country risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk**.

The Firm performs regular liquidity **stress tests** as part of its liquidity monitoring activities.... The scenarios are produced **for the parent holding company and major bank subsidiaries as well as the Firm's principal U.S. broker-dealer subsidiary.....** Liquidity monitoring of the parent holding company **takes into consideration regulatory restrictions** that limit the extent to which bank subsidiaries may extend credit to the parent holding company and other nonbank subsidiaries.

Page 128

#### **Global Liquidity Reserve**

In addition to the parent holding company, the Firm maintains a significant amount of liquidity – primarily at its bank subsidiaries, but also at its nonbank subsidiaries. **The Global Liquidity Reserve represents consolidated sources of available liquidity to the Firm, including cash on deposit** at central banks, and cash proceeds reasonably expected to be received in secured financings of highly liquid, unencumbered securities, such as government-issued debt, government- and FDIC-guaranteed corporate debt, U.S. government agency debt, and agency MBS.

As of December 31, 2011, the Global Liquidity Reserve was estimated to be **approximately \$379 billion, compared with approximately \$262 billion at December 31, 2010**. The increase in the Global Liquidity Reserve reflected the placement of funds with various central banks, including Federal Reserve Banks, which was driven by an increase in deposits during the second half of 2011. For further discussion see Sources of funds below. In addition to the Global Liquidity Reserve, the Firm has significant amounts of other high-quality, marketable securities available to raise liquidity, such as corporate debt and equity securities.

Page 158

The Firm's market risks arise primarily from the activities in IB, Mortgage Production and Servicing, and CIO in Corporate/Private Equity.

**CIO is primarily concerned with managing structural risks which arise out of the various business activities of the Firm. Market Risk measures and monitors the gross structural exposures as well as the net exposures related to these activities.**

Page 160...

The following histogram illustrates the daily market risk related gains and losses for IB, CIO and Mortgage Production and Servicing positions for 2011. This market risk related revenue is **defined as the change in value of: principal transactions revenue for IB and CIO** (less Private Equity gains/losses and revenue from longer-term CIO investments);

**trading-related net interest income for IB, CIO and Mortgage Production** and Servicing; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSRs, and all related hedges. **Daily firmwide market risk related revenue excludes gains and losses from DVA.**

Page 161.....

**The VaR and stress-test measures** described above illustrate the **total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables.** The effect of **interest rate exposure** on reported net income is also important. Interest rate risk represents one of the Firm's significant market risk exposures. This risk arises not only from trading activities but also from the Firm's traditional banking activities which include extension of loans and credit facilities, taking deposits and issuing debt (**i.e., asset/ liability management positions including accrual loans within IB and CIO, and off—balance sheet positions**). ALCO establishes the Firm's interest rate risk policies, sets risk guidelines and limits and reviews the risk profile of the Firm. **Treasury, working in partnership with the lines of business, calculates the Firm's interest rate risk profile weekly and reviews it with senior management.** [CIO end 2011 ref](#)

Page 301... CIO manages liquidity and structural risks

#### **Corporate/Private Equity**

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office, corporate staff units and expense that is centrally managed. **Treasury and the Chief Investment Office manage capital, liquidity, and structural risks of the Firm.**

#### ***AFS vs MTM***

***Task Force Report page 21-22; “***

**CIO invests the bulk of JPMorgan's excess cash** in high credit quality, fixed-income securities, such as municipal bonds, whole loans, and asset-backed securities, mortgage-backed securities, corporate securities, sovereign securities, and collateralized loan obligations. **The bulk of these assets are accounted for on an available-for-sale basis (“AFS”),** although CIO also holds certain other assets that are accounted for on a mark-to-market basis. **Beginning in 2007, CIO launched the Synthetic Credit Portfolio,** which was generally intended to protect the Firm against adverse credit scenarios. The Firm, like other lenders, is structurally “long” credit, including in its AFS portfolio, which means that the Firm tends to perform well when credit markets perform well and to suffer a decline in performance during a credit downturn. Through the Synthetic Credit Portfolio, CIO generally sought to establish positions that would generate revenue during adverse credit scenarios (*e.g.*, widening of credit spreads and corporate defaults) – in short, to provide protection against structural risks inherent in the Firm's and CIO's long credit profile.<sup>20</sup>

***Task Force report Foonote 19*** Prior to assuming her role as the Firm's Chief Investment Officer, **Ms. Drew had more than 20 years** of experience performing **asset-liability management for the Firm** and its predecessors, including as head of the Treasury function.

[table of key items](#)



*Senate report page 44:*

“However, **after the financial crisis intensified in 2008, the CIO’s Available-For-Sale (AFS) portfolio expanded**, acquired greater credit risk, and became a more obvious candidate for hedging.<sup>248</sup> The OCC Examiner-in-Charge at JPMorgan Chase agreed with that analysis, noting that the CIO’s AFS portfolio grew from \$70 billion to **\$350 billion after 2008**, acquiring substantial credit risk along the way.<sup>249</sup> Mr. Wilmot, former CIO CFO, told the Subcommittee that the **SCP was meant to hedge the CIO’s own AFS book, but could have also been used for other risks on the bank’s balance sheet**, albeit not all of the structural risk in the firm.<sup>250</sup>.... At the same time, the CIO’s most senior quantitative analyst, **Patrick Hagan, who joined the CIO in 2007** and spent about 75% of his time on SCP projects, told the Subcommittee that he was never asked at any time to analyze another portfolio of assets within the bank, as would be necessary to use the SCP as a hedge for those assets. While it is possible that the portfolio the SCP was meant to hedge changed over time; the absence of SCP documentation is inadequate to establish whether that was, in fact, the case. <sup>251</sup> In fact, he told the Subcommittee that **he was never permitted to know any of the assets or positions held in other parts of the bank.**<sup>252</sup> Given the lack of precision on the assets to be hedged, JPMorgan Chase representatives have admitted to the Subcommittee, that calculating the size and nature of the hedge was “not that scientific”<sup>253</sup> and “not linear.”<sup>254</sup> According to **Ms. Drew, it was a “guesstimate.”**<sup>255</sup> She told the Subcommittee that there was **“broad judgment”** about how big the hedge should be, and that **she used her “partners” as “sounding boards”** if she later wanted to deviate from what had been agreed to.<sup>256</sup>“

[table of key items](#)

*Senate report: “*

According to JPMorgan Chase’s Chief Financial Officer Douglas Braunstein, by the end of 2011, senior JPMorgan Chase management, including Jamie Dimon and Ina Drew, had determined that the macroeconomic environment was improving<sup>374</sup> and credit markets were expected to improve as well, with fewer defaults.<sup>375</sup> The SCP traders also expressed the view that they were getting “bullish signals” at the end of December, in part because the **European Union had agreed to provide long-term financing to prop up “bank lending and liquidity”** in Europe.<sup>376</sup> **As Mr. Braunstein explained to the Subcommittee, there was also less of a need for the CIO to protect its \$350 billion Available-for-Sale portfolio.**<sup>377</sup> Together, this analysis suggested that the SCP should be reduced in size.<sup>378</sup>

Mr. Braunstein told the Subcommittee that, **because the CIO had previously asked for an increase in its RWA for its \$350 billion Available-for-Sale portfolio, CIO management decided to use the SCP to achieve its new RWA reduction.**<sup>381</sup> Mr. Braunstein told the Subcommittee that he approved of this approach, since the value of **the economic protection the SCP was providing at that time to the rest of the bank was less valuable than the capital it required the bank to provide.**<sup>382</sup> Similarly, Mr. Dimon told the Subcommittee that the SCP’s loss protection was becoming less relevant, since the bank was bigger and earning more money, and the SCP’s synthetic assets would require the **use of a lot of capital** under the **upcoming Basel III standards.**<sup>383</sup>

**Mr. Goldman also told the Subcommittee that, in December 2011, a decision was made to stop using the SCP as a hedge,**<sup>386</sup> which made its credit loss protection characteristics irrelevant to the decision to reduce its RWA.

According to Javier Martin-Artajo, head of the CIO’s equity and credit trading operation, it was then that the head of the CIO’s International Office, **Achilles Macris, told him that the**

**SCP book was no longer needed to hedge tail risk at the bank** and should be reshaped, primarily to put a stop to the losses it was experiencing.<sup>424</sup> Mr. Martin-Artajo later told the JPMorgan Chase Task Force investigation that, despite Mr. Macris's comment, he still viewed the SCP book as a hedge.<sup>425</sup>

[table of key items](#)

*VAR reports: VAR disclosure changed between August 2009 and November 2009*

*The 2011 annual report compares VAR monitoring with stress testing: this looks beyond VAR and is commanded by JPM senior management...*

**Economic value stress testing** While VaR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. **The Firm conducts economic value stress tests using multiple scenarios that assume credit spreads widen significantly**, equity prices decline and significant changes in interest rates across the major currencies. Other scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse movements in complex portfolios. Scenarios were updated more frequently in 2009 and, in some cases, redefined to reflect the significant market volatility which began in late 2008. **Along with VaR, stress testing is important** in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits. **Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation.** Stress-test results, trends and explanations based on current market risk positions are reported to the Firm's senior management and to the lines of business to help them better measure and manage risks and to understand event risk-sensitive positions."

[table of key items](#)

*In the Annual report of 2009, published in early February 2010, JPM starts speaking of CIO VAR on page 126 to 132.*

"For further information on the investment portfolio, see Note 3 and Note 11 on pages 156–173 and 195–199, respectively, of this Annual Report. For further information on CIO VaR and the Firm's earnings-at-risk, see the Market Risk Management section on **pages 126–132** of this Annual Report."

[table of key items](#)

*On page 94, the JPM annual report describes how credit risk impacts its 'market risk capital' based on 'stress tests' and 'Var':*

**Market risk capital** The Firm calculates market risk capital guided by the principle that capital should reflect the **risk of loss** in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, **credit spreads**, securities prices and commodities prices, **taking into account the liquidity of the financial instruments**. Results from **daily VaR, biweekly stress-test, issuer credit spread and default risk calculations as well as other factors** are used to determine appropriate capital levels. Market risk capital is allocated to each business segment based on its risk contribution. See Market Risk Management on **pages 126–132** of this Annual Report for more information about these market risk measures."

*On the page 128, JPM pictures its VAR model as measuring the market risk ‘across the businesses’, which implies a global ‘attribution of VAR done from an aggregated measure of risks between CIO and CIB at the least. JPM describes CIO as managing ‘interest rate risk’ and Foreign exchange risk, but not ‘credit risk’: “*

The highest concentrations of market risk are found in IB, Consumer Lending, and the Firm’s Chief Investment Office in the Corporate/Private Equity segment.

**The Chief Investment Office is primarily concerned with managing structural market risks** which arise out of the various business activities of the Firm. **These include structural interest rate risk, and foreign exchange risk.** Market Risk measures and monitors the gross structural exposures as well as the net exposures related to these activities.

**Value-at-risk** JPMorgan Chase’s primary statistical risk measure, VaR, estimates the potential loss from adverse market moves in a normal market environment and **provides a consistent cross-business measure of risk profiles and levels of diversification. VaR is used for comparing risks across businesses, monitoring limits, and as an input to economic capital calculations.** Each business day, as part of its risk management activities, the Firm undertakes a **comprehensive VaR calculation** that includes the majority of its market risks. These VaR results are reported to senior management.”

*On page 131, the annual report discloses the CIO VAR next to the CIB VAR. The diversification benefit in 2008 from CIO and the IB ‘credit portfolio’ was material in 2008 but was almost nil in 2009 as per this JPM annual report. This is the year when both the SCB and ‘credit hybrids’ will make record gains. JPM specifies on VAR that, from now on, but does not explain that this is all about the SCB:*

” In addition, **the 95% VaR measure also includes certain positions utilized as part of the Firm’s risk management function within the Chief Investment Office (“CIO”)** and in the Consumer Lending businesses to provide a Total IB and other VaR measure. **The CIO VaR includes positions, primarily in debt securities and credit products, used to manage structural risk and other risks, including interest rate, credit and mortgage risks arising from the Firm’s ongoing business activities.** The Consumer Lending VaR includes the Firm’s mortgage pipeline and warehouse loans, MSRs and all related hedges. In the Firm’s view, including these items in **VaR produces a more complete perspective of the Firm’s market risk profile.**

#### **VaR backtesting (95% confidence level VaR)**

To evaluate the soundness of its VaR model, **the Firm conducts daily back-testing of VaR** against the Firm’s market risk–related revenue, which is defined as follows: the change in value of principal transactions revenue for IB and CIO (excluding private equity gains/(losses) and revenue from longer-term CIO investments); **trading-related net interest income for IB, RFS and CIO** (excluding longer-term CIO investments); IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm’s mortgage pipeline and warehouse loans, MSRs and all related hedges. The daily firmwide market risk–related revenue excludes gains and losses from DVA.”

[table of key items](#)

# Regulators concerns 2009, 2010, 2011

## *Task Force ‘silence’ about regulators concerns in 2009:*

“Peter Weiland: Mr. Weiland was the Head of Market Risk for CIO and the most senior risk officer within CIO prior to mid-January 2012, when he began reporting to Mr. Goldman. Mr. Weiland resigned in October 2012. **From 2009 until mid-January 2012, Mr. Weiland reported to Mr. Zubrow, with “dotted line” reporting to Ms. Drew.** From January 2012 until May 2012, Mr. Weiland reported to Mr. Goldman. Thereafter, Mr. Weiland reported to Mr. Bhargiri until October 2012”

[table of key items](#)

*Senate report very ‘discrete’ hint at a ‘CDO briefing’ made in February for the Senators: “*

## *Footnote 157*

See 2/6/2009 presentation prepared by JPMorgan Chase **in response to a Subcommittee request, “CDO Briefing,”** at 24, PSI-JPM-30-000001; Markit Credit Indices: A Primer, at 20; see also David Mengle, Credit Derivatives: An Overview, **Federal Reserve Bank of Atlanta Economic Review, Fourth Quarter 2007**, at 3

## *Federal reserve supervision and stress tests*

**OIG Report October 2014, page 3-4:** “Our report contains four findings. First, as part of its continuous monitoring activities at JPMC, FRB New York effectively identified risks related to the CIO’s trading activities and planned two examinations of the CIO, including (1) a discovery review of the CIO’s proprietary trading activities in 2008 and (2) a target examination of the CIO’s governance framework, risk appetite, and risk management practices in 2010. Additionally, a **Federal Reserve System team conducting a horizontal examination at JPMC recommended a full-scope examination of the CIO in 2009.**

**OIG Report October 2014, page 24:** “As noted above, in August 2009, Federal Reserve System staff determined that a full-scope examination of the CIO was needed”

**OIG Report October 2014, Footnote 49:** “The 2009 Supervisory Capital Assessment Program was a forward-looking exercise designed to estimate losses, revenues, and reserve needs for eligible U.S. BHCs with assets exceeding \$100 billion.”

## *Senate report about 2009 ‘regulators concerns’:*

“Peter Weiland served as the senior-most risk officer at CIO from 2008 until January 2012. Mr. Weiland had been **hired by Ms. Drew, in 2008**, to serve as the CIO’s Chief Market Risk Officer.<sup>893</sup> **Mr. Weiland initially reported directly to Ms. Drew.** The top traders at CIO also reported directly to Ms. Drew, creating a situation where the final authority on risk management at the CIO was in the hands of the person who was also in charge of the top trading strategist, resulting in a lack of independence in the risk management function. That **lack of independence raised concerns with regulators.** **In 2009, JPMorgan Chase changed the CIO’s reporting lines, and Mr. Weiland ostensibly began reporting directly to Barry Zubrow, the bankwide Chief Risk Officer, while maintaining a “dotted-line,” or indirect, reporting relationship with Ms. Drew.** Mr. Weiland told the Subcommittee that the

changes were made in response to regulatory pressure. When asked if the reorganization made a difference functionally, Mr. Weiland answered, “Not really.”<sup>894</sup>  
[table of key items](#)

*November 2010 ‘Close and continuous’ supervision letter from the FCA*

**FCA October 2013 ‘Final Notice’ page 28:** “Certain of the flaws in the CIO VCG process were present from 2007. In particular, there was no specific valuation training provided to the relevant individual who had been in position since that time. The process was a highly manual one and therefore inherently susceptible to data entry problems. Relevant skills and experience held by the Firm’s Investment Bank in valuing complex products were not routinely utilized.

4.89. Guidance had been sent to the Firm by the Authority in **August 2008** arising from a number of material mismarking incidents at other firms (the **“Dear CEO letter”**). The Dear CEO letter set out a list of underlying causes that should be addressed to reduce the likelihood of future mismarking incidents. In particular, these included that **product control staff were unable to challenge front office staff adequately**, through lack of skills or seniority, acting too much as a business facilitation function and not enough as a control function. It also referred to independent price verification processes being highly manual, leading to insufficient time and resource to analyze and investigate valuation issues fully and to exercise judgment and challenge front office valuations.

4.90. These issues were present in CIO VCG, and were not addressed even after the Dear CEO letter was sent to the Firm. **Further to the Dear CEO letter, the Authority undertook thematic work in 2010 which sought to evaluate firms’ progress in implementing relevant changes.** The Authority’s initial observations as regards the Firm’s approach to valuation included that there was a manual valuation control process with heavy spreadsheet reliance, **valuation policy left much to the subjective assessment of individuals performing the month-end valuations and there was no procedure for ensuring consistency in valuation approach between different lines of business.**

4.91. **As a result, the Firm introduced a “Product Champion Initiative”,** which sought to create consistency with respect to the valuation of products and price testing, and to the extent that inconsistencies existed, to determine why there was an alternative approach and to obtain agreement from the relevant market maker within the Firm that the alternative approach was justifiable. The relevant market maker for credit derivatives was the Firm’s Investment Bank. **The Product Champion Initiative was never completed in relation to credit derivatives; however the known differences between CIO VCG and the Firm’s market maker were not viewed as material by the Firm. The Firm also relied on their auditors’ year-end testing of CIO VCG in December 2011.** A new consistency exercise began in 2012. As a result of the Product Champion Initiative, CIO VCG learned that the Investment Bank utilized thresholds in its valuation process. **This led CIO VCG to introduce threshold adjustments into its own process in 2011.**

*The introduction of thresholds*

4.92. **A change to the CIO VCG process was made in early 2011.** At that time a threshold adjustment process was introduced. **Although the Firm did not realize at the time, the implementation of this process was also fundamentally flawed and the effect of its application contributed to the failure to detect mismarking in a timely fashion in the first quarter of 2012.**



[table of key items](#)

***FCA October 2013 ‘Final Notice’ page 56:”***

The Authority had clearly laid out matters relating to CIO (including the SCP) in which it had a particular interest in a letter dated 9 November 2010. The letter had been sent in the context of a more detailed supervisory relationship with the Firm. The Firm should have known that its failure to disclose numerous serious and significant events and problems regarding the SCP from January 2012 to 2 July 2012 would be in breach of Principle 11.

***February 2016 FCA Final notice for Achilles Macris page 8: “***

In addition to the Firm’s regulatory obligation to maintain an open and cooperative relationship with the Authority, **from 1 October 2010 CIO in London had been the subject of a more detailed supervisory relationship** with the Authority (referred to by the Authority as a **‘close and continuous’ supervision regime**). Mr Macris understood close and continuous supervision to mean that the Authority had identified the CIO function as an important function within the Firm and that the disclosure required from the Firm about CIO’s activity would be more detailed and more frequent.

4.6 On **9 November 2010 the Authority advised the Firm in writing of particular matters** relating to CIO about which it wished to be kept informed. Although not addressed to him, Mr Macris received a copy of the Authority’s letter. The matters in relation to which the Authority said it wished to be kept informed included:

(1) *‘Any significant growth in assets or change in [CIO’s] EMEA portfolios...’*

(2) *‘[A]ny significant change in levels of risk appetite, or material change to portfolio mandates or risk limits allocated to CIO EMEA.’*

(3) *‘[M]aterial changes to the portfolio or EMEA strategy.’*

[table of key items](#)

***Senate report about OCC concerns in 2010: “***

In 2010, as part of its routine examination process, the OCC conducted a detailed review of the CIO’s investment activities, **focusing in particular on the \$350 billion Available for Sale portfolio**, and warned that the CIO needed to do a better job documenting portfolio decisions and managing the risks associated not only with that investment portfolio but with several others as well. **On December 8, 2010**, after concluding its examination of the CIO’s investment activities, the OCC sent a **Supervisory Letter to CIO head Ina Drew** with its findings, requirements, and recommendations.<sup>1234</sup> The Supervisory Letter included a **Matter Requiring Attention (MRA)** – meaning a matter that required corrective action by the bank – stating that CIO management needed to “document investment policies and portfolio decisions.”<sup>1235</sup> The Supervisory Letter also found that the **“risk management framework** for the investment portfolios (Strategic Asset Allocation and Tactical Asset Allocation)” **lacked “a documented methodology,” “clear records of decisions,”** and other features to ensure that the CIO was making investments and controlling associated risks in line with the expectations of senior management and the appropriate Board of Directors committee.<sup>1236</sup> The Supervisory Letter made no explicit mention of the Synthetic Credit Portfolio, but because the

SCP was part of the TAA portfolio, which was mentioned in the MRA, the MRA also applied to the SCP.<sup>1237</sup>

[table of key items](#)

***Senate report Footnote 1508*** See **12/8/2010 Supervisory Letter JPM-2010-80, OCC-SPI-00011201 [Sealed Exhibit]. The letter was copied to Jamie Dimon, Douglas Braunstein, Barry Zubrow, Stephen Cutler**, and others. For more information about this letter, see Chapter VI

[table of key items](#)

***Senate report page 223 on the MRA: “***

Prior to the OCC’s issuance of a Supervisory Letter, it is standard practice for the OCC to hold a **close-out meeting** with the bank to discuss the examination findings, requirements, and recommendations, and receive bank management’s response. The OCC’s head capital markets examiner at JPMorgan Chase held that meeting with CIO head Ina Drew, whom he said did not react well to the examination’s criticisms. According to a later email by his supervisor, the OCC Examiner-In-Charge, **Ms. Drew “‘sternly’ discussed [the OCC’s] conclusions with him for 45 minutes.”**<sup>1238</sup> The OCC told the Subcommittee that, among other objections, **she complained that the regulator was trying to “destroy” JPMorgan Chase’s business**, and that its requirements would take away necessary flexibility from the CIO.<sup>1239</sup> Moreover, according to the Examiner- In-Charge’s email, **Ms. Drew informed the OCC “that investment decisions are made with the full understanding of executive management including Jamie Dimon. She said that everyone knows that is going on and there is little need for more limits, controls, or reports.”**<sup>1240</sup> The OCC’s head capital markets examiner told the Subcommittee that he was “surprised” at the time by her reaction, because that level of “pushback” for an MRA regarding “basic banking” expectations was “extreme.”<sup>1241</sup> The OCC Examiner-In-Charge characterized **Ms. Drew’s response as an attempt to invoke Mr. Dimon’s authority and reputation** in order to try to avoid implementing formal documentation requirements.<sup>1242</sup> When asked about the meeting, Ms. Drew told the Subcommittee that her recollection was, while she disagreed with the OCC’s recommendations, it was a good “two way” discussion.<sup>1243</sup> The CIO’s formal response to the OCC’s 2010 Supervisory Letter, **signed by Ms. Drew in January 2011**, committed to documenting investment and risk decisions for the **SAA portfolio, but never mentioned the TAA portfolio** in which the SCP was then located.<sup>1244</sup>

[table of key items](#)

### **Federal reserve supervision in late 2010 and changes in early 2011:**

***OIG Report October 2014, page 28:*** “In September 2010, CPC team 2 also recommended a target examination to assess the CIO’s governance framework, risk appetite, risk management practices for the “banking book vs. trading [book],” and the composition of its hedging portfolio. Nevertheless, CPC team 2 did not initiate discussions with the OCC regarding these activities.”

***OIG Report October 2014, page 68:***

We acknowledge that the background section does not describe the involvement of the LISCC, but page 25 of the chronology section of our report details the transition to the LISCC structure in 2010.

***OIG Report October 2014, page 25:***

The LISCC OC replaced the LFI Team and assumed responsibility for coordinating the Federal Reserve System's supervisory planning activities for certain large, complex banking organizations. In the aftermath of the crisis, the Board established high-priority Federal Reserve System initiatives or mandates, including the Comprehensive Capital Analysis and Review (CCAR),<sup>44</sup>

**Page 27...** the LISCC OC in December 2010 highlighted the need to reassess the 2011 supervisory priorities

**Page 33.... On March 28, 2012,** the LISCC OC convened a meeting.<sup>52</sup>

**Page 37...** Our evaluation indicated that these demands, in addition to the LFI Team's and LISCC OC's guidance for Federal Reserve System supervisory teams to focus on key supervisory priorities, **contributed to FRB New York revisiting the prioritization** of its planned supervisory activities related to the CIO.

**Page 55...** In December, the LISCC OC encouraged supervisory teams to reassess their supervisory plans.

**Page 31... In 2011, the Federal Reserve System performed the first CCAR,** a supervisory assessment of the capital planning processes and capital adequacy of large, complex BHCs.

**Page 64-email response from Michael Gibson of the NY FED...** "It should be noted that responsibility for supervisory planning for LISCC portfolio was moved to the LISCC Operating Committee (the "OC") in 2010, and commencing with the 2011 planning period, final decisions on supervisory plans have rested with the OC.

**Page 71..."As the report acknowledges, JPMC was positioned** to withstand the CIO losses, **in part because of the Federal Reserve's** appropriate focus on capital."

**Page 72..."The** **OIG** says that the New York Fed's reorganization caused the cancellation of CIO exams. **This is incorrect- the last proposed CIO exam was cancelled in February 2011,** which prior to even the announcement that staff would be re-organized in Mid-2011.

[table of key items](#)

***Stress Loss limit breaches in early 2011.....***

**Senate report:** "For example, in the first half of 2011, the CIO reported multiple, sustained breaches of its stress limits and attributed those breaches to increased activity in its "synthetic credit (tranche) book."<sup>1266</sup> The CIO's stress limits were triggered eight times, sometimes for weeks at a stretch, from January to June 2011.<sup>1267</sup> The bank notified the OCC about those stress limit breaches, like other internal risk limit breaches, in the bank's regular Market Risk Management (MRM) Reporting emails which listed risk limit breaches and in its weekly Market Risk Stress Testing reports.<sup>1268</sup> In those reports, **the CIO attributed all of the CIO's stress limit breaches to changes in its "synthetic credit (tranche book)."**<sup>1269</sup> In the first breach of the year, for example, which occurred on **January 27, 2011,** the CIO continued to breach the limit **for seven weeks in a row, peaking at 50% over the limit.**<sup>1270</sup> The CIO's stress limit breaches were **dramatic and sustained** during the first half of 2011, yet when the OCC inquired into the reason for the breaches, **the bank "failed to offer any details about the source,"** and the OCC did not pursue additional information.<sup>1271</sup>

[table of key items](#)

*Task Force report page 76-77 footnote 95: “**An earlier limit breach within CIO appears to have been part of the impetus for a review of CIO’s limit** structure begun by CIO’s Head of Market Risk in the summer of 2011, described below. **Beginning in March 2011, CIO’s aggregate stress loss limit was in breach for some time.** The breach, which was discussed among the Chief Investment Officer, the Firm-wide Chief Risk Officer, and the CIO Head of Market Risk, **appears to have been caused principally by activity unrelated to the Synthetic Credit Portfolio**, in CIO’s international rates sector.”*

[table of key items](#)

***Seven weeks after the 27<sup>th</sup> January 2011, namely the 18<sup>th</sup> March 2011: “***

***FED Press release on website at 11:00 AM:** “Planned share repurchases will be reviewed if there are material adverse deviations from the revenue and loss assumptions in a firm's capital plan such that capital is not increasing as anticipated; and...”*

***Comprehensive CCAR PDF Review page 4:** “A key innovation in the CCAR is the expectation that large bank holding companies submit annual comprehensive capital plans to the Federal Reserve. These plans will describe their strategies for managing their capital over a **24-month, forward planning horizon**. While the specific elements of the plan may evolve over time, some of the key components are:*

*A description of the firm’s current regulatory capital base, including key contractual terms of its capital instruments and any management plans to retire, refinance, or replace the instruments over the planning horizon.*

*A description of all **planned capital actions** (e.g., dividends, share repurchases, and issuances), as well as anticipated changes in the banking company’s risk profile, business strategy, or corporate structure over the planning horizon.*

*A description of the **bank holding company’s processes and policies** for determining the size of dividend and common stock repurchase programs under different operating conditions.*

*The firm’s assessment of **potential losses, earnings, and other resources available to absorb such losses under stressed** economic and financial market environments, and the resulting impact on a firm’s capital adequacy and capital needs over the planning horizon.*

*An assessment, accompanied by supporting analysis, of the capital needed by the firm on a **post-stress basis to continue operations**, meet its obligations, and function as a credit intermediary.*

*Importantly, the Federal Reserve expects plans to be approved by the bank holding company’s **board of directors** before being submitted. Consistent with their fiduciary and governing responsibilities, boards of directors have the final approval authority and are **fully responsible** for their firms’ capital assessments and plans.*

***Comprehensive CCAR PDF Review page 10:***

*“For the 2011 CCAR, all 19 SCAP bank holding companies were required to submit a comprehensive capital plan to the Federal Reserve by **January 7, 2011**”*

***Comprehensive CCAR PDF Review page 10:***

*“Adjustments were made when a particular strategy for reducing risk-weighted assets or increasing regulatory capital was deemed to be “high risk,” due to factors such as uncertainty about **realized sale prices of certain illiquid assets**, or assets with highly volatile*

valuation histories, or uncertainty about a **firm's ability to reduce risk-weighted assets** by using improved risk measurement methodologies. Overall, the key benchmark was whether a bank holding company's pro forma (adjusted) Tier 1 common, Tier 1 and Tier 1 leverage ratios on a Basel III basis met the target levels of 7 percent, 8.5 percent, and 3 percent, respectively, according to the timeline specified by management for meeting the fully phased-in standards."

***NY Times article on March 18<sup>th</sup> 2011: "With Fed Consent, Banks Raise Dividends and Buy Back Stock***

By [Eric Dash](#)

March 18, 2011 10:02 am March 18, 2011 10:02 am **10:35 a.m., March 19 | Updated**

**For long-suffering bank investors, the wait is over.**

After securing the [Federal Reserve](#)'s blessing, a series of financial giants rushed to raise their dividends and buy back stock on Friday, underscoring how Wall Street profits and an improving economy have helped the biggest banks stage a broad recovery since they were laid low by the financial crisis.

Within hours of being told by regulators they had passed a second round of stress tests, [JPMorgan Chase](#), [Wells Fargo](#) and several other major lenders laid out specific plans. Meanwhile, [American Express](#) and [Goldman Sachs](#) announced they were resuming large-scale stock repurchases, with Goldman buying back the \$5 billion stake it sold to [Warren E. Buffett](#) in the fall of 2008."

[table of key items](#)

***Internal audit report of JPM from Q4 2011: "***

**Stress testing** where There is no documented methodology to outline key testing components (e.g computational method and shock factors used) or assess limitations such as off-line risk measurement, **missing risk factor and curves,**

- **The SAA book; (\$140bln Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework and relevant SAA stress testing results *are* not measured against corresponding limits.**

[table of key items](#)

***Senate report on stress testing and OCC: "***

He recalled one instance in which bank executives even yelled at OCC examiners and called them "stupid."<sup>1253</sup> In another example, **in early 2012**, according to the OCC, the most junior capital markets OCC examiner arrived at a meeting at the bank to discuss with his bank counterpart the results of a recent OCC stress examination.<sup>1254</sup> But instead of meeting with a single risk manager, he was, in his words, **"ambushed" by all the heads of risk divisions from all the lines of business at the bank, including JPMorgan Chase's Chief Risk Officer, John Hogan.**<sup>1255</sup> Given the senior rank of the bank officials, the junior OCC examiner normally would not have led the meeting, but the bank officials pressed him to disclose the OCC's preliminary conclusions. According to the OCC examiner, on every issue, the bank's risk personnel criticized the OCC's findings and recommendations,<sup>1256</sup> and the meeting assumed a loud and **"combative" tone.**<sup>1257</sup> **The OCC examiner recalled that Peter Weiland, the CIO's Chief Market Risk Officer, agreed with the OCC's suggestion on one point, which had the effect of quieting the executives in the room,** but said it was the only issue on which anyone from the bank supported an OCC recommendation from that



examination.<sup>1258</sup> After the meeting ended, he said that, despite the bank's aggressive response, the OCC issued its Supervisory Letter largely in line with the original conclusions the examiner had presented.<sup>1259</sup>  
[table of key items](#)

*Senate report footnote 1254* Subcommittee interview of Jaymin Berg, OCC (8/31/2012). The examination was regarding the Firm Wide Stress Initiative, which concluded with an OCC Supervisory Letter. See 3/9/2012 OCC Supervisory Letter JPM- 2012-09 to JPMorgan Chase, "Examination of FSI Stress Testing Framework" [Sealed Exhibit].  
[table of key items](#)

*Senate report Foonote 1259* See 3/9/2012 OCC Supervisory Letter JPM-2012-09 to JPMorgan Chase, "Examination of FSI Stress Testing Framework"; Subcommittee interview of Jaymin Berg, OCC (8/31/2012).

*Footnote 1393* Subcommittee interview of Jaymin Berg, OCC (8/31/2012); 3/9/2012 Supervisory Letter JPM-2012-09 from Scott Waterhouse, OCC, to Ashley Bacon, JPMorgan Chase, "Examination of FSI Stress Testing Framework," (Citing a Matter Requiring Attention: "Methodology for valuation should be described.") [Sealed Exhibit].

#### *Risk limit changes in summer 2011: VAR, SNPR, and numerix*

##### *Senate report Footnote 112*

"Under the **Market Risk Limits Policy applicable to CIO before May 2011**, the review of limits and limit utilizations was required only **annually**, as opposed to semi-annually. Notwithstanding this requirement, prior to May 2011, the last review of all CIO limits was conducted by CIO in 2009. A new Market Limits Policy became **effective in May 2011**. Under the more recent policy, limits are required to be established by Market Risk and business heads, and certain of these are required to be reviewed at least **annually by the Board and semi-annually within each line of business**. In the first quarter of 2012, Mr. Weiland was in the process of developing a proposal to revise the CIO limit structure. **He began that process in July 2011**, recognizing that a semi-annual review of the limits had not yet been conducted and that certain of CIO's limits need to be revised and/or updated. He discussed an early version of his proposal at one of his weekly meetings **with Ms. Drew in the summer of 2011**. When Mr. Goldman became CIO's Chief Risk Officer in January 2012, he became involved in the process as well. Although the proposal was the subject of active discussion in the first quarter of 2012 and a version of it was presented to the CIO Risk Committee in late March, new limits were **not implemented until May 2012.**"

*Task Force report on this stress limit violation:* " *footnote 95* An earlier limit breach within CIO appears to have been part of the impetus for a review of CIO's limit structure begun by CIO's Head of Market Risk in the summer of 2011, described below. Beginning in March 2011, CIO's aggregate stress loss limit was in breach for some time.

The breach, which was discussed among the Chief Investment Officer, the Firm-wide Chief Risk Officer, and the CIO Head of Market Risk, appears to have been caused principally by activity unrelated to the Synthetic Credit Portfolio, in CIO's international rates sector

[table of key items](#)

***Senate Report Footnote 113:***

"Prior to 2009, Single Name Position Risk ("SNPR") limits applied to the Investment Bank, but CIO did not trade in any single names and hence did not have any single name limits. **The Firm's SNPR policy thus exempted** the following assets, among others, from its scope: (1) investments managed by CIO as part of the Firm's Strategic Asset Allocation investment portfolio; and (2) CIO index and index tranche activity. Messrs. Zubrow and Weiland agreed that these assets should be exempt from the policy because they were longer-term, strategic investments and because calculating single name default exposure for a portfolio of indices and tranches is extremely complex. As CIO began to add positions with exposures to single names, Messrs. Zubrow and Weiland approved sets of name-specific limits for the particular names to which CIO's indices and tranches had single name exposure. **These limits were separate from the SNPR limits applicable to the Investment Bank**, and trading in these instruments by CIO did not result in SNPR limits usage. By late 2011 and early 2012, CIO's exposure to single names grew to the point that Mr. Weiland and Firm-wide Market Risk agreed that it made sense to **include the calculation of that exposure within the SNPR policy**, because the amount and aggregation of those exposures were becoming more significant. In early 2012, they began to discuss how to include CIO's index and index tranche activity within the SNPR. The exact means by which that would be done were the subject of ongoing discussion throughout the first quarter of 2012, due to the complexity of the calculations and the fact that including the short positions in the Synthetic Credit Portfolio in the SNPR would have had the effect of creating more availability for the limit (in part, because CIO owned equity protection, meaning that it earned money on individual defaults)."

[table of key items](#)

## • 'Jamie Dimon at the command'

### **2002-2004 articles: BankOne merger and Goodwill**

JPM 2003 Annual report for 2003 before BankOne merger page 46: Goodwill at \$8,5 billion and market value at \$43 billion.

**NYT 14<sup>th</sup> January 2004:**" J.P. Morgan Chase to Acquire Bank One in \$58 Billion Deal-.... Since Mr. Dimon assumed control of Bank One in 2000, the company's stock has increased sharply as he has imposed the same form of relentless cost-cutting discipline that made his mentor Mr. Weill a financial legend." [table of key items](#)

### ***JPM-BankOne Merger slides of the time:***

**Page 23: Shareholder equity line:** \$45 Bln for JPM, \$22 Bln for BankOne(vs \$58bln purchase price or **\$36 Bln added goodwill**), total for a group total market value now at \$67+\$36=\$103 Bln

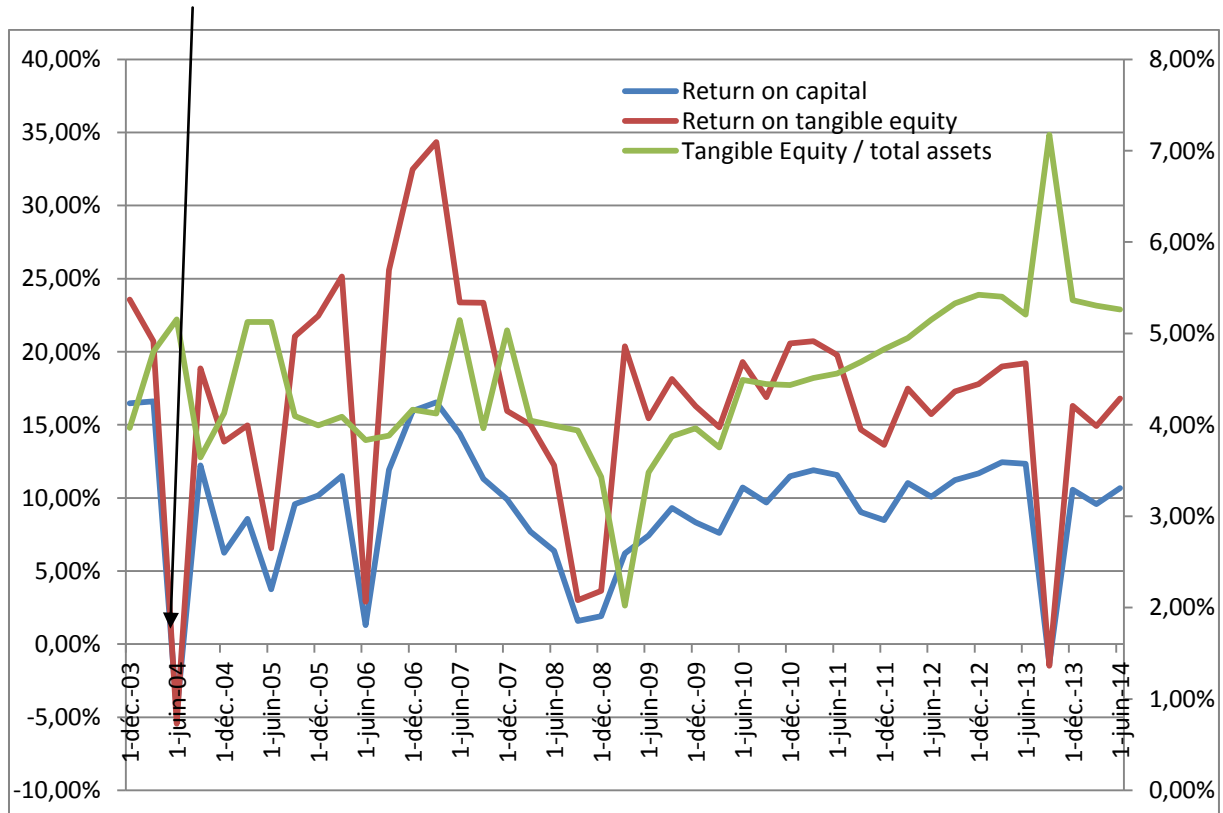
**Page 20 upon costs & share repurchase:** \$2,2 bln cost savings, \$3 Bln merger costs, \$3.5 spent for share purchases, phase in achieved by 2007,

**Page 17 on excess capital generation....\$15 bln generated by 2007**

**BankOne 2003 Annual Report:** no 'goodwill' and Market value at \$20,9 Bln

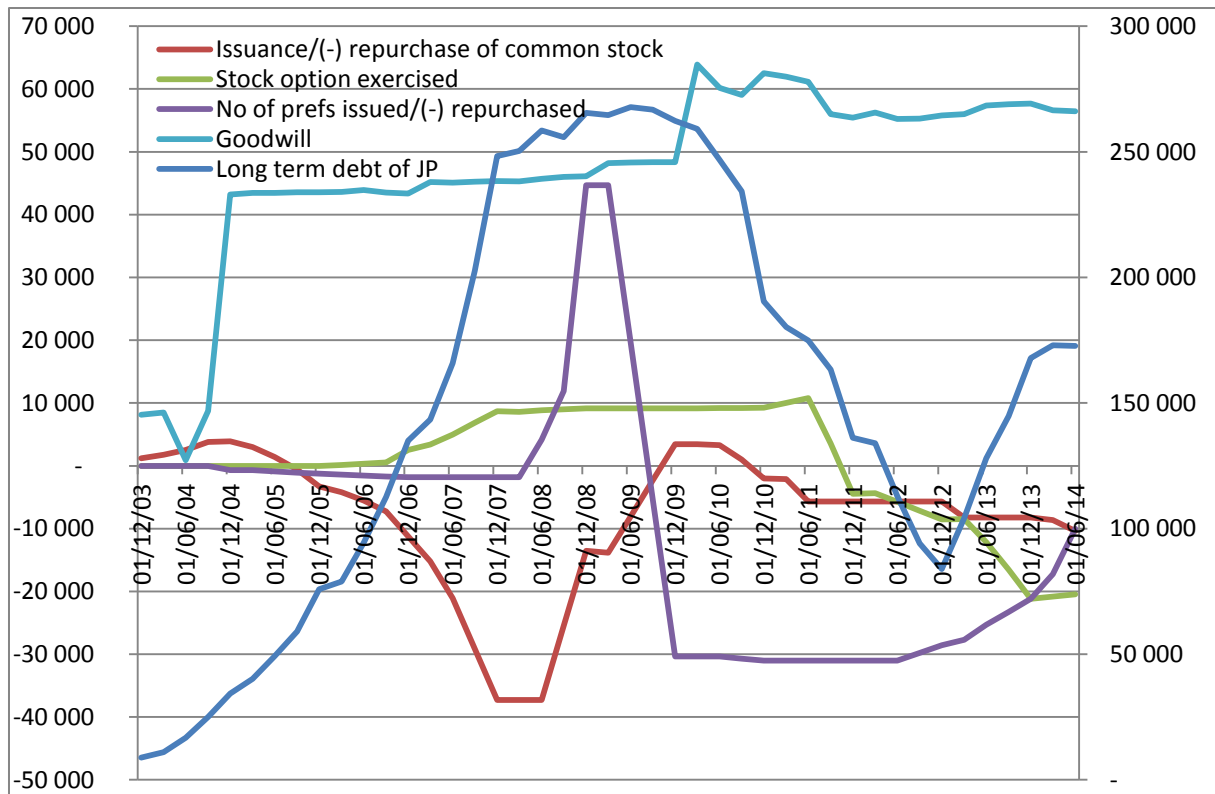
[table of key items](#)

**10-Q Compilation of Return on capital and the performance of the time**



[table of key items](#)

**10-Q Compilation of Goodwill, Share issuance, stock option, TARP and debt issuance**



[table of key items](#)

## 2005: Basel II problems about CDS

**Senate report** “The CIO was formerly part of the bank’s internal treasury function, but was split off into a stand-alone office in 2005.<sup>52</sup> According to JPMorgan Chase, its Treasury office and the CIO perform similar tasks in terms of managing the bank’s assets, but the Treasury office focuses more on shorter-term asset liability management.<sup>53</sup>”

[table of key items](#)

## 2006-2007: Jamie Dimon becomes CEO and Board chairman of JPM

**Senate report:** “The 2007 internal bank audit stated that the credit trading commenced in 2006, although Ms. Drew told the Subcommittee that the SCP was established in June 2007.<sup>207</sup> The OCC determined that the SCP acquired its current name in 2008.<sup>208</sup>

In addition, the SCP was not named in any portfolio lists that the CIO provided to the OCC from 2007 through 2012, although the CIO occasionally referred to a “core credit portfolio,”<sup>1223</sup> which was one part of the SCP.<sup>1224</sup>

In 2007, to carry out the credit trading portion of the New Business Initiative, CIO began a program to purchase “ABX and TABX protection.”<sup>199</sup> At that time, the ABX and TABX were new credit derivative indices that “serve[d] as liquid instruments for trading subprime credit risk.”<sup>200</sup>

[table of key items](#)

**Senate report footnote 199** 4/12/2012 email from Ina Drew, JPMorgan Chase, to Jamie Dimon, and others, “Synthetic Credit Materials,” JPM-CIO-PSI 0001101.

*Senate report footnote 200 2/6/2009 presentation prepared by JPMorgan Chase in response to a Subcommittee request, “CDO Briefing,” at 21, PSI-JPM-30-000001. “*

*Senate report: “In November 2007, JPMorgan Chase’s internal audit group conducted an audit of “CIO Global Credit Trading,” characterizing it as a “First Time Review of New Business, Product or Service.”<sup>201</sup> The audit report stated: “Chief Investment Office (CIO) credit trading activities commenced in 2006 and are proprietary position strategies executed on credit and asset backed indices.” The audit made no mention of hedging or credit stress loss protection, and contained **no analysis of the credit trading activity in terms of lowering bank risk**. It also did not identify any assets or portfolios that were being hedged by the credit derivatives. The audit rated the CIO’s “control environment” as “Satisfactory,” but noted, among other matters, that the **CIO’s Valuation Control Group committed multiple “calculation errors” when testing the prices of the credit derivatives**.<sup>202</sup>*

*Senate report footnote: 201 11/29/2007 “CIO Global Credit Trading,” JPMorgan Chase & Co. Audit Department Report, JPM-CIO-PSI-H0006022-023.”*

[table of key items](#)

## **2008: Bear Stearns- Lehman- WAMU**

*Senate Report: “But according to the OCC, while the CIO created a formal NBI approval document to initiate credit trading in 2006, the CIO did not update or amend that NBI when its traders began purchasing more complex credit derivative products, such as credit index tranches,<sup>209</sup> and engaging in larger volumes of trades.<sup>210</sup> **The OCC has since determined that, in 2008, the bank violated OCC notification requirements** by adding credit index tranche positions to the SCP without notifying the agency of that “new product” which represented “a substantial change in business strategy.”<sup>211</sup>*

*Senate report footnote 210 Subcommittee interview of Mike Sullivan, OCC (8/30/2012); 5/22/2008 “Chief Investment Office New Business Initiative Approval,” prepared by CIO, on “Credit and Equity Capability,” OCC-SPI-00081631, at 6. **A part of the NBI form called “Post-Implementation Review” which was “to be completed at the time of approval” was left blank.** Id. at 19”*

*Senate report: “Mr. Iksil: “[I]t had to happe[n]. [I]t started back in 2008 you see. [I] survived pretty well until [I] was alone to be the target. [Y]es [I] mean the guys know my position because [I] am too big for the market. ... [B]ut here is the loss and it becomes too large and this is it. [W]e realize that [I] am too visible.”<sup>724</sup> Despite the emails predicting losses of between \$300 million and \$600 million, at the end of the day on March 23, 2012, the CIO reported internally a daily loss of only \$12.5 million.”<sup>725</sup>*

[table of key items](#)

## **2009**



*JPM Annual report for 2009: On page 131, diversification benefit on VAR between 2008 and 2009*

” In addition, the 95% VaR measure also includes certain positions utilized as part of the Firm’s risk management function within the Chief Investment Office (“CIO”) and in the Consumer Lending businesses to provide a Total IB and other VaR measure. **The CIO VaR includes positions, primarily in debt securities and credit products, used to manage structural risk and other risks, including interest rate, credit and mortgage risks arising from the Firm’s ongoing business activities.** The Consumer Lending VaR includes the Firm’s mortgage pipeline and warehouse loans, MSRs and all related hedges. In the Firm’s view, including these items in **VaR produces a more complete perspective of the Firm’s market risk profile.**

#### **VaR backtesting (95% confidence level VaR)**

To evaluate the soundness of its VaR model, the Firm conducts daily back-testing of VaR against the Firm’s market risk–related revenue, which is defined as follows: the change in value of principal transactions revenue for IB and CIO (excluding private equity gains/(losses) and revenue from longer-term CIO investments); trading-related net interest income for IB, RFS and CIO (excluding longer-term CIO investments); IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm’s mortgage pipeline and warehouse loans, MSRs and all related hedges. **The daily firmwide market risk– related revenue excludes gains and losses from DVA.”**

*Senate report:* “Over time, the Basel Committee has issued four sets of capital standards. **Basel I**, issued in **1988**, provided the first international capital standards; **Basel II**, issued in 1999, revised the first Accord, and was **finalized in 2004**; **Basel 2.5**, issued in **2009**, **strengthened capital standards related to securitizations and trading book exposures** in response to the financial crisis; and **Basel III**, issued in **2010**, provided a broader set of reforms.<sup>109</sup> **Basel III** increased minimum capital requirements and **introduced a new set of bank liquidity standards** to “improve the banking sector's ability to absorb shocks arising from financial and economic stress, ... improve risk management and governance, [and] strengthen banks' transparency and disclosures.”<sup>110</sup> Among other provisions, **Basel III increased the minimum amount of capital that had to be raised from common equity.**<sup>111</sup> “

[table of key items](#)

## **2010**

*Senate report footnote 60:* “Footnote 60: Id; Subcommittee interview of Fred Crumlish, OCC (8/28/2012). **According to Ina Drew, the private equity portfolio was added to the CIO in 2010, at the request of Mr. Dimon.** Subcommittee interview of Ina Drew, CIO (9/7/2012).”

*Task Force report Footnote 69* Internal Audit issues three ratings: Satisfactory, Needs Improvement, and Inadequate. The latter two are considered “adverse” ratings. CIO VCG received a **“Satisfactory” rating** in its prior audit of CIO EMEA Credit on **February 26, 2010**

*Senate report:* “Under the Dodd-Frank Act, the OCC has also become the primary regulator of federally chartered thrift institutions.<sup>92</sup>

**Senate report Footnote 92:** Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), P.L. 111-203, codified at 12 U.S.C. § 5412 (b)(2)(B) (2010).”

**Senate report:** “Characterizing the trades as lowering risk was critical to the CIO’s assertion that its trades were consistent with the Volcker Rule which bans high risk proprietary trading by federally insured banks, but permits “risk-mitigating hedging activities.”<sup>1332</sup>

That issue was of particular interest, because the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 included the **Merkley-Levin provisions, known as the Volcker Rule**, that prohibited high risk proprietary trading by insured banks, but permitted “risk mitigating” hedges

[table of key items](#)

**Senate report Footnote 1332** See Section 13 of the Bank Holding Company Act, added by Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, P.L. 111-203

**Senate report Footnote 1333** Subcommittee interview of Julie Williams, OCC (9/13/2012). **The Volcker Rule was enacted into law in 2010, and implementing regulations were proposed in 2011**, but those regulations have yet to be finalized. The banking industry continues to press regulators about the contours of the final regulations and whether particular trading activities would continue to be allowed

**Senate report page 2:** “In addition, JPMorgan Chase briefed the Subcommittee about the findings of an internal investigation conducted by a task force headed by **Michael Cavanagh**, a senior bank official who is a member of the firm’s Executive and Operating Committees. »

**Michael Cavanagh** has served as **Co-CEO of the Corporate and Investment Bank since July 2012**, and is a member of the firm’s Executive and Operating Committees.<sup>38</sup> Prior to that position, he served as **CEO of the firm’s Treasury and Securities Services from June 2010 to July 2012**.<sup>39</sup> Before that, Mr. Cavanagh served as the firm’s **Chief Financial Officer from September 2004 to June 2010**.<sup>40</sup> **In May 2012, Mr. Cavanagh became head of the JPMorgan Chase & Co. Management Task Force** established to conduct an internal investigation of the CIO losses.<sup>41</sup> **Daniel Pinto is currently the other Co-CEO of the Corporate and Investment Bank**.<sup>42</sup>“

[table of key items](#)

**Senate report between March 2010 and June 2010 (the CDX IG series 13 was on the run until March 21<sup>st</sup> 2010):**

“When a new credit index series is issued, it is referred to as the “on-the-run” series.<sup>167</sup> Earlier series of the index are then referred to as “off-the-run.”<sup>168</sup> They continue to trade until their maturity dates, but are typically less actively traded.<sup>169</sup>

**Footnote 168** Id., Appendix 4, at 35. One JPMorgan document used a more restrictive definition, defining “off-the-run” indices as **“any index older than 4 series – for example, the current on the run CDX series are 13, therefore, all indices series 9 and older are considered off the run”**). **5/21/2010 “CIO-VCG Procedure: Valuation Process,”** OCCSPI-00052685, at 15.

**Footnote 647** See 5/21/2010 CIO-VCG Procedure: Valuation Process, OCC-SPI-00052685, at 6 (“In assessing the reasonableness of fair value measurements that are subject to testing, **VCG will consider whether such measurements appropriately reflect liquidity risk, particularly in the case of instruments for which CIO maintains either a significant/concentrated position and/or if the market for given instrument can be observed to be less liquid.**

[table of key items](#)

*Senate report:* “In addition to reviewing the SCP book, the VCG was responsible for calculating and monitoring the amount and categorization of any liquidity and concentration reserves established for the SCP derivatives.”<sup>647</sup>

*Senate report :* “In addition, although JPMorgan Chase’s written policy was to reevaluate the risk limits on an annual basis in all its lines of business,<sup>1504</sup> CIO risk management had failed to review the CIO’s risk limits for three years.<sup>1505</sup>

*Senate report footnote 1504 6/29/2010 JPMorgan Chase & Co., “Risk Policy: Model Risk Policy”* JPMC-Senate/Levin 000026, at 33 (“Annual Review. Each LOB must ensure all of its models are re-assessed annually in light of: new developments in the literature or internal or commercially available models; changes in the market for the product (e.g. **availability of liquid quotes** for model input or major growth in volume); change in the features of the product or portfolio; back-testing of the model and experience with effectiveness of its application; the **materiality of model risk**.”).

*Senate report on June-July 2010:* “**Douglas Braunstein** served as JPMorgan Chase & Co.’s Chief Financial Officer (CFO) from **July 2010 to December 2012**. He was also a member of the firm’s Executive and Operating Committees.<sup>26</sup> In November 2012, JPMorgan Chase announced that Mr. Braunstein would step down from that post at the end of the year, and he has since become a Vice Chairman of the holding company.<sup>27</sup> In his capacity as CFO, Mr. Braunstein was charged with overseeing and certifying the accuracy of the firm’s financial reporting, and ensuring adequate capital and liquidity, among other duties.<sup>28</sup>

[table of key items](#)

*Senate report about August 2010:* “During the first few years of the Synthetic Credit Portfolio’s existence, the OCC was headed by John C. Dugan. When he left office in 2010, he was replaced on an acting basis by John Walsh.<sup>1205</sup>

*Senate report on September 2010:* “To the contrary, since at least 2010, CIO head Ina Drew’s presentations to her colleagues at the bank, including Mr. Braunstein, showed that the Synthetic Credit Portfolio, which was part of the larger Tactical Asset Allocation portfolio, had the shortest investment horizon of all of the portfolios in the CIO.”<sup>1525</sup>

*Senate report Footnote 1525* See, e.g., **3/2012 “Directors Risk Policy Committee – CIO 2012 Opportunities and Challenges,” presentation prepared by Ina Drew** and Irvin Goldman, CIO, JPM-CIO-PSI 0015015; 2/28/2012 email from John Wilmot, CIO, to Jamie Dimon, Douglas Braunstein, JPMorgan Chase, and others, “CIO Business Review Materials,” JPM-CIOPSI 0001940, at 8; **9/2010 “Chief Investment Office Presentation to the Directors Risk Policy Committee,” presentation prepared by Ina Drew**, CIO, OCC-SPI-000032575, at 576 (showing an earlier version of the same page regarding short-to-long term investment horizon, with “**Tactical Investing,**” which included the Synthetic Credit Portfolio, as the portfolio in CIO with the shortest investment horizon).

[table of key items](#)

*Senate report about December 2010:* “The bank and the OCC told the Subcommittee that, instead of focusing on the SCP, the CIO typically discussed its Tactical Asset Allocation (TAA) mark-to-market portfolio, a broader investment portfolio which included the SCP.<sup>1225</sup> Consistent with that explanation, several internal CIO documents indicate that **when CIO head Ina Drew discussed the CIO’s investment portfolios with the JPMorgan Chase Board of Director’s Risk Policy Committee, she talked about the larger TAA portfolio,**

**and did not mention the SCP.**<sup>1226</sup> In addition, the CIO and OCC told the Subcommittee that a few years earlier, the TAA portfolio had been called the “Discretionary Trading” portfolio.<sup>1227</sup> Moreover, the CIO told the Subcommittee that in January 2012, it merged the TAA with another portfolio of mark-to-market assets called the Strategic Asset Allocation portfolio, and called the product of that merger the **“MTM Overlay” portfolio.**<sup>1228</sup>

***Senate Report on November 2010:*** “Joseph Bonocore served as the Chief Financial Officer (CFO) of CIO during Mr. Weiland's tenure before Mr. Wilmot took over and Mr. Bonocore became JPMorgan Chase's Corporate Treasurer.<sup>898</sup>

***Senate report Footnote 898:*** Subcommittee interview of Joseph Bonocore, JPMorgan Chase (9/11/2012). **Mr. Bonocore served as CFO for CIO from September 2000 to November 2010**, after which time he served as firmwide Corporate Treasurer until his departure from JPMorgan Chase in October 2011 for personal reasons. Id.

***Senate report: Wilmot replaces Bonocore in early 2011:*** “**John Wilmot:** From January 2011 to mid-May 2012, Mr. Wilmot was CIO’s Chief Financial Officer, **reporting to Ms. Drew, with “dotted line” reporting to Mr. Braunstein.** Prior to serving as the CFO of CIO, Mr. Wilmot was responsible for Bank Owned Life Insurance and JPMorgan Partners Private Equity Investments within CIO. Mr. Wilmot has announced his resignation and is expected to leave JPMorgan in 2013.”

[table of key items](#)

### ***2011 Annual report***

***Page 107:*** “Treasury and the Chief Investment Office manage capital, liquidity, and structural risks of the Firm.”

***Page 128\_*** the global liquidity reserve grew to \$379 billion in end 2011 from **\$262 billion at the end of 2010.**

***Page 111-*** Substantially all of the securities portfolio is classified as available-for-sale (“AFS”) and used primarily to manage the Firm’s exposure to interest rate movements and to invest cash resulting from excess liquidity.... **CIO investments grew from \$310 and \$370 billion in the period.**

Page 301: **“Corporate/Private Equity**

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office, corporate staff units and expense that is centrally managed. **Treasury and the Chief Investment Office manage capital, liquidity, and structural risks of the Firm.**

***Senate report Footnote 1226*** See, e.g., **12/2010 Presentation to the Directors Risk Policy Committee, prepared by Ina Drew**, CIO, OCC-SPI-00135422 at 2 (describing the “Tactical Investing & Risk Management” portfolio as one type of portfolio with a short term “investment horizon”). **The presentation also explained that “Tactical Positioning” referred to the CIO positioning its investments “tactically to complement the core investment portfolio. One example is a synthetic (or derivative) credit position established in 2008 to protect the Firm from the anticipated impact of a deteriorating credit environment.”** Id. at 6.

[table of key items](#)

**2011**

*Senate report on the December 2010 MRA response:* “ The OCC’s head capital markets examiner told the Subcommittee that **he was “surprised” at the time by her reaction**, because that level of **“pushback” for an MRA regarding “basic banking”** expectations was “extreme.”<sup>1241</sup> The OCC Examiner-In-Charge characterized Ms. Drew’s response as an attempt to **invoke Mr. Dimon’s authority and reputation** in order to try to avoid implementing formal documentation requirements.<sup>1242</sup> When asked about the meeting, Ms. Drew told the Subcommittee that her recollection was, while she disagreed with the OCC’s recommendations, it was a good **“two way” discussion**.<sup>1243</sup> The CIO’s formal **response to the OCC’s 2010 Supervisory Letter, signed by Ms. Drew in January 2011**, committed to documenting investment and risk decisions for the SAA portfolio, but never mentioned the TAA portfolio in which the SCP was then located.<sup>1244</sup> the Subcommittee that the failure to mention the TAA portion of the MRA was not intentional; the SAA was simply a bigger portfolio.<sup>1245</sup> **The OCC told the Subcommittee that it should have noticed at the time that the CIO’s response was limited to the SAA portfolio**,<sup>1246</sup> but said it did not, characterizing its failure to notice as an “oversight” by the OCC.<sup>1247</sup>

The OCC told the Subcommittee that **the MRA should have been reviewed by December 2011, but because of competing priorities**, it had delayed conducting that review until the fall of 2012.

*Senate report footnote 1227* See Subcommittee interviews of Jaymin Berg, OCC (8/31/2012) and Ina Drew, CIO (9/7/2012); **but see 1/2011 Executive Management Report**, OCC-SPI-00000250 (still reporting the TAA portfolio as “Discretionary” even after the name had changed.).

[table of key items](#)

**Task force report footnote 109, Weiland was chief market risk officer at CIO since 2008, Hogan became firm CRO in January 2012, Goldman became CIO CRO right then**

**“Mr. Goldman was previously Head of Strategy for CIO. ...Mr. Goldman was hired by Ms. Drew as a portfolio manager in CIO in January 2008. ... In late 2010/early 2011, Ms. Drew and Mr. Zubrow, whose wife’s sister is married to Mr. Goldman, began a search to fill the newly created position of Chief Risk Officer of CIO. Ms. Drew and Mr. Zubrow created the position because CIO had been growing and their view was that they needed to enhance CIO’s Risk staffing. They engaged an executive search firm, which met with nearly a dozen individuals. However, none of the candidates who advanced to interviews with CIO management was deemed to be right for the position, and in late 2011, **the search was put on hold**. Shortly after learning of Mr. Hogan’s impending appointment as Chief Risk Officer for the Firm, Mr. Zubrow and Ms. Drew discussed Mr. Goldman for the role of Chief Risk Officer of CIO. ...**

***Task force report:* “In 2011, JPMorgan was engaged in a Firm-wide effort to reduce RWA in anticipation of the effectiveness of Basel III. The Synthetic Credit Portfolio was a significant consumer of RWA, and the traders therefore worked at various points in 2011 to attempt to reduce its RWA. As part of this effort, in late 2011, CIO discussed unwinding certain positions in the Synthetic Credit Portfolio”**



[table of key items](#)

**Task Force report on the Var model change for CIO:** ““That individual (henceforth referred to in this Report as “the modeler”) began work on developing that model in or around August 2011..... From September to November 2011, the modeler corresponded regularly with the relevant individuals from the Model Review Group, and on November 25, 2011, he submitted his new methodology (known internally as the “full revaluation” or “Basel II.5 model”) for formal approval.” Ms. Williams acknowledged to the Subcommittee that purchasing IG longs as a financing mechanism for other positions would not qualify as the type of “risk mitigating” hedge envisioned by the Volcker Rule.<sup>1333</sup> In 2011, regulations were proposed to implement the Volcker Rule, but have yet to be finalized.<sup>1408</sup>

**Senate report footnote 1625.... Saturday 1/28/2012 email from John Hogan, JPMorgan Chase, to Jamie Dimon, JPMorgan Chase,** “JPMC Firmwide VaR – Daily Update – COB 01/26/2012,” JPM-CIOPSI- H 0001675 (“This should be the last day of firmwide VaR breach. A CIO model change is planned to go in this week-end. **New VaR methodology approved (and now the same methodology as IB)** reduces standalone Credit VaR by approx. \$30 mio.”)

[table of key items](#)

**Senate report about November 2011 and Volcker Rule: “**

**Senate report Footnote 1333** Subcommittee interview of Julie Williams, OCC (9/13/2012). The Volcker Rule was enacted into law in 2010, and implementing regulations were proposed in 2011, but those regulations have yet to be finalized. The bank in industry continues to press regulators about the contours of the final regulations and whether particular trading activities would continue to be allowed.

**Senate report Footnote 1408** See, e.g., Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships with, Hedge Funds and Private Equity Funds, 76 Fed. Reg. 68846 (11/7/2011).”

**Senate report :** “JPMorgan Chase applied the CRM risk metric to the Synthetic Credit Portfolio beginning in 2011.<sup>1062</sup> **In December 2011, the bank decided to combine the CIO’s CRM results with those of the Investment Bank, which “produced a diversification benefit” and lowered the CRM totals for both.**<sup>1063</sup> In January 2012, however, the CIO’s CRM totals suddenly began to skyrocket. **On January 4, CRM was calculated at \$1.966 billion.**<sup>1064</sup> **On January 11, it was \$2.344 billion.**<sup>1065</sup> **On January 18, it reached \$3.154 billion.**<sup>1066</sup>“

[table of key items](#)

**Senate report on the expected dismantling of the SCB:** “Likewise, the OCC’s Examiner-in-Charge at JPMorgan Chase told the Subcommittee that he had the same understanding: “We were informed at year end 2011 that they were going to ‘take the book down, reduce the risk.’ That meant getting RWA down. My understanding, in my mind, they were going to reduce the book.”<sup>1288</sup>“

*Senate report:* “On April 5, Ina Drew emailed Mr. Braunstein and other executives, including Jamie Dimon, to explain the CIO’s derivatives activity. She wrote: “Post December [2011] as the macro scenario was upgraded and our investment activities turned pro risk, the book was moved into a long position.”<sup>1593</sup> As detailed in Chapter III, holding a net “long position” is not consistent with the SCP being a hedge”

*Task Force report:* “:” **By late December 2011**, CIO was considering **major changes to the Synthetic Credit Portfolio, both because** senior Firm management and CIO management had a **more positive view** of the economy, and because the Firm was in the midst of an **effort to reduce its “risk-weighted assets” (“RWA”)**, in connection with which senior Firm management directed CIO to reduce RWA. In particular, CIO was considering reducing the size of the Synthetic Credit Portfolio and, as explained afterwards by CIO, also moving it to a more credit-neutral position (a shift from its short risk orientation in the fourth quarter of 2011)... As part of this effort, in late 2011, CIO discussed unwinding certain positions in the Synthetic Credit Portfolio”

*Senate report:* “According to JPMorgan Chase’s Chief Financial Officer Douglas Braunstein, by the end of 2011, senior JPMorgan Chase management, including Jamie Dimon and Ina Drew, had determined that the macroeconomic environment was improving<sup>374</sup> and credit markets were expected to improve as well, with fewer defaults.<sup>375</sup> The SCP traders also expressed the view that they were getting “bullish signals” at the end of December, in part because the **European Union had agreed to provide long-term financing to prop up “bank lending and liquidity” in Europe.**<sup>376</sup> As Mr. Braunstein explained to the Subcommittee, there was also less of a need for the CIO to protect its \$350 billion Available-for-Sale portfolio.<sup>377</sup> Together, this analysis suggested that the SCP should be reduced in size.<sup>378</sup>

Mr. Braunstein told the Subcommittee that, **because the CIO had previously asked for an increase in its RWA for its \$350 billion Available-for-Sale portfolio, CIO management decided to use the SCP to achieve its new RWA reduction.**<sup>381</sup> Mr. Braunstein told the Subcommittee that he approved of this approach, since the value of **the economic protection the SCP was providing at that time to the rest of the bank was less valuable than the capital it required the bank to provide.**<sup>382</sup> Similarly, Mr. Dimon told the Subcommittee that the SCP’s loss protection was becoming less relevant, since the bank was bigger and earning more money, and the SCP’s synthetic assets would require the **use of a lot of capital** under the upcoming Basel III standards.<sup>383</sup>

**Mr. Goldman also told the Subcommittee that, in December 2011, a decision was made to stop using the SCP as a hedge,**<sup>386</sup> which made its credit loss protection characteristics irrelevant to the decision to reduce its RWA.

According to Javier Martin-Artajo, head of the CIO’s equity and credit trading operation, it was then that the head of the CIO’s International Office, Achilles Macris, told him that the SCP book was no longer needed to hedge tail risk at the bank and should be reshaped, primarily to put a stop to the losses it was experiencing.<sup>424</sup> Mr. Martin-Artajo later told the JPMorgan Chase Task Force investigation that, despite Mr. Macris’s comment, he still viewed the SCP book as a hedge.<sup>425</sup>“

[table of key items](#)

**Senate report footnote 393 12/28/2011 email from Javier Martin-Artajo, CIO, to Ina Drew, CIO, “10B RWA Target Reduction.ppt,” JPMCIO- PSI 0000039; JPMorgan Chase**

Task Force interview of Bruno Iksil, CIO (partial readout to Subcommittee on 8/27/2012). See also 2013 JPMorgan Chase Task Force Report, at 28 (“a 35% more than \$500 million”).

***Senate report on stop loss advisory limit:*** “The risk metrics discussed above are based on projections of how a portfolio will perform under certain market conditions. In contrast, stop loss advisories are risk limits established on the basis of actual daily profit and loss reports for a portfolio. A stop loss advisory sets a limit on how much money a portfolio is allowed to lose over a specified period of time, typically one, five, or twenty days. An advisory also sets a threshold for increased risk monitoring. If one of the advisories is breached, in theory, the portfolio exceeding the advisory **should receive increased monitoring and attention from senior management.** Stop loss advisories are a longstanding, easy to understand, and effective risk limit.

The CIO had one, five, and twenty day stop loss advisories in place during the accumulation of the credit index positions in the Synthetic Credit Portfolio that produced the losses incurred by the bank. Over the course of the period under review, **the one, five, and twenty-day loss advisories were set at the same level,** a decision regulators would later question. In early December 2011 these stop loss advisory limits were increased from \$60 million to \$70 million.<sup>1159</sup>.....

<sup>1159</sup> 12/01/2011 JPMorgan Chase spreadsheet “Position Limit and Loss Advisory Summary Report,” OCC-SPI-00134805; 12/9/2011 JPMorgan Chase spreadsheet “Position Limit and Loss Advisory Summary Report,” OCCSPI-00134832.

[table of key items](#)

## 2012

**EMR report about CIO valuations: they stopped for the December 2011 valuation...**

***Senate report:*** “One of the regular reports the bank supplied to the OCC was a monthly Treasury Executive Management Report (EMR), which included a section with basic performance data for the CIO. According to the OCC, over time, **those reports became thinner and thinner with less useful information about the CIO.**<sup>1295</sup> The OCC told the Subcommittee that it approached JPMorgan Chase’s Chief Financial Officer, **Douglas Braunstein,** as well as the bank’s **Corporate Treasury** division about the lack of sufficient information in the EMR.<sup>1296</sup> The OCC explained that it was concerned because “less information mean[t] less questions” that regulators could pose.<sup>1297</sup> **Then, in January 2012, the OCC noted that the usual monthly Treasury EMR did not include any section on the CIO,** as it had in the past. The OCC said it later learned that, without any notice to the agency, the CIO had begun issuing its own Executive Management Report (EMR).<sup>1298</sup> The OCC said that the **CIO did not provide the OCC with copies of the CIO’s new EMR in January, February, March, or April,** the same four-month period during which the SCP losses exploded.<sup>1299</sup> When the OCC **finally learned** of and requested a copy of the CIO’s monthly EMR report in April, after the London whale stories appeared in the press,<sup>1300</sup> it **promptly received a copy.**<sup>1301</sup> It is difficult to understand how the bank could have failed to provide, and the OCC failed to request, basic CIO performance data for a four month period.

<sup>1298</sup> 4/19/2012 email from John Wilmot, CIO, to James Hohl, OCC, “CIO EMR?,” OCC-00004723.

<sup>1300</sup> 4/13/2012 email from Thomas Fursa, OCC, to James Hohl, OCC, “CIO Deck,” OCC-00004720.

**The bank began reporting the CIO breaches in January and continued to report multiple breaches for months.** While the OCC maintained all of the bank’s regular reports, including the **MaRRS and MRM reports, in a central database,** the Subcommittee found no evidence that the OCC made use of the risk limit reports in its routine regulatory oversight efforts. For example, the Subcommittee found **no evidence that OCC examiners analyzed**

**the data to identify the most serious breaches or attempted to investigate why the breaches were occurring.** Given that the OCC did not appear to notice when other regular CIO reports stopped arriving until press articles on April 6 drew attention to the CIO, as detailed above, **it is possible that the OCC examiners were not even reviewing the regular MaRRS and MRM reports during the first quarter of 2012.**

The OCC also failed to inquire into the CIO's implementation in January 2012, of a new VaR model that, overnight, lowered the CIO's VaR by 50%. **The bank's regular MRM report emails, which OCC received** contemporaneously, provided the OCC with timely notice of three significant facts: that **the CIO had breached the bankwide VaR limit for four days running in January; that the CIO was poised to implement a new VaR model on January 27; and that the new model would significantly reduce the CIO's VaR results.**<sup>1318</sup>

[table of key items](#)

*IB P&L ostensibly removed from OCC oversight....*

**Senate report:** "Still another instance involved profit and loss reports. **In either late January or early February 2012, the OCC said that the daily Investment Bank P&L report stopped arriving in OCC electronic inboxes.** The OCC explained that when it brought up what it thought was simply a glitch in JPMorgan Chase's email delivery, the bank informed it that Chief Executive Officer **Jamie Dimon had ordered** the bank to cease providing the Investment Bank's daily P&L reports, because he believed it was too much information to provide to the OCC.<sup>1260</sup> The OCC said that the bank explained further that it had experienced a series of unauthorized data disclosures and the bank, not knowing **who was leaking the data**, sought to limit the information it provided to the OCC, even though OCC had not been responsible for the leaks.<sup>1261</sup> According to the OCC, when it requested resumption of the daily Investment Bank P&L reports, **Douglas Braunstein**, JPMorgan Chase's Chief Financial Officer, agreed to the request, but **had apparently not informed Mr. Dimon.** At a meeting shortly thereafter in which both Mr. Braunstein and Mr. Dimon were present, according to the OCC, when Mr. Braunstein stated that he had ordered resumption of the reports, **Mr. Dimon reportedly raised his voice in anger at Mr. Braunstein.**<sup>1262</sup> The OCC said that Mr. Dimon then disclosed that he was the one who had ordered a halt to the reports and expressed the opinion that the OCC did not need the daily P&L figures for the Investment Bank.<sup>1263</sup>"

[table of key items](#)

***VAR hasty model change: the change as of 27<sup>th</sup> EOD made the firm average VAR land at \$126,4 million for a \$125 million limit***

**Senate report:** “The OCC told the Subcommittee that if the new VaR model approval had not been hurried in January, the CIO traders would have been forced to “derisk” rather than load up with new risk.<sup>1043</sup>”

**Senate report:** On January 16, 2012, CIO exceeded its VaR limit.<sup>979</sup> While several JPMorgan Chase officials minimized the relevance of VaR breaches in interviews with the Subcommittee, VaR measurements are considered significant enough within the bank that the bank’s **Operating Committee received daily VaR updates from the firm’s Market Risk Management (MRM) Reporting group** detailing the VaR levels for various business lines and business segments and explaining the basis for any significant changes. In addition, a breach of the firmwide VaR was treated within the bank as a “Level 1” notification, and was reported to the **highest levels of bank management, including to CEO Jamie Dimon and the rest of the Operating Committee.**<sup>980</sup>

<sup>979</sup> 1/20/2012 email from Market Risk Management Reporting, JPMorgan Chase, to Jamie Dimon, JPMorgan Chase, and others, “JPMC 95% 10Q – VaR – Limit Excession Notification (COB 1/19/12),” JPM-CIO-PSI 0000150; 1/16/2012, JPMorgan Chase spreadsheet “**Position Limit and Loss Advisory Summary Report,**” JPM-CIO-PSI 0037534 (**showing excession of the \$95 million MTM 10Q VaR limit for close of business January 16, 2012.**).

On January 20, 2012, the Market Risk Management Reporting group notified the Operating Committee of the CIO’s ongoing breach of the firmwide 10Q VaR limit. The notification stated: “**The Firm’s 95% 10Q VaR breached its \$125mm [million] limit for the fourth consecutive day on January 19th, 2012, primarily driven by CIO.**”

On January 20, 2012, the CIO Chief Risk Officer, Irvin Goldman, emailed two of his subordinates with this instruction: “This is the **third consecutive breach notice** ... that has gone to Jamie [Dimon] and [Operating Committee] members. We need to get Ina [Drew] specific answers to the cause of the breach, how it will be resolved, and by when.”<sup>983</sup> One of Mr. Goldman’s subordinates, Mr. Stephan – the chief market risk officer in London and designer of the VaR model then in use – responded: “**The VaR increase is driven by Core Credit (tranche)** .... We are in late stages of model approval ... which will have the effect [of] reducing the standalone VaR for Core Credit from circa \$96MM [million] to approx[imately] \$70MM .... My recommendation therefore is that we continue to manage to the current ... limit ... and that we discuss further with the model review group (MRG) today the schedule for completion of approval of the new model with a view toward implementation next week if possible.”<sup>984</sup>

Mr. Goldman conveyed the same argument to his boss, Chief Risk Officer John Hogan: “Two important remedies are being take[n] to reduce VaR .... 1. Position offsets to reduce VaR are happening daily. 2. Most importantly, a new improved VaR model that CIO has been developing is in the near term process of getting approved by MRG and is expected to be implemented by the end of January. The estimated impact of the new VaR model based on Jan 18 data will be a CIO VaR reduction in the tranche book by 44% to [\$]57mm [million], with CIO being well under its overall limits.”<sup>985</sup>

**Senate report Footnote 985** 1/20/2012 email from Irvin Goldman, CIO, to John Hogan, JPMorgan Chase, “CIO VaR,” JPM-CIO-PSI 0000151. [Emphasis in original.] **Mr. Goldman’s prediction of a \$57 million VaR for the SCP was even lower than the \$70 million VaR that had been predicted by Mr. Martin-Artajo and Mr. Stephan.** See 1/12/2012 email from Peter Weiland, CIO, to Javier Martin-Artajo, CIO, “JPMC Firmwide VaR – Daily Updated – COB 1/09/2012,” JPM CIO



[table of key items](#)

*Senate report footnote 1625 (firm credit VAR only reduced by \$30 million while Firm total VAR reduced by \$53 million from a pure ‘credit book’):* 1/28/2012 email from John Hogan, JPMorgan Chase, to Jamie Dimon, JPMorgan Chase, “JPMC Firmwide VaR – Daily Update – COB 01/26/2012,” JPM-CIOPSI- H 0001675 (**“This should be the last day of firmwide VaR breach. A CIO model change is planned to go in this week-end. New VaR methodology approved (and now the same methodology as IB) reduces standalone Credit VaR by approx. \$30 mio.”**); 1/30/2012 email from Market Risk Management – Reporting, JPMorgan Chase, to Jamie Dimon, JPMorgan Chase, Douglas Braunstein, JPMorgan Chase, and others, “JPMC Firmwide VaR – Daily Update – COB 1/27/2012,” JPM-CIO-PSI 0001339 (**“The Firm's 95% 10Q VaR as of cob 01/27/2012 is \$108mm of the \$125mm limit, a decrease of \$53mm from the prior day's revised VaR, driven by CIO (implementation of newly approved VaR model for synthetic credit).”**); 2/2012 “CIO February 2012 Business Review,” JPM-CIO-PSI 0000289, at 290 (“Today’s Attendees, Operating Committee, Jamie Dimon, Doug Braunstein,” and others.).

[table of key items](#)

#### *February RWA and CS01 increases*

*Task Force report:* “In separate e-mails on January 30, the same trader suggested to another (more senior) trader that **CIO should stop increasing “the notionals,” which were “becom[ing] scary,” and take losses (“full pain”) now; he further stated that these increased notionals would expose the Firm to “larger and larger drawdown pressure versus the risk due to notional increases....** By early February, the trader’s concern about the losses – including his lack of understanding as to why they were occurring – prompted him to request a meeting with his managers, including Ms. Drew, in order to discuss the Synthetic Credit Portfolio. He prepared a presentation for the meeting, **which he sent to the more senior trader on February 2. The presentation was provided to Ms. Drew and an executive responsible for the Synthetic Credit Portfolio on February 3.**<sup>44</sup>

<sup>39</sup> **Among other things, there is no evidence that Ms. Drew received the January 26 PowerPoint described in Footnote 38.**

<sup>44</sup> According to a calendar invite sent by Ms. Drew’s executive assistant for a February 3 meeting (likely the meeting in question), **Mr. Wilmot, Mr. Goldman, Mr. Weiland and various members of the Synthetic Credit Portfolio team were invited, among others”**

*Senate report footnote 45:* “ Also on February 3, Mr. Wilmot sent an email to Mr. Braunstein requesting **“approval to raise [CIO’s] 1Q12 RWA by \$7bn to \$167bn.”** Mr. Wilmot explained that it was a **“one quarter request”** and that CIO believed they were “on target to achieve the \$160bn level for 2Q12-4Q12.” Mr. Wilmot wrote that CIO was **“less confident in the RWA reduction from the MTM book, specifically the tranche book** which is where [CIO hoped] to continue to achieve significant reductions throughout the year.””

*Senate report* “On February 9, the CIO’s CSBPV-MTM exceeded \$18.6 million, a breach of greater than 270%.<sup>1120</sup>

Ms. Drew was informed of the CIO Global Spread CSBPV limit breaches in an email from **Mr. Goldman on February 13, 2012.**<sup>1121</sup> In the email Mr. Goldman wrote: **“We will need a**

**one off limit increase.**<sup>1122</sup> Ms. Drew replied later that day: “I have no memory of this limit. In any case it need[s] to be recast with other limits. [It is] old and outdated.”<sup>1123</sup> On **February 15, 2012**, the CIO’s Chief Market Risk Officer, **Mr. Weiland**, discussed the CS01 breaches in an email with the CIO’s Chief Risk Officer in London, **Keith Stephan**. His email was, in part, seeking assistance in drafting language to request an increase in the Global CS01 limit. Mr. Weiland wrote: “Since mid-January CIO has been in breach of its global csbpv limits, **driven primarily by position changes in the tranche book.** The csbpv methodology adds the csbpv sensitivities of all of the credit products, **unadjusted for correlations.** As IG [Investment Grade credit index] and HY [High Yield credit index] positions have been added in January (with a **hedge ratio of roughly 5x**) the net csbpv prints a positive number even though on a beta-adjusted basis the book is relatively flat. Market Risk is currently reviewing all limits and most likely will remove the csbpv limit to be replaced with a set of credit-spread-widening (CSW) limits to better reflect the risk of the portfolio in material market moves. Until the new limits are implemented we will propose a one-off to the csbpv, as we find that the stress and csw measures are more appropriate indicators of the risk of the portfolio.”<sup>1124</sup> At the time of this email, Mr. Weiland was the head of Market Risk management at the CIO. Though he reported to Irvin Goldman, Mr. Goldman had only been Chief Risk Officer at the CIO for a few weeks.<sup>1125</sup> As the CIO’s longstanding risk manager, and as someone who previously had the authority to approve Level 2 limit exceptions,<sup>1126</sup> Mr. Weiland might have been expected to raise concerns about the months-long breaches of the CS01 limits, but instead **his reaction was to criticize the risk metric and recommend another limit increase.**

[table of key items](#)

#### *February 13<sup>th</sup> Zubrow : Volcker comment letter-68 Pages*

*Senate report* “The final point made in the April 13 earnings call by Mr. Braunstein involved the Volcker Rule. Mr. Braunstein stated: “The last comment that I would make is that based on, we believe, the spirit of the legislation as well as our reading of the legislation, and consistent with this long term investment philosophy we have in CIO we believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker.”<sup>1602</sup> **The Volcker Rule, codified at Section 619 of the Dodd-Frank Wall Street Reform** and Consumer Protection Act, is intended to reduce bank risk by prohibiting high-risk proprietary trading activities by federally insured banks, their affiliates, and subsidiaries. At the same time, the Volcker Rule is intended to allow certain bank trading activities to continue, including “risk-mitigating hedging activities,” meaning hedging activities that reduce, rather than increase, a bank’s risk of losses. The basis for Mr. Braunstein’s prediction that the SCP’s trading activities would be found to be “consistent with” the Volcker Rule is unclear. When the Subcommittee asked JPMorgan Chase if it had **any legal opinion examining how the Volcker Rule would affect the bank’s business, including the SCP, it responded that no such analysis had been performed.**<sup>1603</sup> At the time Mr. Braunstein made his statement on April 13, the Volcker Rule’s implementing regulation was still in draft form. Earlier in the year, **on February 2, 2012, representatives of the bank had met with the OCC to voice the bank’s views on the draft regulation.**<sup>1604</sup> According to both the bank and the OCC, at no point did the discussion turn to the Synthetic Credit Portfolio, so the regulators could not have given the bank any guidance on the effect of the Volcker Rule on the SCP during that meeting.<sup>1605</sup> **On February 13, 2012, the bank submitted an official comment letter to the OCC and other bank regulators** criticizing the draft regulation implementing the Volcker Rule and offering recommendations for changes.<sup>1606</sup> Among other criticisms, JPMorgan Chase’s comment letter expressed concern that the Volcker Rule’s proposed regulation might not permit the CIO to continue to manage the Synthetic Credit Portfolio. The comment letter

stated: **“Under the proposed rule, this activity [i.e., credit derivatives] could have been deemed prohibited proprietary trading.”**<sup>1607</sup> This analysis directly contradicts Mr. Braunstein’s statement during the earnings call that the bank had concluded that the SCP would be found to be “consistent with” the Volcker Rule. In addition, when Ina Drew provided briefing materials to Mr. Braunstein the day before the earnings call, she provided no support for the notion that the synthetic credit trades would be permitted under the Volcker Rule. She sent him a “Questions and Answers” document, and with respect to the Volcker rule, wrote: **“[Question:] In your view, could this trading fall afoul of Volcker under a narrow definition (or even a broad one)? [Answer:] As Barry Zubrow pointed out in our comments to the Regulators in February, the language in Volcker is unclear as it pertains to anticipatory hedging needs on the ALM side.”** The condition for the hedging exception appears to have been drafted with trading desks in mind, where both sides of a hedge are marked to market. It is a poor fit with A[sset] L[iability] M[anagement].<sup>1608</sup> Ms. Drew’s analysis, which describes the Volcker Rule’s language as “unclear” and a “poor fit” for the SCP, is also contrary to the positive assessment provided by Mr. Braunstein during the earnings call. Ms. Drew’s suggested “answer” to a Volcker Rule question references the bank’s official comment letter, which was signed by Barry Zubrow. Mr. Zubrow also sent an email to Mr. Braunstein on the day before the earnings call, but suggested a more positive response to a Volcker Rule question than did Ms. Drew. **Mr. Zubrow wrote:** “If asked about London / CIO and Volcker[,], I suggest you add the following thoughts:

- 1.) Activity was NOT short term trading
- 2.) Was part of LONG TERM hedging of the bank[']s portfolio
- 3.) We do not believe that our activity in any way goes against the law as passed by Congress, nor the spirit or proposed rule as written.”<sup>1609</sup>

Mr. Zubrow did not disclose or explain in the email why his view differed from the bank’s official comment letter, which he had signed and which stated that the proposed Volcker Rule “could have [] deemed” the CIO’s credit derivatives trading as prohibited. He nevertheless recommended a positive response, and Mr. Braunstein appears to have followed his advice. Apart from Mr. Zubrow’s email, the Subcommittee was unable to uncover any other evidence to support Mr. Braunstein’s statement. A key, ongoing issue related to the SCP is whether it should be viewed as a risk-reducing hedge or as a high-risk proprietary bet that the Volcker Rule is meant to stop. Investors would likely consider, as one piece of information important in the overall mix, whether the CIO would be permitted under the law to continue operating the SCP as before or whether the SCP would have to be shut down, and a reasonable investor might have been reassured by Mr. Braunstein’s confident statement on this issue. Mr. Braunstein should have known, however, that he could not rely on Mr. Zubrow’s brief, **three-point email which directly contradicted the bank’s 68-page official comment letter that had been vetted by the bank’s counsel and other senior officials.** Mr. Zubrow’s email apparently had no other support in any bank legal analysis or regulatory communication. Mr. Braunstein’s optimistic assessment during the April 13 earnings call may have reassured investors, but that is no justification for misinforming the public about the bank’s official position that the Volcker Rule might prohibit the SCP as an example of high-risk proprietary trading.

[table of key items](#)

#### *Senate report Footnote 1606*

2/13/2012 letter from JPMorgan Chase, to Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Securities and Exchange Commission, and Office of the Comptroller of the Currency, “Comment Letter on the Notice of Proposed Rulemaking Implementing Section 619 of

the Dodd-Frank Wall Street Reform and Consumer Protection Act,” JPM-CIO-PSI 0013270.

*Senate report Footnote 1607*

Id. at JPM-CIO-PSI 0013326 (indicating that “the use of credit derivatives,” that is, the Synthetic Credit Portfolio, was among the bank’s **“ALM activities that were crucial during the financial crisis [that] would have been endangered by the proposed rule.”**).

1608 4/12/2012 email from Ina Drew, CIO, to Jamie Dimon, JPMorgan Chase, Douglas Braunstein, JPMorgan Chase, and others, “Synthetic Credit Materials,” JPM-CIO-PSI 0001100, at 104 (emphasis in original).

*Senate report Footnote 1609*

4/12/2012 email from Barry Zubrow, JPMorgan Chase, to Douglas Braunstein, JPMorgan Chase, Jamie Dimon, JPMorgan Chase, and others, **“If asked about London / CIO and Volcker,”** JPM-CIO-PSI-H 0002418.

[table of key items](#)

**John Bellando P&L reports**

*Senate report:* “On the April 13, 2012 earnings call, Mr. Braunstein also said the following with respect to the CIO’s Synthetic Credit Portfolio: **“And I would add that all those positions are fully transparent to the regulators. They review them, have access to them at any point in time, get the information on those positions on a regular and recurring basis as part of our normalized reporting.”**<sup>1517</sup> This statement by Mr. Braunstein had no basis in fact. The bank never provided the OCC with “a regular and recurring” report on the Synthetic Credit Portfolio trading positions. In fact, **it was not until a month later, on May 17, 2012, that in response to an OCC special request, the bank provided the agency for the first time with specific SCP position level data.**<sup>1518</sup> Contrary to Mr. Braunstein’s representation, the bank was not “fully transparent” with its regulators regarding the SCP.

On April 13, 2012, after the London whale trades appeared in the press, the OCC requested copies of the missing VCG reports, which were provided on the same day.<sup>1304</sup> basic reports on a timely basis, and how the **OCC could have failed to notice, for two months**, that the reports had not arrived. Moreover, when the March VCG report was later revised to increase the **SCP liquidity reserve by roughly fivefold, that revised report was not provided to the OCC until May 17.**<sup>1305</sup>

*Senate report Footnote 1304* 4/13/2012 email from **John Bellando**, JPMorgan Chase, to James Hohl, OCC, **“CIO January 2012 valuation memo and metri[c]s,”** OCC-00004735.

*US senate Report .....* “The OCC told the Subcommittee that it approached JPMorgan Chase’s Chief Financial Officer, Douglas Braunstein, as well as the bank’s Corporate Treasury division about the lack of sufficient information in the **EMR. 1296** The OCC explained that it was concerned because “less information mean[t] less questions” that regulators could pose.<sup>1297</sup> Then, **in January 2012, the OCC noted that the usual monthly Treasury EMR did not include any section on the CIO**, as it had in the past. The OCC said it later learned

that, without any notice to the agency, the CIO had begun issuing its own Executive Management Report (EMR).<sup>1298</sup> The OCC said that the **CIO did not provide the OCC with copies of the CIO's new EMR in January, February, March, or April**, the same four-month period during which the SCP losses exploded.<sup>1299</sup> When the OCC finally learned of and requested a copy of the CIO's monthly EMR report in April, after the London whale stories appeared in the press,<sup>1300</sup> it promptly received a copy.<sup>1301</sup> It is difficult to understand how the bank could have failed to provide, and the OCC failed to request, basic CIO performance data for a four month period. **A second type of report** that the bank routinely provided to the OCC was the CIO's Valuation Control Group (**VCG**) **reports**, which were **monthly reports containing verified valuations** of its portfolio assets. The OCC used these reports to track the performance of the CIO investment portfolios. **But in 2012, the OCC told the Subcommittee that the CIO VCG reports for February and March failed to arrive.**<sup>1302</sup> These are the same months during which it was later discovered that the CIO had mismarked the SCP book to hide the extent of its losses.<sup>1303</sup> On April 13, 2012, after the London whale trades appeared in the press, **the OCC requested copies of the missing VCG reports, which were provided on the same day.**<sup>1304</sup> **Again, it is difficult to understand how the bank could have failed to provide those basic reports on a timely basis, and how the OCC could have failed to notice,** for two months, that the reports had not arrived. Moreover, **when the March VCG report was later revised to increase the SCP liquidity reserve by roughly fivefold, that revised report was not provided to the OCC until May 17.**“

[table of key items](#)

## • ‘Share Buyback plan and RWA’

### *SEC law*

*Senate report: The Us Senate Report points to an SEC legislation that probably sparked the ‘london whale’ fraud at JD level:* “To ensure fair, open and efficient markets for investors, federal securities laws impose specific disclosure obligations on market participants. Under Securities and Exchange Commission Rule 10b-5<sup>1475</sup> and Section 17(a) of the Securities Act of 1933,<sup>1476</sup> it is against the law for issuers of securities to make untrue statements or omissions of material facts in connection with the sale or purchase of securities.

**Footnote 1475** SEC Rule 10b-5 makes it unlawful to “**make any untrue statement of a material fact** or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.” 17 **CFR Section 240.10b-5(b) (2011)**, adopted by the SEC pursuant to Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”), **15 U.S.C § 78(j)(b) (2006)**.

*Senate report footnote 1651* See, e.g., Subcommittee interview of **Michael Cavanagh**, JPMorgan Chase (12/12/2012); 2013 JPMorgan Chase Task Force Report, at 5, 65 n.79, 68, 71, & 89. Some bank representatives also explained that the bank was sensitive to providing position information that could be used against it in the marketplace, but that reasoning offers **no defense to volunteering misleading information to investors. “Rule 10b-5(b) do[es] not create an affirmative duty to disclose any and all material information. Disclosure is required under th[is] provision only when necessary ‘to make ...statements made, in light of the circumstances under which they were made, not misleading ....** Even with respect to information that a reasonable investor might consider material, companies can control what they have to disclose under these provisions by controlling what they say to the market.” Matrixx Initiatives, Inc. v. Siracusano, 131 S. Ct. 1309, 1321-21 (2011).



[table of key items](#)

**Article from 22 July 2002 by Shawn Tully: "The Jamie Dimon Show He's tough. He's loud. He's irrepressible. He's above reproach. And he's just what Bank One needed.**

...( about Dimon and Weill) So the duo kept a close eye on the balance sheet and relentlessly pared costs. As a result their stock price, even in bad times, performed far better than their rivals'. That gave them a strong currency with which to acquire targets, typically at the bottom of the market. They loved buying companies in distress. **"Jamie never believed in paying big premiums in a hot market,"** says **Steve Black**, a Travelers veteran who is now chief of equities at J.P. Morgan Chase. **"For Jamie, that meant you weren't in control, that you had to do a deal."**

**Article on <http://ww2.cfo.com/risk-compliance/2006/03/goodwill-games-at-enron/>: »**

**"This stuff is not elective,"** testifies a former auditor for **Arthur Andersen**. **"If there's an impairment, there's an impairment. It has to be recorded."**

Jurors at the trial of Kenneth Lay and Jeffrey Skilling finally heard from witnesses who served at Arthur Andersen, the former Big Five accounting firm that Enron took down with it.

John Sult, who oversaw Andersen's audit of Wessex Water, testified that Lay misled investors about the health of the water-distribution unit when Enron was trying to avoid a goodwill write-down and credit-rating downgrade, according to *The Wall Street Journal*.

In the fall of 2001, the newspaper continued, Lay reportedly told investors that "our outside auditors have reviewed Wessex and have, in fact, determined that there is no impairment required." According to the *Houston Chronicle*, Sult testified that at the time, his review was still under way, so Lay's statement was false."

**SEC complaint filing against Enron top chiefs: "**

**"Others assisted in various aspects of the scheme to defraud, including Merrill Lynch and certain of its employees (SEC v. Merrill Lynch, et al., HO-03-0946), J.P. Morgan Chase & Co. (SEC v. J.P. Morgan Chase & Co., H-03-2877), Canadian Imperial Bank of Commerce and certain of its employees (SEC v. CIBC, et al., H-03-5785); and Citigroup (In the Matter of Citigroup, Inc., SEC Administrative Proceeding, File No. 3-11192)."**

[table of key items](#)

**JPM-BankOne Merger slides of the time in 2004:**

**Page 23: Shareholder equity line:** \$45 Bln for JPM, \$22 Bln (vs \$58bln purchase price or **\$36 Bln added goodwill**), total for a group total market value now at \$67+\$36=\$103 Bln

**Page 20 upon costs & share repurchase:** \$2,2 bln cost savings, \$3 Bln merger costs, \$3.5 billion spent for share purchases, phase-in achieved by 2007,

**Page 17 on excess capital generation....\$15 bln generated by 2007**

[table of key items](#)

### ***Footnotes on share buyback***

**Senate report footnote 380:** “ Subcommittee interviews of Jamie Dimon, JPMorgan Chase (9/19/2012), Ina Drew, CIO (9/7/2012) and Douglas Braunstein (9/12/2012). At the time, JPMorgan Chase had recently engaged in stock buybacks totaling \$9 billion, and had received permission from its regulators to buy back another \$15 billion in 2012 and 2013. See letter from Jamie Dimon to JPMorgan Chase shareholders, 2011 JPMorgan Chase annual report, at 3. **To carry out this buyback program, the bank may have wanted to further reduce the bank’s RWA to minimize its mandatory capital requirements.**”

### ***Barclays conference slides presented by Jamie Dimon in september 2010 and sent to the SEC:***

- *Page 6 to 9, Jamie Dimon describes the expected ‘synergies’ that can be built around the “IB”, with its ‘market leading franchises’, especially for the Global Corporate Bank, that CIO is part of:*

### **Significant competitive advantage created and benefit to franchise value from cross-sell collaboration**

Integrated IB/TSS/AM offering provided through IB Bankers :

- \_ Corporate Finance
- \_ FX/Derivatives
- \_ Treasury Services and Liquidity »

Dimon states “**JPM has built outstanding underwriting and advisory franchises in the last 10 years**”.

- *Page 17, Jamie Dimon lists the triptic « **Capital, Liquidity, Basel III**” along with Volcker Rule, points at ‘market activity’, and indicates ‘portfolio run off’ next to ‘revenue growth opportunities’. This completely frames the ‘RWA reduction- forward spread investment trade- anticipatory hedging’ strategy ordered by Ina Drew in 2011.*

... Issues arising with the recent regulation, (Dodd-Frank laws, Basel III etc). He separates the ‘issues that we will review’, listing first the ‘regulatory concerns’, next the ‘market impact’, and finally ‘other’ consequences.

- **Capital, Liquidity, Basel III**
  1. Trust preferred securities (TRUPS)
  2. Dividend, stock buyback
- **Basel III**
- **Derivatives**
- **Volcker rule**
- **Fair value accounting**
- **Enhanced regulatory oversight including Fed, FSA, BCFP, etc.**
- **Low interest rate environment**

Now the ‘other’ consequences of Jamie Dimon:

- **Revenue growth opportunities**
  - **Portfolio run-off**
  - International expansion
  - Global convergence
- *Page 23, Jamie Dimon points specifically to the impact of regulatory reforms upon ‘derivatives’. The 2 main topics are: global clearing like ICE, and ‘moving to non*

*bank subsidiary' like hedge funds. He specifically points at 'CDS in HY and certain IG'.*

### Regulatory reform impact – Derivatives

#### **Clearing and Swap Execution Facility (SEF)**

- \_ Always supported moving standardized and liquid swaps to clearinghouses
- \_ Revenue impact of \$1B+/-, potentially positive offsets
- \_ **May create significant liquidity and margin requirements for clients**
- \_ Overall capital impact on dealers is unclear, but likely positive
- \_ Do not expect spread to change materially on liquid products
- \_ Critical that central clearinghouses are properly managed

#### **Conduct certain activities in a non-bank subsidiary**

- \_ Majority of derivatives – **except** commodities (other than metals), equity, and **high yield and certain investment grade CDS** – are not required to be moved
- \_ **Possible capital requirements of \$6B+/-, not incremental to the Firm**
- \_ Final operational and legal structure has yet to be decided

- *Page 31, Jamie Dimon displays the Basel III RWA impact for JPM. On the right hand side block the CEO details the components and part of his plan as early as Q1 2011....He points at a '50/50 deduction at 1250%' that creates an RWA major increase under Basel III. In order to remedy this, 60% of his plan is based on 'CIO vs CIB 50/50 deduction' positioning both at 'market risk' and on 'securitization': 'Market risk – reduce IB & CIO positions' and RWA on 50/50 deductions; reduce IB/CIO securitization (-\$70B) exposure...*

#### **Adjustments to RWA from 2Q10 Basel I to 4Q11 Basel III (+\$400B):**

- \_ Market risk impact (+\$180B)
- \_ **Risk weight 50/50 deductions at 1250% (+\$140B)**
- \_ CVA (+\$60B)
- \_ Other (+\$30B)

#### **Known actions by 4Q11 to reduce Basel III RWA (-\$180B):**

- \_ **Market risk – reduce IB & CIO positions (-\$50B)**
- \_ CVA – reduction/ hedging of derivative positions (-\$20B)
- \_ **RWA on 50/50 deductions; reduce IB/CIO securitization (-\$70B) exposure**

*Page 34, Jamie Dimon points to the 'business evolution' in relation to 'Liquidity Coverage Ratio'. He points to the completion, expected 'by end of 2011'*

### Potential levers to meet proposed Basel III LCR requirements

Known actions:

- \_ **Reduction in size of IB (~\$8B) & CIO portfolios (~\$2B) – estimated notional impact by end of 2011**
- \_ RFS loan run-off (~\$80B) & reduction in size of PE (~\$2B) – estimated notional impact by end of 2013

[table of key items](#)

**Article on Share Buyback: Forbes, 13<sup>th</sup> December 2010: “ JP Morgan’s huge stock buyback has already quietly begun**

In recent days Mr Dimon has signaled that he is getting ready to launch his own massive stock buyback program early next year.....A single line buried in JPMorgan’s thirds quarter financial statements shows that in the third quarter of 2010, JpMorgan spent \$2.2 billion buying back 57 million of its own shares....The recent stock repurchase was a big change for Dimon’s bank...JPMorgan, like other banks, has been restricted to return cash to shareholders amid the financial crisis...JpMorgan’s Board had already authorized up to \$10 billion, and JpMorgan’s statements say that as of September 30<sup>th</sup> 2010, \$3.9 billion of repurchase remained, giving Dimon plenty of firepower for the last 3 months of 2010....JPMorgan’s management ‘seems very eager to aggressively buy back stock at current levels’ O’Connor (*Deutsche bank financial analyst*) recently wrote in a research note...Big companies ranging from Wall Mart to Cisco Systems are repurchasing huge amounts of stocks, **sometimes borrowing funds, a tactic that has been made attractive by low interest rates....they have no better option for the cash accumulating on their balance sheet**...For Dimon, a big stock buyback push seems like a good way to nudge his company’s share up in the short term. JPMorgan’s stock has gone nowhere in 2010.... ”

**Senate report footnote 318 :**” Testimony of Jamie Dimon, “A Breakdown in Risk Management: What Went Wrong at JPMorgan Chase?” before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, S.Hrg. 112-715 (June 13, 2012)(“In December 2011, as part of a firm wide effort and in anticipation of new Basel Capital requirements, **we instructed CIO to reduce risk weighted assets and associated risk.**”); 2013 JPMorgan Chase Task Force Report, at 2”

**Senate report page 61 :** “Mr. Goldman also told the Subcommittee that, in December 2011, a decision was made to stop using the SCP as a hedge,<sup>386</sup> which made its credit loss protection characteristics irrelevant to the decision to reduce its RWA.”

**Senate report page 92:** “ At a later Senate hearing, Mr. Dimon explained what they found as follows: <sup>592</sup>“In December 2011, as part of a firm wide effort and in anticipation of new Basel Capital requirements, we instructed CIO to reduce risk weighted assets and associated risk. To achieve this in the Synthetic Credit Portfolio, the CIO could have simply reduced its existing positions. Instead, starting in mid-January, it embarked on a complex strategy that entailed [m]any positions that it did believe offset the existing ones. This strategy, however, ended up creating a portfolio that was larger and ultimately resulted in even more complex and hard to manage risks. ... CIO’s strategy for reducing the Synthetic Credit Portfolio was poorly conceived and vetted.”<sup>587</sup>

[table of key items](#)

**Senate report first batch of exhibits disclosed in March 2013, exhibit 46:** “---Original Message---From: Drew, Ina

Sent: 22 December 2011 00:55

To: Martin-Artajo, Javier X; **macris@** •••••

Cc; Wilmot, John

Subject: Rwa

We are running an additional rwa reduction scenario. Can u send John and I a scenario whereby the tranche book and other trading assets are reduced by an incremental 15 billion the **first quarter? Not a stress scenario, so assuming normal** (whatever that is now - not

year end liquidity. PIs list by trading strategy, ie: credit tranche, other trading positions, vvith cost estimate- **(background: trying to work with ccar submission for firm that is acceptable for an increased buyback plan)**, Need in early ny morning –“  
[table of key items](#)

- **‘markets are notoriously illiquid’**

**February 2016 letter:** “The financial crisis of 2008 was fuelled in particular by the complex risks conveyed by credit indices and tranches. Those markets were opaque and lacked oversight: the execution cost suddenly exploded for all participants in late 2007 and triggered historical bankruptcies among financial institutions on the follow. The US Dodd-frank laws, new accounting rules and new financial reporting standards (Basel rules) were published in 2009 as a result. They focused on liquidity issues and the ‘basis risk’ in particular which was also called the ‘skew risk’. The reforms required much more transparency for market players, much more capital to devote to those instruments, and gave much more power for regulators to scrutinize businesses like the CIO or the Investment banks. The critical mutation of the book started in the first months of 2011.”

### *References to last crisis....*

**Senate report:** “Over time, the Basel Committee has issued four sets of capital standards. Basel I, issued in 1988, provided the first international capital standards; Basel II, issued in 1999, revised the first Accord, and was finalized in 2004; **Basel 2.5, issued in 2009**, strengthened capital standards related to securitizations and trading book exposures **in response to the financial crisis**; and **Basel III, issued in 2010**, provided a broader set of reforms.<sup>109</sup> Basel III **increased minimum capital requirements** and introduced a new set of bank **liquidity standards** to “improve the banking sector's ability to absorb shocks arising from financial and economic stress, ... improve risk management and governance, [and] strengthen banks' transparency and disclosures.”<sup>110</sup> Among other provisions, Basel III increased the minimum amount of capital that had to be **raised from common equity**.<sup>111</sup> To determine the amount of capital required at a particular bank, the Basel Accords recommend, and U.S. bank regulators require, calculation of the bank's “Risk Weighted Assets.”<sup>112</sup>

[table of key items](#)

**PWC Financial Institute (paper published in October 2010, page 34-36: The New Basel III Framework: Navigating Changes in Bank Capital Management).** “

**In July 2009 the Basel Committee on Banking Supervision approved a final package of measures to strengthen the 1996 rules governing trading book capital....”**

Trading book rules introduce higher capital requirements to capture the credit risk of complex trading activities and include a stressed value-at-risk (SVaR) requirement, which the Committee believes will help dampen the cyclicity of the minimum regulatory capital



framework and promote a more forward-looking approach to provisioning... A new incremental risk charge (**IRC**) for **credit trading book positions is introduced, excluding securitizations**. This charge has been introduced to **account for liquidity risk** and credit migration risk, neither of which was previously incorporated in the value-at-risk calculation used to measure trading book market risk. The proposal also **tries to reduce incentives for capital arbitrage between trading and banking books**. Securitization amendments align the capital charges for securitized assets held in a bank's trading portfolio with the capital charges currently levied on securitized assets manufactured/underwritten by the bank. **Under the prior regime, securitized assets held for trading purposes were treated less onerously. The new risk framework establishes specific capital requirements and guidelines related to trading positions that utilize correlation strategies.**

**Correlation Trading** Specifically, correlation trading is a structured credit trading strategy wherein banks acting in a market-making capacity buy or sell credit protection to clients based on specific tranches of credit portfolios of indices. As evidenced during the credit crisis, changes in correlations between different securities **can be quite volatile, particularly when hedging strategies used proxy indexes that do not match perfectly underlying exposures**. In conjunction with other complexities associated with these strategies (e.g., default correlations), standard VaR-based measures of market risk do not fully capture the risks. **Banks will have to adapt their VaR models to ensure proper stress scenarios are considered**

[table of key items](#)

*February 2016 FCA Final notice for Achilles Macris page 11:* “

As Mr Macris knew, **during 2010 and 2011 the number of participants in the synthetic credit market had been shrinking and investment banks that had provided liquidity had started to cease or reduce their activity.**

[table of key items](#)

*Senate report Footnote 1214* See 12/31/2010 OCC Report of Examination, OCC-SPI-00036145, at 6163 [Sealed Exhibit] (“As part of its business mandate, the CIO is allowed to take discretionary positions within approved limits to **manage economic returns**. **Appropriate limits are used to measure and control the risks in MTM positions.**”).

*Senate report footnote 111* :Internal Audit's report dated March 30, 2012, which **examined CIO EMEA Credit's control structure as of year-end 2011**, stated that “CIO is currently undertaking a comprehensive review of the risk measurement limits framework across all asset classes to assess potentially required enhancements including whether additional risk factors are required for inclusion.” As a result, although Internal Audit noted that **CIO did not “explicitly measure the portfolio sensitivity to certain potentially applicable risk measures such as bond/CDS basis, index basis** and prepayment risk,” a detailed assessment was not performed of the market risk limits as part of this audit and the existing limits were not identified as significantly outdated

[table of key items](#)

*Senate report:* “On April 13, 2012, **Mr. Hogan emailed Mr. Dimon that concentration limits** similar to those at the Investment Bank would be implemented at the CIO within a matter of weeks: “I spoke with Ashley [Bacon] this morning who is working with Achilles [Macris] to implement a similar limit/governance **structure on this book to the one that we have in the IB [Investment Bank]** – we will do this for all of CIO over coming weeks and I will keep you posted on that.”<sup>1184</sup> **Concentration limits are such a well-known, fundamental risk tool, that their absence at the CIO is one more inexplicable risk failure.**”

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, JPMorgan internal audit report redacted in December 2011: “*

**CIO Credit-Market Risk and Valuation Practices** issued March 2012 rated **Needs Improvement** identified the following issues:

- **CIO valuation practices** where a number of risk & valuation models have not been reviewed by Model Review Group and included the absence of a formally applied price sourcing hierarchy, **insufficient consideration of potentially applicable fair value adjustments (e.g, concentration reserves for significant credit indices positions) and the lack of formally documented/consistently applied price testing thresholds,**
- **Stress testing** where There is no documented methodology to outline key testing components (e.g computational method and shock factors used) or assess limitations such as off-line risk measurement, **missing risk factor and curves,**
- **The SAA book; (\$140bln Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework and relevant SAA stress testing results are not measured against corresponding limits.**
- **EMEA CIO is currently using unapproved models in the calculation of risk (including VaR) and associated risks; measurement methodologies have not been appropriately documented and/or catalogued.**
- **The control process around the off-line VaR calculation needs to be enhanced to ensure completeness and accuracy of Credit trade data used in the offline calculation of VaR**

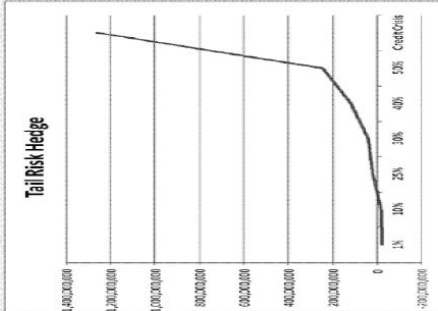
[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, CIO Business review presented to Dimon, Hogan, Braunstein on 29<sup>th</sup> February 2012: see last sentence on the slide below....*

## CIO International Core Credit: Tail Risk Book

### Currently the Core Credit Book is:

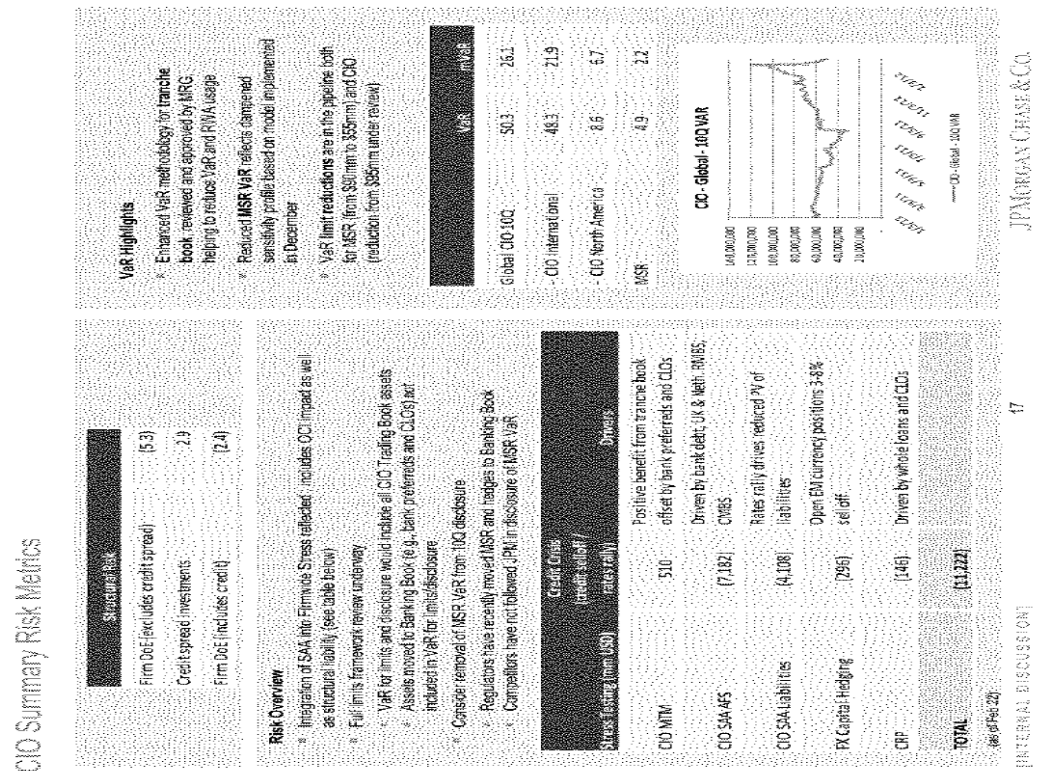
1. An option with positive convexity, positive carry and upside on large spread widening and default waves (similar to 2008-2009)
2. Current Position:
  - I. US mortgage-related issuers (Radian, MGIC, ILFC, RESCAP, ALLY) may file as the US Government and banks are looking for a settlement on past underwriting practices
  - II. Europe countries including Greece and Portugal may opt to restructure some national champions like banks or telecom operators. These events could generate US\$200mm-500mm P&L gains



### Capital

- This is a Tail Risk Book that had under Basel I an RWA cost of US\$5bn and from 2007-2011 has generated US\$2.4bn total return
- Under Basel 2.5, Risk Weighted Assets are estimated to increase 5-8x (methodology still in development); this would increase the RWA of the core credit book to US\$36bn however, CIO is currently working to reduce this to US\$20bn for year end 2012
- Despite effectiveness of the Tail Risk Book hedging credit portfolio, the change in regulatory capital regime is likely to force a re-size / run-off of synthetic portfolio in order to maintain RWA targets for the Firm
- CIO continues to coordinate with IB Risk to improve the applicable RWA and capital levels

*In relation to stress tests of CIO for the AFS books that are NOT integrated into the totals for the firm, as per the internal audit report, please have a look at the at the box gathering the ‘credit crisis’ simulations. Please see that the SCB is mixed with a huge book of CLO tranches...*



[table of key items](#)

## The key dates

- **November 2011: ‘credit Hybrids’ at the IB closed its tranche market making activity**

**Summer 2011, Peter Weiland starts an overdue review of CIO limits, including ‘Numerix’, ‘SNPR’ and a VAR model change at CIO**

*Task Force report Appendix A on Var model change: “*

Early in the development process, CIO considered and rejected a proposal to adopt the VaR model used by the Investment Bank’s credit hybrids business for the Synthetic Credit Portfolio. Because the Investment Bank traded many bespoke (*i.e.*, customized), illiquid CDS, its VaR model mapped individual instruments to a combination of indices and single name proxies, which CIO Market Risk viewed as less accurate for CIO’s purposes than mapping to the index as a whole. He believed that, because the **Synthetic Credit Portfolio**, unlike the Investment Bank, traded indices and index tranches, the



**Investment Bank's approach was not appropriate for CIO.** The Model Review Group agreed and, in an early draft of its approval of the model, described CIO's model as "superior" to that used by the Investment Bank "in that it [was] a full revaluation approach." From **September to November 2011**, the modeler corresponded regularly with the relevant individuals from the Model Review Group, and on **November 25, 2011**, he submitted his new methodology (known internally as the "full revaluation" or "Basel II.5 model") for formal approval. The **Model Review Group performed only limited back-testing** of the model, comparing the VaR under the new model computed using historical data to the daily profit-and loss over a **subset of trading days during a two-month period**. The modeler informed the Model Review Group that CIO lacked the data necessary for more extensive back-testing of the model (running the comparison required position data for the 264 previous trading days, meaning that a **back-test for September 2011 would require position data from September 2010**)."

[table of key items](#)

***February 2016 Letter:*** "Beginning in December 2011, the market making desk on 'tranches' of the JPM Investment Bank had just closed its activities (commonly named 'credit hybrids' at JPM). I was instructed to try collapse the CIO tranche positions with the Investment Bank (IB) but the IB market makers declined my invitations to enter in negotiations. The tranche market offered almost no liquidity after that. I raised alarms verbally to my management, including Mrs Drew and Mr John Wilmot between the 9<sup>th</sup> and the 15<sup>th</sup> December, about the potential for large losses induced by future unwind costs."

***Senate report second batch of exhibits disclosed in November 2013: March 30<sup>th</sup> 2012 call between Javier Martin Artajo and Irv Goldman at Ina Drew's request: - pages 1483 to 1488: "Javier Martin-Artajo speaks to Irv Goldman....***

Since we have two to three trades that we are here and are checking right, I don't want Bruno to trade; he needs to trade a very small amount just to get the mark, **that's me**, but I don't want to really do much and I want to delay that as much as possible, right....

*(Olivier Vigneron was co-Head of Credit Hybrids in 2011 and moved to QR in early 2012 as his business had closed)*

**Olivier** is going to work exclusively for us for three months, right. He is going to sit on the desk and coordinate all of the things I am trying to do with me, you, Keith, and \_\_\_\_ . I think he is going to do that, think that is great, have someone to look in depth in the book, that **has enough experience to do that, he has done that himself**. I think this is good news. I think **John Hogan spoke with Ina and maybe Achilles**,.... I am sorry I created this headache for all you guys. I did not expect it to be this way....

So, I have very bad news on the synthetic book and good news on the rest of the portfolio, which is incredible to see how much the view that we had, the very strong view that **we had since the end of November** in terms of the solution of the ITRO the loading up in the book. Obviously **Ina helped us with this, obviously. She gave us the blessing to buy as much as we could**. But, I think it is more than we thought this effect, the portfolio, I think we need to...

Could have a very bad number, could have 150. **Because I am not going to defend it. I am not going to fight in the street and increase a position create a problem that we created**



**last quarter. I'll explain that on Tuesday. We should have stopped doing this three months ago and just rebalanced the book....**

It is just that I wanted her to know from me that the tension I had from **trying to coordinate with QR, trying to coordinate with the IB**, trying to coordinate and make sure that I communicate this to all of you guys, making sure my team doesn't melt down because they are used to winning so they are ... **It** has been a **very, very tough two weeks**. It has made us stronger. As usual, these things make you stronger, makes you more of a team. We're asking for a lot of help from you guys, we thank everyone that is helping here. **Trying to take securities gains**. I think we are a team. Maybe this helps **improve our transoceanic relationship**. I guess maybe this helps.

[table of key items](#)

*Back to early November 2011.....*

**Some new rulemakings altered somehow the existing projected plans for 2012 in the course of November 2011**

*Senate report second batch of exhibits disclosed in November 2013: on the Q4 2011 CA quarterly summary for CIO -page 2142: “*

EMEA: Audit Continued to hold periodic meetings -with key stakeholders in CIO. The Q3 2011 BCC was held in **early November 2011**. CIO Continues to manage the investment portfolio in line with interest rate risk sensitivities transfer priced by Treasury and market opportunity. **Going into the new year, the plan is to expand the derivatives trading book to nominal of at least \$47billion by the end of January 2011**

*Senate report second batch of exhibits disclosed in November 2013: on the February 13<sup>th</sup> 68 pages letter from Barry Zubrow to regulators*

*-page 1661: “*

JPMorgan Chase & Co. appreciates the opportunity to comment on the joint notice of proposed rulemaking issued by your agencies to implement section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act also known as the **Volcker Rule**.

**Footnote 1 76 Fed. Reg.. 68846 (November 7, 2011). »**

*-page 1688: “*

As the agencies are aware, banking entities routinely **stress test** their balance sheets against such outlying scenarios and many banking entities are currently engaged in stress tests concerning macroeconomic and financial market scenarios mandated by the Federal Reserve to ensure that institutions have robust, forward-looking capital planning processes.<sup>24</sup>

**Footnote 24 See Reserve press release November 22, 2011”**

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013: on the Q1 2012 CA quarterly summary for CIO --page 2157*

APPIA ABS/CLO Migration

In January 2012, the CIO's international credit portfolio of Asset Backed Securities (ASS) and Collateralized Loan Obligations (CLO) was successfully **migrated from IB owned**

**applications** (Concorde and ISIS) to the APPIA platform. Approximately 1,800 trades with \$101.9 bln original notional were migrated in total. **In November and December 2011 an initial migration** of 38 ABS and CLO positions was performed to assess readiness for the full migration in January and **CIO Finance monitored the trades as part of BAU month-end and year-end processes**. Audit performed a detailed review of the various aspects of this migration and issued a Satisfactory audit report in March, ...,with no reportable issues noted

[table of key items](#)

**2012 VAR new model, RWA, 'credit Hybrids', Skew and CIO.....**

*Senate report first batch of exhibits disclosed in march 2013, on the new VAR model for CIO: the QR expert has recommendations related to indices and skew-page 278: “*

From: Rajesh, Govindan X

Sent: **Friday, January 27, 2012 9:38 AM**

To: Stephan, Keith; Pirjol, Dan

Cc: Weiland, Peter; Hagan, Patrick S; Martin-Artajo, Javier X; Shen, Charles; Bangia, Anil K; Christory, Jean-Francois A; Scott, Brian GO

Subject: RE: draft of the **MRG review of the HVAR** methodology for the CIO core credit books

Thanks Keith. The last 3 were actually **recommendations**, not action plans, but it is good to have committed timelines on them.

Regarding the second AP, could you confirm that **for illiquid series with material exposures, you will use the Credit Hybrids risk mapping tool to map them to the on-the-runs.**

.....

Where exposures to illiquid instruments exceed agreed thresholds, instruments will be mapped to 'on-the-run (correlation) series' instruments' time-series (currently ITX.MN 59, CDX.IG S9, and CDX.HY 59) **consistent with** market convention, and the **IB Credit Hybrids business**

.....

**ACTION PLAN:** CIO should re-examine the data quality and explore alternative data sources. For days with **large discrepancies between dealer marks and IB marks**, the integrity of the data used for HVAR calculation should be verified. The MRM coverage team, and QR resources will compare market data time-series history vs. **DataQuery, and dealer-marks**. This process has been conducted previously, and will be re-visited to ensure the integrity of time-series. **Given illiquidity of certain instrumentation, and especially in cases where CIO maintains positions in instruments where IB Credit Hybrids may not, we have found irregular patterns in DataQuery data, and amended our market data / time-series** to reflect Dealer mid marks. An action plan to perform periodic review of time-series vs. DataQuery and dealer-marks has been agreed, to ensure on-going continuity of time-series history.

....

**ACTION PLAN:** For the purpose of **capital calculation at firm-wide level**, the CIO risk measures including VaR will have to be aggregated with the risk metrics of the IB portfolio. For consistency the VaR methodologies used by the two groups must be

reasonably similar. We recommend that CIO investigates using **absolute daily changes for the base correlations, similar to the methodology adopted in IB.**

The MRM coverage team, and QR resources will compare the current relative shifts in base correlation vs. the absolute shifts. This is a medium-term action plan target, and given estimated work-load may require a number weeks to complete. An action plan to review the results will be **agreed between MRM coverage, QR resources and Front Office**. The findings of that study will be published to Model Review Group, and will form the basis of further discussion, related to course of action, practicability, and **reasonableness of a move toward absolute base correlation shifts**. If it is determined at the conclusion of the study, that a **move to absolute correlation shifts is required**, a further action plan will be established to commence the project to make this variation in computation and market data-collection.

[table of key items](#)

### **Olivier Vigneron comes into play**

**Senate report page 92: “After the whale trades became public knowledge, JPMorgan Chase ordered a team of derivatives experts from the bank’s Investment Bank to analyze the CIO’s Synthetic Credit Portfolio.”<sup>591</sup>**

**Footnote 591** On April 27, 2012, Chief Risk Officer John Hogan sent his Deputy Risk Officer Ashley Bacon to London, along with Rob O’Rahilly from the Investment Bank, and **Olivier Vigneron, London Head of Model Risk and Development**, to analyze every position in the SCP.

### **Senate report’s own version on the actual arrival date of Olivier Vigneron on page 86**

“On March 22, 2012, the SCP breached a key risk limit known as “CSW10.”<sup>558</sup> Two other risk limits, VaR and CS01, had been breached earlier in the year, but Ms. Drew told the Subcommittee that she considered the **CSW10** to be the “overriding” limit.<sup>559</sup> About a week later, on March 30, 2012, Achilles Macris sent an email to the bank’s Chief Risk Officer John Hogan **stating that he had “lost confidence” in his team** and requesting “help with the synthetic credit book.”<sup>560</sup>

### **Real circumstance of the arrival of Olivier Vigneron at CIO as per the 30<sup>th</sup> March Senate report first batch of exhibits disclosed in March 2013- page 307:**

**First Achilles Macris spots ‘only one move to make for Q2’ in a ‘crisis mode’ for CIO**

**From:** macris@

**Sent:** 30 March 2012 10:38

**To:** Martin-Artajo, Javier X; Stephan, Keith , ,Brown, Anthony, Polychronopoulos, George H; Uzuner, Tolga : Enfield, Keith 'Chris'; Weiland, Peter

**Subject:** synthetic credit -- crisis action plan

Hi guys,

**On Tuesday we will be presenting the final action plan for the book for Q2.** As we already had several meetings on this, we must get it right this time, otherwise we could lose our collective credibility. **Due to the size of the book, we only have "one move"** to achieve our dual objective of stabilizing the risk and P+L of the book, while achieving our targeted RWA objectives for the end of 02. We must insure that we don't overtrade, or alter the risk profile to an uncertain RWA result. Therefore, the objective is to determine what is the best course of action to insure that the book is and remains balanced in risk and P+L terms.

Additionally, we must "price" the best economic solution in terms of average and final 02 RWA. Regarding RWA targeting, I will be asking Ashley for help. Hopefully, **Olivier will be made available** to exclusively focus on the CIO RWA targeting for Q2. **Clearly, we are in a crisis mode on this**. The crisis team is to have short daily meetings and your daily update and progress report needs to be commercial and forward looking to mark to implementation of the stated objectives. We will be discussing the **suspension of our investment programs** as well as potential OCI crystallizations at the ISMG.

Thanks,

Achilles

***Second, Achilles Macris talks to Ashley Bacon and informs the CIO top chiefs***

From: Macris, Achilles

Sent: 30 March 2012 13:50

To: Goldman, Irvin J

Cc: Drew, Ina; Martin-Artajo[ Javier X; Tse, Irene Y

Subject: RE: synthetic credit -- crisis action plan

Hi Irv,

I just spoke with Ashley regarding the issue and he has agreed to dedicate Olivier to help us with RWA targeting for Q2. **Ashley immediately understood the issue** and agreed with the approach to get the firm's best talent involved early in the process. **Without any doubt, Olivier is very familiar with the correlation product as well as the management of the capital attributes of correlation.**

Following our call, Ashley spoke with Venkat who also agreed with our proposal to dedicate Olivier to our priorities for Q2. We *have* jointly agreed to have Olivier based in our office for 02. Ashley will be informing John Hogan. Both Ashley and Venkat are displaying *very* strong support and partnership on this. I am indebted to both.

best,

Achilles

***Third Ashley Bacon asks Macris to make a formal request to Hogan***

From: Bacon Ashley

Sent: 30 March 2012 14:14

To: Macris, Achilles 0

Subject: RE: synthetic credit -- crisis action plan

Achilles, **John asked that you send him a note (cc Ina) just summarizing that you want Olivier, what the ask is, and that this has some urgency.** Then I think we move ahead.

Thanks

***Fourth, Macris executes as told to***

From: Macris, Achilles 0

Sent: 30 March 2012 15:13

**To: Hogan, John J.**

Cc: Drew, Ina

Subject: FW: synthetic credit -- crisis action plan

Hi John,

I have asked Ashley for help with the synthetic credit book.

In the first quarter, my team failed in targeting RWA and we need your urgent help to do a better job in Q2. Ashley, Javier and myself think that the most experienced person at the firm is Olivier. Olivier is both familiar with the correlation product as well as the capital attributes of correlation. I would be grateful if you could approve dedicating Olivier to CIO priorities

for Q2. Background: following years of exceptional performance in this book utilizing 5b RWA, we have decided to risk neutralize the book post the large gains on the AA events around thanksgiving. While we remained short in HY, we have bought IG to achieve a risk neutral stance. Since then, and while both IG rallied and the RV between HY and IG worked in our favor, the proxying of IG long via IG 9 forwards, did not work and **resulted in almost total loss of hedging effectiveness**: Additionally, the RWA increased beyond my targets and **I have lost confidence in my team's ability to achieve the targeted RWA and their understanding of the synthetic levers to achieve the RWA objectives.**

Due to the size of the book, our market manoeuvrability is limited. I am further worried that the "best" course of action from a risk and economic point of view, may be conflicting with the appropriate capital utilization .

best.

Many thanks,

Achilles

***Fifth, Macris sends an 'FYI'...***

From: Macris, Achilles 0 <achilles.o.macris@jpmorgan.com>

Sent: Fri,30 Mar 2012 14:15:25 GMT

To: Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>

Subject: synthetic credit -- crisis action plan

**FYI**

[table of key items](#)

**Olivier Vigneron was influential way before the 30<sup>th</sup> March 2012**

***Senate report first batch of exhibits disclosed in March 2013- page 307:***

**From:** Venkatakrishnan, CS

**Sent:** 07 March 2012 16:48

**To:** Vigneron, Olivier X; Christory, Jean-Francois A

**Subject:** RE: New CRM numbers ...

**Ashley has invited Javier to my meeting with him.** I will tell him that this is a priority and mention you, Olivier. Do you know Javier?

**From:** Vigneron, Olivier X

**Sent:** 07 March 2012 16:47

**To:** Venkatakrishnan, CS; Christory, Jean-Francois A

**Subject:** RE: New CRM numbers ...

meeting this guy is one of my top priority on CIO side. **I need to sharpen my tools before hand** but I am comfortable to

**The issue is found and is the same that Pat Hagan raised in the summer of 2011...**

From: Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>

Sent: **Mon.,02 Apr 2012 21:53:53 GMT**

To: Hogan, John J. <John.J.Hogan@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>

CC: Vigneron, Olivier X <olivier.x.vigneron@jpmorgan.com>

Subject: FW: **CIO DAY 1**

John/Ashley/lrv: Below is an update from Olivier. **One source of model difference is that the capital models operate at the level of individual names but the CIO's desk models**



**operate at the level of indices** -- so the effect of name concentrations may be captured differently. We are pursuing the impact and further modeling of this. Venkat

From: Vigneron, Olivier X  
 Sent: Monday April 02, 2012 3:15 PM  
 To: Venkatakrishnan, CS  
 subject: CS10W  
 Hi Venkat,  
 Main takeaways;

- Book comprises index trades only (**tranches+ plain Indices**). All modeling done on the index spread, single names are **assumed homogeneous and homogeneous pool model** is then used to price tranches and generate index delta. Historical regression also gives them a beta adjusted delta for HY vs IG.
- Key takeaway 1: **approximation around the dispersion of single names a key source of discrepancies** when submitting portfolio to large single name shocks (as does IRC/CRM). More work to quantify impact of this approximation.
- Key takeaway 2: **we need to load the book on a "bottom Up" Single name modeling approach that can give single name default exposures**, as well as a CSW computation that is **comparable to the Credit Trading desk** for example.

Action points:

- To discuss modeling merits of CIO and its feedback on our **IRC spread modeling** with the model research group (will start with Matthias A. who has been involved by Anil).
- To model in Lynx (tool developed by credit trading team) the CIO portfolio. Preliminary dummy trades loaded. Tool is ring fenced (**i.e. only I will have access**). However I will check with Javier before loading the real notionals tomorrow that he is fine for me to go ahead with this.

Risk update: **On my CSW estimate** sent yesterday **for March 7th position**, I missed the Xover trades, here is the updated estimate when including them:

Estimated All Tranches:	-45m CSW
Estimated CDX indices:	-350m CSW
Estimated ITRX indices:	-280mCSW
Estimated HY COX:	+400m CSW
Estimated FinSub + Xover:	+150mCSW

[table of key items](#)

**The regulators have long been aware of the particular setup of CIO, and some shortcomings behind the stress scenarios as well as the effects of 'credit hybrids' closing**

***Senate report first batch of exhibits disclosed in march 2013, on the awareness of the OCC with regards to the offsets between CIO and credit Hybrids since the NBIA of 2006- Page 344."***

From: Kirk, Mike  
 Sent: **Thursday, May 10, 2012 9:22 AM**  
 To: Crumlish, Fred; Hohl, James  
 Subject: My opinion on yesterday's meeting

Processes For new strategy should have included stresses to that strategy. But would they have stressed to extent market is currently dislocated? Probably not, *b/c* they would have **based upon historical spreads and correlations which are now no longer relevant** and the moves to current level would have been considered beyond extreme. **I think this is a similar**

**issue as the hybrids books** .. JPMC may not stress the complex risks enough. **By putting the complex illiquid products thru the typical stress scenarios the bank is effectively ignoring the illiquidity because the standard scenarios assume an exit and rebalance which may not be feasible. The normal stress processes do not assume events happen multiple times, and do not go' extremely deep into tails.**

Agree I am curious to see what they did, though I have no concerns generally with the overarching strategy of the CIO function and what they were attempting to do. I think, however, that processes may need to be strengthened. I understand the bank is looking at all processes right now; but, I think we should consider **steering them towards changes in valuation policies and processes. For mark to market items**, initiating a new strategy review process that is documented and **signed off by all control functions (sort of like a NBIA)**, and **a review of stress processes for complex products and strategies (something I think the bank fell short of with respect to hybrids)** . Prospective strategies should be run thru the complex stress scenarios as part of the NBIA look a-like process.

Agree. Just thinking on paper, not saying that any of this is fact, or the solution.

[table of key items](#)

*Senate report first batch of exhibits disclosed in march 2013, - Page 404-*

From: Hogan, John J. <JohnJ.Hogan@jpmorgan.com>

Sent: **Wed, 11 Apr 2012 11:18:29 GMT**

cc: Staley, Jes <jes.staley@jpmorgan.com>; Zinke; Steinar X [steinar.zinke@jpmorgan.com](mailto:steinar.zinke@jpmorgan.com)  
Braunstein, Douglas <Douglas.8raunstein@jpmorgan.com>; Dimon, Jamie  
<jamie.dimon@jpmchase.com>

Subject: Fw: Credit risk limits

**This is the governance used in the IB to control what is currently going on in CIO.** We (obviously) need to implement this in CIO as soon as possible. John

----- Original Message -----

From: GREEN, IAN

Sent: wednesday, April 11, 2012 06:53 AM

To: Bacon, Ashley; Goldman, Irvin J

Cc: Hogan, John J.

Subject: RE: Credit risk limits

**CH uses a small number of limits (attached) and a significant reliance on the Structural Risk Measure (SRM - also attached)** as the principal business limits. Directional limits tend to be small as the book is managed to be broadly neutral to spreads & correlation. **All tranches and index trades are decomposed into Single Name positions and managed against spread-based limits and thru SNPR.** We also rely heavily on the Stress Testing framework running 20 spread scenarios and 6 basis scenarios daily. **An example Stress page for CH** is attached. Here is also a significant reliance placed on the risk MIS and periodic reviews of the gross portfolio risks forums like the IRBC. I can send additional commentary on these if required. .

Thanks

Jan

[table of key items](#)

- **‘16<sup>th</sup>-28<sup>th</sup> December 2011: most prices are frozen on the period**

**February 2016 letter:** “Contrary to the last 5 years, CIO closed its book early that year, on the 16<sup>th</sup> December 2011. Large protections in tranches expired on the 20<sup>th</sup> December 2011 and were not renewed. I was ordered to set the book ‘long risk’, renew those expired tranche protections with credit indices this time, and keep growing the ‘forward investment spread trades’. All this would grow the notional size of the book rather than reduce it. “

*The 16<sup>th</sup> December was a Friday. The early ‘year end’ valuation for CIO was completed in “T+3” by controllers and CFO, or by the end of Wednesday 21<sup>st</sup> December 2011....*

*Senate report second batch of exhibits disclosed in November 2013-page 1583*

From: Drew, Ina

Sent: **22 December 2011 00:55**

To: Martin-Artajo, Javier X; **macris@** .....

Cc; Wilmot, John

Subject: Rwa

We are running an additional rwa reduction scenario. Can u send John and I a scenario whereby the tranche book and other trading assets are reduced by an incremental 15 bi!· **in** the first quarter? **Not a stress scenario**, so assuming normal (whatever that is now - **not year end liquidity**. Pls list by trading strategy, ie: credit tranche, other trading positions, with cost estimate

**(background: trying to work with ccar submission for firm that is acceptable for an increased buyback plan), Need in early ny morning -**

From: macris@btinternet.com

Sent: Thursday, December 22, 2011 **05:39 AM**

To: Martin-Artajo, Javier X; Giovannetti, Alison C

**Cc: Iksil, Bruno M**

Subject: **urgent ---- Rwa**

FYI -- please confirm this is received and that we can coordinate a response this morning. -- thanks

*Senate report second batch of exhibits disclosed in November 2013-page 1599*

From: Grout, Julien G

Sent: **Thursday, December 29, 2011 10:58 AM**

To: Drew, Ina; Wilmot, John; Martin-Artajo, Javier X

Cc: Iksil, Bruno M

Subject: RWA reduction for Core Credit - scenario analysis summary

Hi - please find attached a grid for the Core credit Book RWA reduction scenarios. Please note that **we will not be able to make any sensible and efficient work on RWA for the core book without any 'marginals' numbers produced by QR**. Currently **any major reduction will lead to a very high cost though proportional reducing**.

Julien

From: Wilmot, John

Sent: **03 January 2012 15:37**

To: Giovannetti, Alison C

Subject: FW: RWA reduction for Core Credit - scenario analysis summary

**We need to close the loop** on cost of reducing another \$5bn in RWA from the tranche book (to \$15bn by YE2012, gradual reduction over the year). Ina, Javier and I weren't able to discuss this slide specifically as it was sent after our last call. If you can give me an estimate by EOD that would be helpful. Thanks.

**From: Giovannetti, Alison C [mailto:alison.c.giovannetti@ipmorgan.com]**

Sent: 03 January 2012 17:27

**To: Martin-Artajo, Javier X**

Cc: Macris, Achilles 0; macris@btinternet.com

Subject: FW: RWA reduction for Core Credit - scenario analysis summary

Hi Javier,

Left you a voicemail, can you give me a call +44 207 325 8025.

Thanks

Alison

**From: Achilles Macris '**

Sent: Wed, 04 Jan 2012 06:57:54 GMT

To: 'Martin-Artajo, JavierX' <javier.x.martin-artajo@jpmorgan.com>

Subject: FW: R W A reduction for Core Credit - scenario analysis summary

**Did you see this?**

[table of key items](#)

***Senate report page 150: “***

When asked about the reserve, CIO head Ina Drew professed not to know its purpose. She told the Subcommittee that **in December 2011, a “\$30 million reserve was taken by finance at year-end against the position.** I don't know what kind of reserve it was, exactly. **There hadn't been reserves previously.** This was probably a liquidity reserve.”<sup>839</sup>“

***Senate report second batch of exhibits disclosed in November 2013-page 2111***

From: Hohl, James

To: <Berg, Jaymin>

Sent: **1/24/2012 6:11:18 PM**

subject: RE: CIO meeting

I don't know who John Wilmot's secretary is, so I've e-mailed him, Dave Alexander, and Phil Lewis together. My Outlook calendar should be available to look at. Monday and Wednesday afternoon s look good, Tuesday morning, and pretty much any time Thursday except noon. Thanks, James

**p.s. Was the December Treasury EMR available?**

From: Berg, Jaymin

Sent: Tuesday, January 24, 2012 1.8 PM

To: Hohl, James

Subject: CIO0 meeting

Fred wants me to setup **this quarter CIO meeting**. He said that you'd still be in charge of IRR portion and I'll be responsible for ongoing supervision of investments. What days are

you free next week for a meeting? Also, who do you typically email to setup the meeting with CIO?

[table of key items](#)

*Senate report first batch of exhibits disclosed in March 2013, page 163 to 165: “*

**Mr. Martin-Artajo:** Yeah. Yeah, I mean we've shown a lot of our mistakes today. I think that, I think that, you know, I think this **post mortem** is, is actually a, a realistic one. I, I, I, you know, I think that we've, we've made quite a lot of mistakes. I think that we communicated poorly internally. You know, I think we also forgotten how, how, how difficult it was, you know the positions that we've made given everything, right? **Given, given, you know, year end. Given how fast things have happened in Europe.** How, how, you know, I, I, I, I'd like to go to New York after, you know, in a week or two or three to, to, to just, you know, maybe, maybe we can sit down. Because I feel, you know, **we have cathartic things here that maybe heal some of the things that maybe were not as good in the past.** And, and, you know, things like this, it's like the twin towers falling down and suddenly we get, you know, we remember, how privileged this thing is and -

**Ms. Drew: Ok, I've got it.** I'm just reaching out to mostly tell you about the limits and get the P&L, and I'm going to L&C and I will look, look out for the email later.

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, page 1387: the ‘issue date’ is May 10<sup>th</sup> 2012, while the ‘effective date is ‘January 1<sup>st</sup> 2012’, redacted by Alistair Webster overseeing the IB and the man in charge of the ‘valuation validation exercise’ which ran by JPM between April 29<sup>th</sup> 2012 and May 9<sup>th</sup> 2012 on the tranche book: “*



## CONTROLLERS CORPORATE ACCOUNTING POLICIES

CATEGORY: 1-0100 General Accounting Policies  
SUBJECT: Fair Value Measurement

POLICY NO: 1-0105  
EFFECTIVE DATE: January 1, 2012  
ISSUE DATE: May 10, 2012

Accounting Policies Contacts: Alistair Webster (primary)  
Matt Gordon (secondary)

*Senate report second batch of exhibits disclosed in November 2013, page 1398*  
Valuation/Measurement

As a result of electing the portfolio exception, the unit of valuation for IB market-making derivatives is the portfolio. The starting point for the valuation of the IB market-making derivatives portfolio is mid market. As a dealer, the Firm can execute at or close to mid market thereby profiting from the difference between the retail and dealer markets. If the Firm cannot exit a position at mid market certain adjustments are taken to arrive at exit price. (See Section IV.C. of this policy for a discussion of valuation adjustments.)



*Senate report second batch of exhibits disclosed in November 2013, page 2248: The last policy was in place since 2007 when Jamie Dimon had become CEO and Board Chairman*



## CONTROLLERS CORPORATE ACCOUNTING POLICIES

CATEGORY:	I-0100 General Accounting Policies	POLICY NO:	I-0105
SUBJECT:	Fair Value Measurements	EFFECTIVE DATE:	January 1, 2007
		ISSUE DATE:	November 8, 2007

Accounting Policies Contacts: Kathy Ryan (primary)  
Victoria Sligar (secondary)

*Senate report second batch of exhibits disclosed in November 2013, page 2235: VCG role as per the May 2010 CIO-VCG procedure and policy document:*

### 13. Position reconciliation

CIO Middle Office is responsible for generating a file with all CIO positions. In the event of any difference, Middle Office is responsible for investigating the difference and generating an updated file.

### 14. Presentation of results and adjustment decisions

VCG presents a comparison of Front Office marks and VCG independently sourced prices to the following constituents:

- Front Office
- Finance (regional CFOs, regional and global controllers)
- Operating Risk Management

Price differences above the variance threshold listed below are highlighted. The proposed adjustments are reviewed with the identified constituents. Meeting notes are documented as evidence of the discussions.

[table of key items](#)

- **‘23<sup>rd</sup> March: Ina Drew elevates all the way up’**

***February 2016 letter: “***

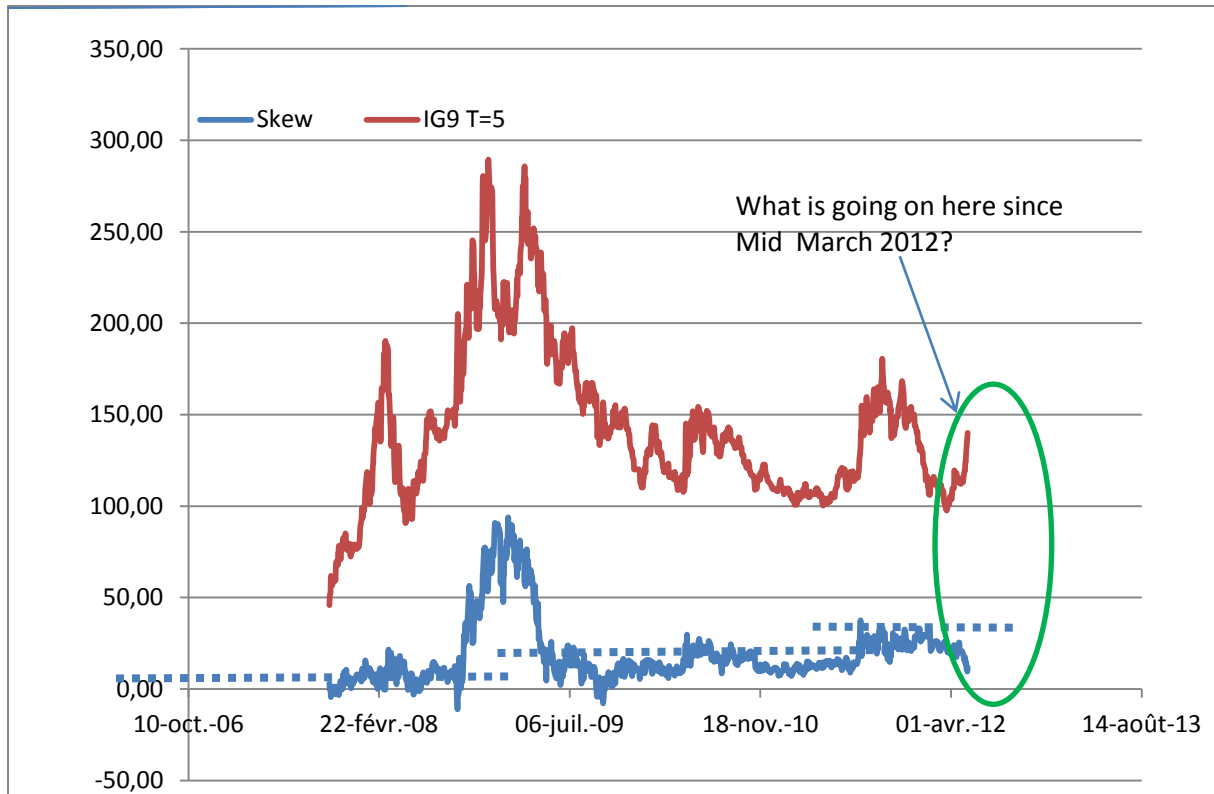
In January 2012, my written alerts elevated concerns about a large potential loss that was predictably growing with the notional amounts. These alerts went to the highest management levels of CIO, including Ina Drew and market risk. The market manipulation suspicion was discussed too at the time in direct relation to the estimate P&L loss that was reported day after day. These alerts sparked very significant reactions, concerns, meetings across all the CIO management line between the 30<sup>th</sup> January and the 9<sup>th</sup> February 2012, substantially before the first articles that came out in April 2012. However, the CIO decision makers insisted in directing the execution of their strategy until the end of February 2012 (a well documented fact in the JPM Task Force report of January 2013 and Senate report of March 2013).

I kept raising alarms in the first half of March 2012 opposing CIO management envisioned plans to add further to the IG9 position that I characterized as ‘huge’ internally at the time. The situation at CIO then was ‘not normal’ at all. Since the 14<sup>th</sup> March Ashley Bacon prepared a transfer of some positions of the book to hedge funds. Since the 19<sup>th</sup> March, Compliance employees were alerted about ‘information leaks’, and ‘targeting’ of CIO positions in the markets by few very well identified players. Ina Drew allegedly had ‘freaked really’ on the 22<sup>nd</sup> March as per Irv Goldman, the CIO chief risk officer. For considerations related to a recent ‘RWA’ massive increase, CIO senior management decided to stop trading temporarily on this book by the 23<sup>rd</sup> March 2012, namely 2 good weeks before the first articles. I was told then that Ina Drew elevated ‘all the way up’ CIO management’s own concerns about the growing losses, being connected to a suspected market manipulation organized from within JPM.”

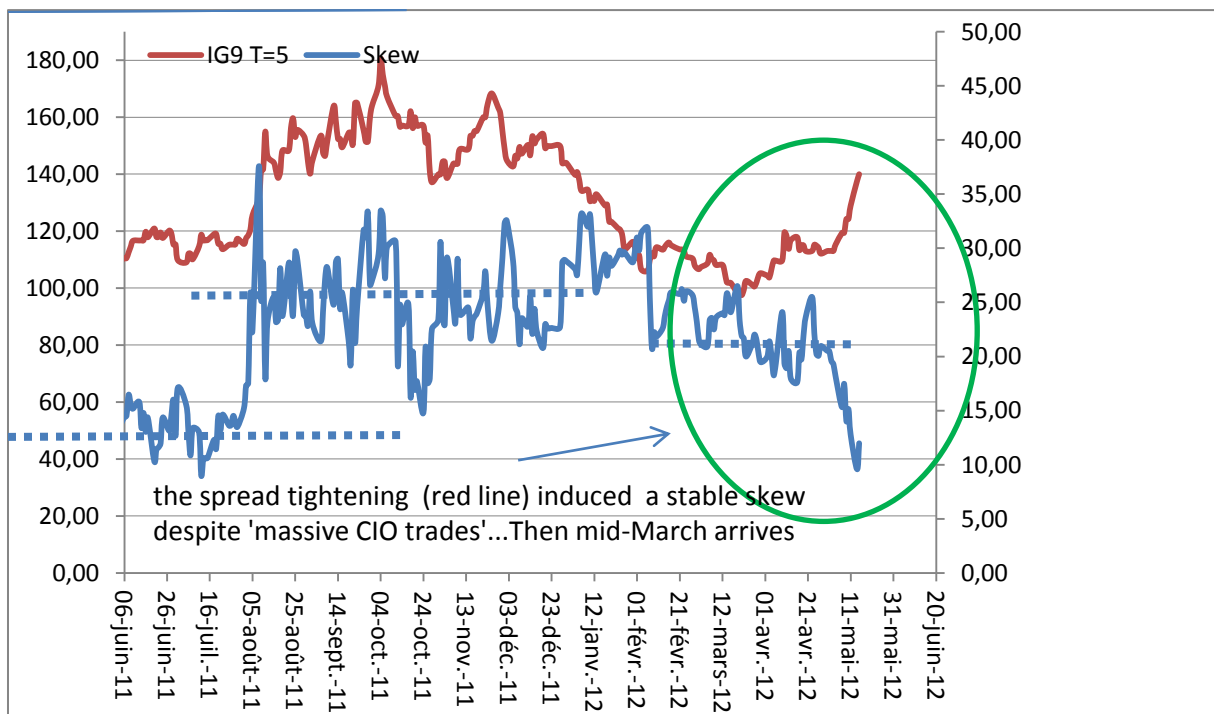
[table of key items](#)

***Charts on the IG9 ongoing underperformance:***

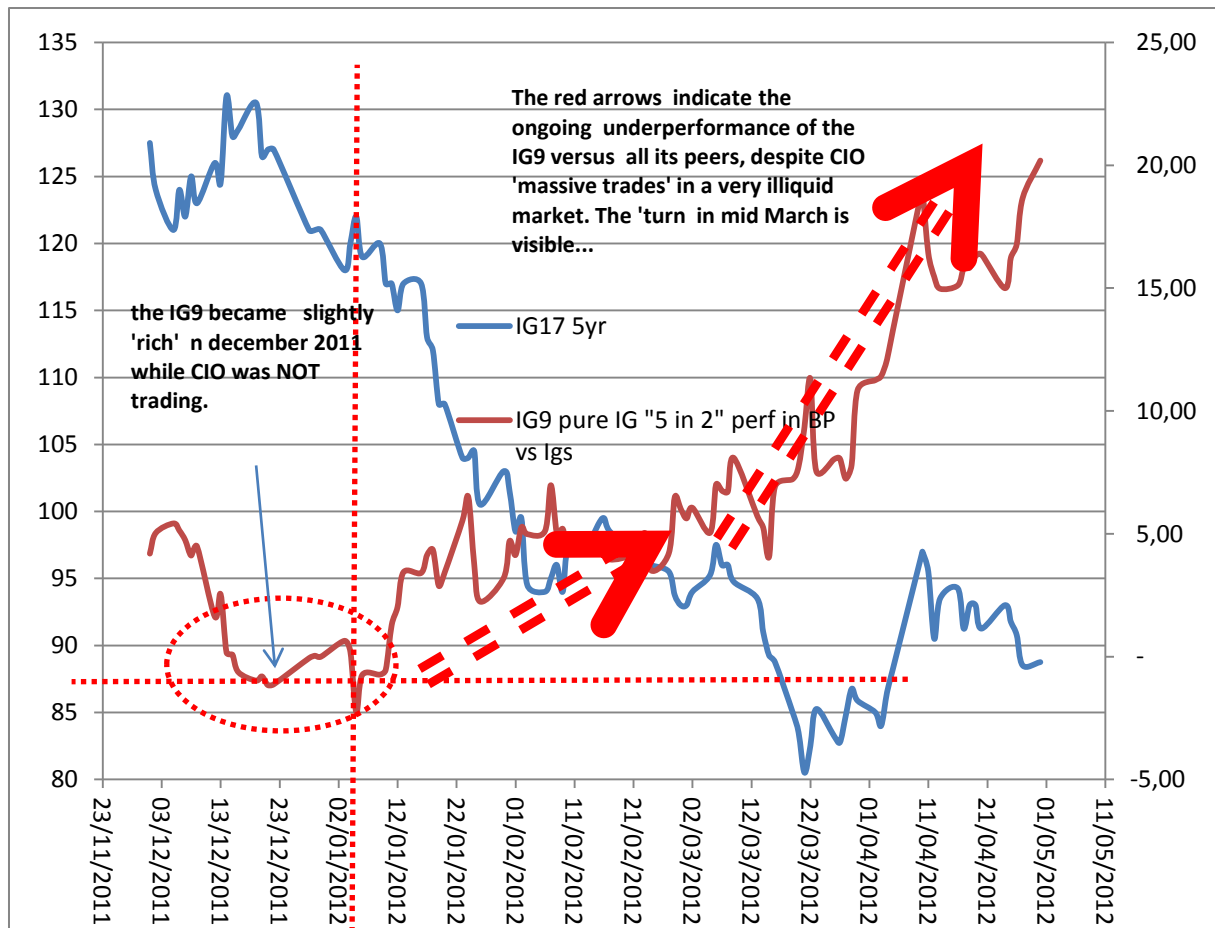
***IG9 versus the IG9 skew***



### *A finer look at the 'phenomenon'*



### *IG9 'stripped of its HY components' versus other peer IG indices*



[table of key items](#)

**Ina Drew was 'freaking—Really!'**

***Senate report second batch of exhibits disclosed in November 2013-page 1864:April 19<sup>th</sup> standard email within the IB “***

From Demo, Mark

Sent: Thursday, April 19, 2012 6:33 PM

**To: Staley, Jes**

Cc: Zinke Steinar X; sankey, Brian; Eichenberger, Stephen; Cox Andrew UK; Christf ...Bessin, Jean~Francois ...; Masters, Blythe; Pinto, Daniel; Hernandez, Carlos M.; Ricci, Paul A....Jhamna, Sanjay X; Vigneron, Olivier X.... **(No one known it seems from CIO)**

**Subject: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors**

Attached is this week's report detailing the 10 largest collateral call disputes on the OTC derivatives book. In order to **reflect ongoing issues** with some of the larger broker dealers, this report lists counterparts with which we are seeing consistent differences regardless of whether it is JPMC or the counterpart that is showing exposure.

**The report also reflects updates on collateral disputes previously reported to Supervisors** as well as those disputes tracking to be reported to Supervisors for April month end.

**The RAG ratings** in color are defined as follows:

Red = a dispute meets the age, size and risk rating criteria set out in the grid below.

Amber = the dispute does not meet all the criteria on the grid

Green = either the dispute has been resolved since the date of the data cut for this

[table of key items](#)

*Senate report first batch of exhibits disclosed in march 2013-page 186: email from Daniel Vaz, Team Leader / Collateral & Derivatives Confirms / Investment Bank / J.P. to CIO London Back Office and Middle Office on April 20<sup>th</sup> 2012:*

“Can you please investigate & advice, why we would have such huge differences at a trade level which is impacting our margin calls?”

*Senate report second batch of exhibits disclosed in November 2013-page 1863: Mark Demo forwards this email above to John Wilmot only the day after on April 20<sup>th</sup> “*

From: Mark Demo

Sent: Friday, April 20, 2012 9:01 AM

To: Wilmot John

Cc: Morris, Andrew X; Miller, Charles R; Blamason, David; Hughes Jason LDN

Subject: FW: Largest OTC Collateral Can Dispute Report plus Update on Collater.,1

Disputes Reported to supervisors

**John -1 wanted to bring something to your attention.** This is a weekly report that **we in IB Collateral produce** that reflects the 10 largest collateral disputes for the week. You should know that in our top 10 this week we have quite a **few disputes that are largely driven by mtm differences on CIO london trades**. If I look at the total mtm differences across the CIO book facing the G-15 - the mtm difference **totals over \$500MM**. I have included a break out of yesterday's mtm differences by G-15 firm for 'Only the CIO London credit book. The numbers in the own column show our trade count facing the counterparty. The numbers in the 'DiffMTM' column show the total mtm difference across the CIO London trades. facing the counterparty indicated We are in correspondence with your middle' office (Rory O'Neil) who has taken Our questions regarding the **differences to your Front Office**. We are awaiting a response. We are also doing mtm difference based on product type and underlier which we will have a little later today.

*Senate report footnote 773 See 4/20/2012 email from Mark Demo... “... The collateral team also provided a time series which shows the overall difference **growing through March to approx[imately] \$500mm at March month end. March month end was tested as satisfactory by VCG.**”.... This email was forwarded to Ina Drew and Irvin Goldman, CIO, on 4/23/2012.”*

[table of key items](#)

*Senate report first batch of exhibits disclosed in March 2013-page 98: Call from Javier Martin-Artajo to Bruno Iksil dated March 20<sup>th</sup> 2012, about 9 PM London Time or 4PM NY time:*

**Iksil** Yea so, yea we sent an estimate down 40 million today.

**Martin-Artajo** Yea. Why did you do that?



**Iksil** Because you know, it was, we actually did not recover what we're gaining on decompression we are making like 50, 60 million on decompression and we losing [inaudible] in this lag and--

**Martin-Artajo** Okay, okay, I just don't want you to do this, I don't know why you've done it anyway you've done it, so that's it. I don't know why, anyway, you should have told me this because it doesn't help us for the conversation for tomorrow

**Iksil** Yea but I thought that **because you have discussed already**

...

**Martin-Artajo:** Yea I don't understand your logic mate, I just don't understand. I told Achilles, told me that he didn't want to show the loss until we know what we're going to do tomorrow.... No, no, no, it's okay, **it's everywhere I know...** It's just that we need to get rid of the **CRM by externalizing the trade which is what the investment bank needs to do...** Okay but this is just what we need to explain tomorrow you don't need to explain in the email man.... What happens if she tells me that we cannot keep going long?... You know we are really getting into something that the IB Investment bank hates, okay, and you know they just do. They just have it because they have the opposite position here because they have optimized their model right?'-so they've optimized this model and now we're going to have to challenge them not only in the market but on the model side,...

**Iksil:**.... I said **probably I was wrong** you know, thought that it was this estimate before tomorrow, you know, **was the way to, because I know Ina is going to read the comments,** so maybe it will leave some time, and **she will have different questions,** or I don't know, because usually when we discuss you know we're really short and squeezed and I wanted to say these things before we actually, I actually have to explain the whole thing, but in summary that's what we, we discussed today right,....

**Martin-Artajo:** I'm trying to **get all the facts in front of Achilles and Ina,** the fact that we show a loss here it's okay it's not, it is a problem, you know I've already told her that there's a problem, so, you know, I've already told her,... what's happening here **it's just the investment bank that we have in front of us is doing things** I mean, this, the call that I had today you know when Daniel Pinto [sic] called I know that they have a problem okay.... okay you've sent the email Ina's going to see she's not going to be surprised by the loss because **I've discussed it with her.** She will send me an email, and Achilles tonight, so we-will have to answer this email you see. So, so anyway, **you've just created something I need to return,** respond that's all. That's why I'm telling you. I just want you to know that this what's going to happen so you know.... I think you have a reasonable way of explaining this, I urn, you know, would have been okay. I wish I discussed it with you, but that's, that's done, You've done it, it's-fine, and this is what you believe and I'm sure you you know, we'll sit down tomorrow and we'll look at the spreadsheet. I'm sure you've done some numbers that make sense and you that think this is a part of something that you can't recover and therefore you've released, and you know, I know what you're doing and **you're signaling here that there is a problem -"** I've already said it, Achilles knows it, and Ina knows it, and you're saying now so, okay,

[table of key items](#)

*Senate report first batch of exhibits disclosed in March 2013-page 291: Email from Pat Hagan to Venkat, Anil Bangia from QR and CIO managers dated March 21<sup>st</sup> 2012:*

« Subject: **Optimizing regulatory capital**

**To optimize the firm-wide capital charge,** I believe we should optimize the split between the tranche and index books. The bank as a whole may be leaving \$6.3bn on the table, much of which may be recoverable....

I think QR is in a unique position to perform this optimization....

With the capabilities shown to me by QR, I believe that they can accomplish this quite readily. The idea would be for them to do the optimization every week when they calculate the charges. (Who gets the savings is a different discussion.) QR may have the capacity to put this in place by quarter end....

The new rules have too many arbitrary factors of three for the regulatory capital to rationally reflect our risks. I don't think we should treat this as regulatory arbitrage....”

***Senate report first batch of exhibits disclosed in March 2013-page 293: Anil Bangia called Pat Hagan:***

**Mr. Bangia:** I think, the, the email that you sent out, I think there is a, just FYI, there is a bit of sensitivity around this topic. So--

**Mr. Hagan:** There, there is a lot of sensitivity.

**Mr. Bangia:** Exactly, so I think what I would do is not put these things in email.

**Mr. Hagan:** That's exactly what I was told. Javier, Javier is the guy that asked me to send out the email this morning. And then he found out from, from Pete and - yeah, and he found out from some -- and Irv that this is ...

***.... A bit later , Anil Bangia calls Pat Hagan again....page 294***

**Mr. Hagan:** Urn, you know that email that I should not have sent?

**Mr. Bangia:** Urn hum.

**Mr. Hagan:** Have you read it? Is that a feasible thing to do or is that impossible? .

**Mr. Bangia:** Well it's, in some ways it's somewhat feasible, once we have a bit more of [indecipherable] development. So, a lot of the IRC tools that I was showing you are really based on a new model that is not in production yet. **There is an old model that Bruce [Broder] has run, so that's the official model.** So that has a very different offline manual process that complicates things.

***.... A bit later , Peter Weiland calls Pat Hagan ....page 296***

**“Mr. Weiland:** I keep getting banged up .... I know you've had some emails back and forth with **Venkat and Anil or whoever on the optimization of the IRC and CRM** and everything else. Everyone is very, very - I told this to Javier the other day but maybe he didn't mention it to you - everyone is very, very sensitive about the idea- writing emails about the idea of optimizing -

**Mr. Hagan:** I got that sort of mentioned. I'd say it was mentioned to me [laughter].

**Mr. Weiland:** OK, so, I don't know, Irv just came by again and said, "Oh, Venkat was telling me he got another email from Pat you know -"

[table of key items](#)

**Senate report page 84:** “Ms. Drew, who had met with Mr. Macris and Mr. Martin-Artajo the prior day, **expressed “confusion”** over the SCP’s increased positions.<sup>538</sup> **According to both Ms. Drew and the bank, at the March 21 meeting, she had been given SCP trading data as of March 7, and was told nothing about the intense trading activity which had taken place over the following two weeks and further enlarged the SCP book.**<sup>539</sup> On March 22, 2012, her reaction to the increased positions prompted one CIO risk manager to email another: **“Ina is freaking – really! Call me.”**<sup>540</sup>“

**Senate report second batch of exhibits disclosed in November 2013-page 1429: March 23<sup>rd</sup> 18h15 London Time call between Keith Stephan and Javier Martin Artajo “**

KEITH STEPHAN KEITH: I cannot wait to come back to London. I can't tell you how much fun it is, like, in the amount of time I have spent discussing with pete and Irv, and **I sometimes just feel like a broken record**, like, you know, especially -- and I'm trying to, to be, you know, as thorough and as patient as I can be. But, you know, **I'm just getting strange requests**, like, can you walk me through this, can you walk me through that? I mean **I've been through the book before with pete as you're aware. I talk to him every day about it.** So I have some patience to take Irv through it. But **it seems like there's a breakdown in the link of communication here because I was under the impression that everybody was very clear** that what that what we were doing was adding. another 20 to 25 million of risk in one sense

MR. ARTAJO: **No, no.**

KEITH STEPHAN: **Now it seems like everybody says, 'no, we didn't know what we were doing'.**

MR. ARTAJO: **I spoke with Ina.** The reason I told her, the reason I'm doing that is to defend the position, okay. we cannot do that. **I just didn't want the investment bank to rollover us.** **This increases the book by 25 or 26 billion of RWA which is freaking them out.** I said, look, you know, relax. I just don't want -- **I needed to do this in order to settle with them, okay. okay. So when this is going all the way up**, man, just for you to know.... we have raised this issue and she's going to talk to Hogan and he's going to talk to Daniel Pinto and he's going to talk to the America, okay. So we escalating the problem here all the way up. **...The issue here is that the investment bank is manipulating the prices.** They want us out of -- you know how valuable the IG9 position is, right... This is out of my control or out of control now.... This is Ina. Ina has to decide this with, with Jess.

KEITH: Jess.

MR. ARTAJO: With Jess Staley basically. Otherwise it going to be a shit show. **These guys are putting things on the street. It is a fight between JPMorgan and JPMorgan in the street.** This is a stupid thing, okay... The investment bank **for some reason they are incredibly sensitive to the position that we have, okay.** The investment grade. I don't know why that is.... But they are not trading volume. They had just volume (with) us. **They are just giving us bad marks. There is no volume,** okay. So **this this is purely their trading, this month end. They are worried about this.** They must have something in the book that is obviously not working because otherwise I don't see the investment bank reacting this way. I haven't seen them react this way, okay? But **it is very obvious they are targeting us.** They have a lot of information about what we do. They have our positions. They really are targeting us. We had too many dialogues here. I've had too many dialogues with (INAUDIBLE), too many dialogues with the America (INAUDIBLE) has **too many dialogues** there too. **Ina has mentioned this.** To be honest They know, they know, they know very well now. So **they are manipulating the market and we have to stop it.** .Because now it is coming to me from the market. The market is asking us what the fuck are we doing. We have a large position. And that's last thing you want. Then you need to stop that. **I told Peter, this is all the way up. It might go to Jamie Dimon then.** **KEITH:** Just to, just to add like a little bit more color and this is like a random anecdotal thing. But some like junior fucking kid called Ari wechsman who works in credit. MR. ARTAJO: What? KEITH: There's a junior kid who works in market risk for credit, credit markets who apparently was calling the market risk guys in CIO in New York saying, hey, we've had **like two standard deviation distortion in this main versus cross over decompression and apparently it's all because of a big prop trader called Bruno in CIO.** That's just for you to know, right. So-- **MR. ARTAJO: That is**

**nasty, man, that is nasty.** KEITH: What that means is that the traders in credit flow are telling that to their risk guys and just spreading sheet. MR. ARTAJO: That's right. But we need to stop that. . KEITH: I don't know how to get in front of it. I don't know. I mean the only thing we can do is what you're suggesting now, which is Ina has to have that conversation with Jes and someone has to say knock it the fuck off because we look like idiots in the street. MR. ARTAJO: That's right. We need to stop this exactly. KEITH: I'm telling you, this is like associate level market risk kid who doesn't even know what the word decompression means. Can you tell it's not his words. MR. ARTAJO: We need to stop this. We need to stop this shit internally. We need to stop that. I mean listen we have issues here too. I'm not saying, I'm not telling you honestly that we are the pretty boys and everybody else is, is ugly. We have an issue here that, you know, I'm using too big RWA. But this is known by, by the, **it's a known weakness. They are using that, they are exploiting us.** They think they can take us out. That's what they really think with no capital. And this is what we what needs to stop. KEITH: All right. MR. ARTAJO: Irv is calling my. I'll call you back. KEITH: **All I did is a graph with the notionals** and I sent it to you and I sent it to Irv. I'll talk to you later. Bye.

[table of key items](#)

**Senate report page 127:** That same day, March 23, Mr. Pinto spoke with Achilles Macris about the accusations against the Investment Bank.<sup>732</sup> **During the conversation, Mr. Macris began to retreat.**

**Senate report second batch of exhibits disclosed in November 2013-page 1850 : March 23<sup>rd</sup> call between Daniel Pinto, Achilles Macris and Javier Martin Artajo “**

Mr. Martin-Artajo: Yes.

Mr. Pinto: The index trader in the, the, the flow index trader in New York?

Mr. Martin-Artajo: Yes.

Mr. Pinto: So on the quotes, I mean, what? **There is someone <laughs> that has no fucking clue on what you guys have.**

Mr. Martin-Artajo: I know. I know.

Mr. Pinto: In New York so-

Mr. Martin-Artajo: I know. The only question, the only problem, Daniel, and maybe this is a longer conversation is that, we, **we are hearing from, from counterparties in the market** that they are talking about some of the positions that we have. And, and I am concerned about that, right? I don't want-

Mr. Macris: [Interrupting.] That's not the issue. The issue is not [indecipherable]. Say it exact what you mean.

Mr. Pinto: But, so, I'm very bothered. So what you think is that Sanjay, or Olivier or someone. So clearly, the only one who knows who the positions are, are, is Olivier, and that's it. So **do you think that Oliver went and talked to some of your counterparts or our counterparts of all of the positions that you guys have in the market?**

Mr. Martin-Artajo: No, I, I don't think it's that. I think that, what I'm trying to see is that, what I'm trying to say is that, **there is an issue here with our IB in terms of the positions that we are trying to-**

Mr. Pinto: But, but, Javier? Just to be, so, in the way that this was portrayed to me, is a very, **very serious accusation.** So, then, there are two things that I want to know. So if there are any, One, could be that you are concerned about something that may happen. And that is very valid, but if it didn't happen, it didn't happen. So my question is, there is something that DID happen, that in any shape or form, you think that our investment bank is trading against your position, because the position was leaked in some weird form to them.

Mr. Martin-Artajo: Ok, I don't think that there is anything here that has happened that is of, of a serious nature. **What I think is happening here, that is of a serious nature, is that what can happen with the marks that we get from the investment bank. Ok?**

**Mr. Pinto:** <Laughs> Have you got any? Well, that's it. So now we go to the marks. Have you got any, we don't have any collateral disputes, so, or very little ones. Have you, have you, can you see, any of the marks, that they are deliberately so, mismarked to hurt your position?

**Mr. Martin-Artajo:** I have, I have to, I have to show them, I have to show them to you. I mean, I think that this got to do with, with the knowledge of our position and **the way that the investment bank is trying to, to position around that with the customers.** I do think that that's the whole issue that we have. And then, that is the issue that **I'd like to make sure that we keep it inside the company, right?** It's something that I-

**Mr. Pinto:** Yes, but, so I'm asking you, **is there any of the marks, that we have put in our books, that they are incorrect? Or malicious, to hurt your position? Yes or no?**

**Mr. Martin-Artajo:** [indecipherable] I'm going to send you that, so that you can judge that, Daniel. need to send them to you.

**Mr. Macris: [Yelling.]** Say the examples. What does he put, this is the time, **the god damn words, please.**

**Mr. Martin-Artajo:** Ok, what happens is that, every time we put a trade on, I get, you know, I get, sort of like an immediate ask from, from the dealer into the position that we just traded, right? So, I get evidence that **they have access either to ICE or to some other way to look at what we do,** and you know, I am concerned about that. I am, yeah?

**Mr. Pinto:** **Honestly, I don't, I, I don't know.** Is that the case? That someone is accessing your, your position? Because Olivier gave it to them or someone? So I need to fire that person.

**Mr. Martin-Artajo:** Ok.

**Mr. Pinto:** So **we need to be extremely careful.**

**Mr. Martin-Artajo:** That's right. We need to be, I mean, I. This came through, through a very different angle, Daniel. I mean, I, I need to explain you how is it that **we are raising this issue through Ina. Well, it came from a very different point of view. It came through, having to reconcile the capital that we using in the business with the actual models that we use that are developed by the investment bank too, with QR, ok?**

**Mr. Pinto:** Yeah.

**Mr. Martin-Artajo:** So we, we came up with, you know, a system, a way to look at all the risk is. You know we look at the VaRs, we look at the stress VaRs, we look at the same thing that you do, ok?

**Mr. Pinto:** Yeah.

**Mr. Martin-Artajo:** So what happens is that we ended up with something that ended up with, you know, with a **dialog that we have with Ashley, with Venkat,** with, with a lot of people, ok? At the same time, you know, we are, **risk management knows that we have large, large concentrations, ok?** Now, I, I, I am hearing in the market that, you know, some of the guys in the company are talking to them and wondering what we are going to do with the positions. Now, I, I just want to stop that, yeah?

**Mr. Pinto:** But Javier, Javier, Javier, Javier, my friend. You know that over these days, because of the difference in performance, everyone is stating that. So that, it's very likely, I'm not saying that this is true, it may be that you are 100 percent right and I have to fire 10 people here. I don't know.

**Mr. Martin-Artajo:** Yeah.

**Mr. Pinto:** But it is very likely that they are kind of warming you up.

**Mr. Martin-Artajo:** Yes. <Laughs.>

**Mr. Pinto:** It's very likely.

**Mr. Martin-Artajo:** I know.

**Mr. Pinto:** It happens all the time.

**Mr. Martin-Artajo:** All the time, man. That's exactly what I, but **I want it to be inside the company.** I don't want it to be known out there. And I don't want it be getting, getting-

**Mr. Pinto:** But what, what the market knows, doesn't know. So, I don't know what it is. But obviously, you bought those positions in the market so it is very likely that some of the market people can put two and two together. But, let's assume that that's not the case.

**Mr. Martin-Artajo:** Yeah.

**Mr. Pinto:** So for me, what is important is someone from my group, or Olivier, or Venkat, or Ashley, or someone else, leaked these positions to put you in a position that it will hurt the bank. Really? I, I, it is hard for me to believe that that is happening, but-



Mr. Martin-Artajo: Ok, well, then, help me with something, Daniel, because this is all I need, I need from you. What we need to do is look at what is the real issue here. **Are we fighting something that is, that is, that is not the same on the other side of the investment bank and, therefore, is just something that is just dealers trying to do their normal work, trying to see what we were doing, Or are we discussing something that is substantially a mirror image of what the investment bank has.** And that's what I told Achilles. Is that we need to, we need to discuss with the investment bank which of the two cases it is. Is it that we have an issue With, yeah?

Mr. Pinto: The position that you have, so, I don't know what it is. I suppose that it has to because **we have some diversification benefit**, by definition you have to put on a position that is the other way around.

Mr. Martin-Artajo: That's right.

Mr. Pinto: That's, that's, that's quite obvious. But, but that, from there, from there, which is a fact. Obviously, is a fact.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: And these guys know, that we, as you know, both know, that **we are getting some diversification benefit**.

Mr. Martin-Artajo: That's right, yeah.

Mr. Pinto: From there, from there, from there, to go and accuse that **someone is putting you in a position that is harming JP Morgan, by leaking your positions to the market**, or by, or by trading against you, or by mismarking the books, it's a very different story.

Mr. Martin-Artajo: That's right. So I want to-

Mr. Pinto: So what I point out is to prove these three factors have not happening or are happening. And if they are happening, I need to fire a lot of people.

Mr. Martin-Artajo: And if they're not happening, we need to stop that they talk outside the market.

Mr. Pinto: But, you have <laughs> my friend, you don't know if they are talking outside the market. So what do you got? You get it from Deutsche? You get it from Barclays? So where are you getting from? These people, I, I don't know. But we will see. We will check everything; we always do.

Mr. Martin-Artajo: Yes, please. That's what I'm asking you. I am on your side. Try to, try to, try to see what we can do about this, because-

Mr. Pinto: Friends, I think that this has, unfortunately, this has took a turn and now it's Hogan and Ina and the whole world involved -

Mr. Martin-Artajo: Yeah.

Mr. Pinto: Out of something that you suspect, but you don't know, because a Deutsche guy or someone told him.

Mr. Martin-Artajo: No, no, no, no, no. That's not, that's not the point. The point is, is that I am working with, with you guys in trying to disclose information on what we are doing, ok? We are trying to be transparent here, with, you know, we are learning how the risk management and the QR interacts with our books. We are learning what that means for us in terms of capital. I'm trying to optimize capital. I'm trying to get a lot of that done. And I think that-

Mr. Pinto: You know, absolutely, but that, that Olivier, is that Olivier is working on that. Olivier is not part of the business anymore. **Olivier**, I guaranty you, there is, there is no, he is a very honest person. **He has no incentive at all to leaking** that into anyone, **because he doesn't work there anymore.**

Mr. Martin-Artajo: Ok.

Mr. Pinto: And in any case, and **in any case, that someone mismarked the books in March? It just doesn't make sense.**

*(Daniel Pinto from the IB says it here: 'someone at the IB could have mismarked the book' in March and it just does not make sense indeed. This is confirmed right below: they all say that the book is 'marked' by the IB through the collateral operations. Further down below, Pinto asks whether this is about 'comments in the markets' or 'valuations'. CIO argues internally against the IB marks imposed upon CIO but the IB through Pinto says that they have no dispute with their marks that they also apply to CIO. Artajo asks that this 'battle' stays inside JPM)*

**Mr. Martin-Artajo: Ok, alright**, I, I, I, ok, I'm just going to give you some, some, some facts. I, I, 1-

Mr. Pinto: No, what I'm going to do, **I would prefer that, that we get, jump inside this thing to really look into the positions, and see if we have anything that was incorrectly marked.**

Mr. Martin-Artajo: Ok.

Mr. Pinto: And then we will internal audit the whole trading operations. Auditing and we will do whatever it makes you feel more comfortable.

Mr. Martin-Artajo: Ok, let's do that.

Mr. Pinto: Yeah, obviously, this is, I would have preferred to deal with this in a different way, but we are where we are, and next time we will be extremely more careful. And, in fact -

Mr. Martin-Artajo: How would you want to do it then? So that it's not, I mean, I, I'm, you know, I think what we need to do, I mean, for us, really, what I really wanted to understand is that we are in a, in a position where we need to understand very well what the next step is for our book, because, it is, you know the, the, the capital issues-

**Mr. Pinto:** But Javier, so these are **two very different things. One is that you are accusing people of wrongdoing.** That's one thing.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: **The other one is the externalization thing that we discussed the other day.** And that May or may not go ahead.

Mr. Martin-Artajo: That's right.

Mr. Pinto: And it's nothing to do with this thing.

Mr. Martin-Artajo: Ok.

Mr. Pinto: And if you don't want to be a part of it, just don't be. Mr. Martin-Artajo: Ok, no, no, we do want. But I, I just want to make sure that we don't have a big, I just want to clarify, that, that we don't have a risk management issue. That's all, Daniel, that we are-

Mr. Pinto: Yeah, that's fine. But that, at the moment what it is, is **a real accusation.** It's not that a concern that you may have for the future. And the way that the people think, over this side, is someone in my group, did something wrong. **Either mismarked the books or used information that they should have not used** to trade against your position and acted against the benefit of the, to harm the bank. So that is what is floating around.

**Mr. Macris:** Hold on a second. Daniel, let me just say to that. like, you know, this issue, you know, came about, like you know, less than, you know two and a half hours ago. Ok? let me just say that I talked to you about this. like you know, so, the meeting was not, like, you know, **you concentrate this meeting on disciplinary actions** and things like that. **I don't know where that's coming from, and I don't know what your conversation was with Ashley.** You know, I believe that like Javier has shown me here, enough evidence, that like you know, the people, you know, on the desk know our positions or what we are doing in the market place. You can forward to your staff but you can see it. **I don't much care about it,** to be honest with you. So there is like, you know, a grievance like, you know, here, about, like you know, the knowledge, you know, of our position on the desk. I'll leave it, like you know, it to that. I don't care so much about it. **The purpose of the call with, like, Ashley, that we were instructed to do with Irv. Do you understand that? "Instructed," "Irv,"** these are the two significant words here. You know, **the issue revolved about an administrative solution in what has been perceived "a battle,"** you know, whether it has, like you know, disciplinary, or doesn't have, it was not like, you know, I don't know. It did not enter my mind. **But there is definitely a battle.** You know, that, you know, you know they work it out that they-

**Mr. Pinto: A battle? Where, where, where do you see the battle?**

Mr. Macris: [Talking to Mr. Martin-Artajo.] Can you explain? [Talking to Mr. Pinto.] Because the, I don't know Javier's sort of words, [talking over Mr. Pinto who says, "But Achilles, that's my point."], but you know, you know you find [indecipherable]. Can you find something that explains to people what it is?

Mr. Martin-Artajo: Yeah.

Mr. Macris: Because I don't want to care about the disciplinary thing. I want to care, like you know, that in my opinion, if there is a short, you know, that needs to be covered by the IB, and we got the long, let's find, like you know, some solutions here. You know, I don't want to get, like you know-

Mr. Pinto: There is no, I, I, I don't think so. So **the last big position that we have against you where we lost money is American Airlines. We hedged you at the end of last year.** We lost the money and we were wrong. So, I, I, I don't know. I don't know. It may be another one. I really don't know. You know who are you trading with. But-

Mr. Martin-Artajo: Ok. So then, then what happens is that then **we need to settle this inside JP Morgan.** If you're right about what you're saying, I have, I have reasons to think that, that, that, you know, I think you need to do a little more work on that. But it doesn't, the issue is, is that we should keep it inside the company, whatever that is. And if there is a trade to be done, **we do it internally and we don't force it outside.** And if there is no trade to be done in the market, then so be it. But at least I'm clear that-

Mr. Pinto: Our guys are trading in the market day in and day out.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: My, my, I don't know. I, I really need to, someone to dig into this one?

Mr. Martin-Artajo: That's right.

Mr. Pinto: What is concern for the future, you know, what someone may do and what has happened.

Mr. Martin-Artajo: Ok, let's-

Mr. Pinto: Clearly, the thing that concerns me the most, at the moment, is to see if someone has done something wrong, already. Not that you're concerned that they may do something wrong in the future, because, that, that, that hasn't happened. 50-

Mr. Martin-Artajo: Ok, I'll send you, **I'll send you through, through Ashley,** the, the, you know, the, the, you know, some of the things that we observe on our side for you to be aware of-

**Mr. Pinto: But those are valuations or they are comments?**

Mr. Martin-Artajo: Well, **they are, they are comments. They are chats. They are marks.** They, they are quite a lot of things really. I mean, I, I don't think there's any, **like Achilles said, I don't think this is a disciplinary thing.** I, I'm just, I just don't want it to be, in the market. We're seeing as we're doing something here that is, that is, that we have a problem in our desk and at the end of the day what we're trying to do here is actually try to optimize the book for RWA purposes. And, and I'm going to, and since we coordinating this with the investment bank, **I want to coordinate whatever we need to do in the book also with the investment bank and not do it outside.** Because I have a feeling that we have, you know, something to do here. And that's what I, I want to make sure that the traders know. That we cannot, I don't want to battle it outside when we have something at the end of the day. It, it should be done inside the company.

Mr. Pinto: Yeah but that, that, Javier, I, **I don't understand how that one, that, from either of two things.** The, the externalization is something that we, we decide that we will do together.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: And that is happening. The day to day trading, which it looks to be your concern.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: That someone is trading against you, knowing your position, is something that I will be extremely surprised that is going on, but we'll take a look and see if that is coming up and that's it.

Mr. Martin-Artajo: Ok, thank you. Thank you for that, Daniel. Thank you for that.

Mr. Pinto: And if you could, so how much do you think is damage?

**Mr. Martin-Artajo: It's a few basis points, but it's in a large position so that's the issue.**

**Mr. Pinto: So it's not many millions of dollars?**

**Mr. Martin-Artajo: I don't know like, maybe 250?**

**Mr. Pinto: Two hundred and fifty million dollars?**

**Mr. Martin-Artajo: Yeah.**

Mr. Pinto: Ok. And you think that the fact that we marked the book that way, so we are benefitting with that amount and you are having a loss of that amount?

Mr. Martin-Artajo: Well, I, I just, **I'm just concerned that the bid/offer spread is wide, and I don't know where the, the, the prices are when we trade. That's basically what it is, really.** Mr. Pinto:

Ok, so then, then, I think that we need to get Jean Francois to take a look of the marks and see if there is anything that is being done inappropriate. What I was telling Achilles is that we haven't, we haven't had recently, any substantial, how do you call, actually I forgot the name, discrepancies in the valuations with clients, or my market disputes.

Mr. Martin-Artajo: Ok.

Mr. Pinto: So **if we would have something of that nature, we would have substantial market disputes.** But in any case, so I'll take a look, and then we'll take it from there.

Mr. Macris: Can I, just, I want to, like, you know, comment, you know, Daniel, like on a couple of things. Like you know, just to put, like, you know, here, like, in retrospective, you know on these things. **On the externalization that's like a long-term thing, you know, we are working together, nothing is going to change.** This is not of the moment, right? We are on board. Second, on the issue like, you know, like you know, **coordinating our activities to optimize, like you know, our individual RWA and capital and overall the firm,** that is also something, that you know, like the externalization, I want to, like you know, use, you know, **Ashley and company** and I've been, like you know, **completely open,** you know, in all aspects, you know with the guys that I want to work, you know to that solution and that is like a second point. What, like, has erupted, like you know, today, you know, is, like, you know, an issue of, like, you know, **disfunctionality in the way that we making the market.** You know, I personally do not know, or am saying or claiming or mentioned, like you know, to Ashley, that, like you know, this **disfunctionality is, like you know, our fault, you know, the IB's fault, or somebody else's fault.** I don't know. Do you understand? I know there is tension. Right? It can be only in our head. Now, if, yeah?

Mr. Pinto: One of the things, one of the things that I will do without mentioning anything that we have [indecipherable]. I will check with [indecipherable] to see if any CIO activities in mark, with some, let's see if they, if this is something that they even notice.

Mr. Macris: Right. So, like you know, what, all I'm saying is like you know, here. So the nature, like you know, of the call that I was asked to do, had to do, like you know with the issue, you know, let's not, like you know, escalate. You know, this, you know, tension and needs, like, you know, **complementary positions that we can settle administratively. Right? You know, let's do that as opposed to, you know, continuing, like you know, being visible JP by JP into the street.** Like you know, doing things dysfunctional. Dysfunctional, I think, doesn't mean like inappropriate things or, like, in the subject to disciplinary action. I don't know. I think that, like you know, Javier seems to be a little bit more convinced, like you know, the positions that, you know, that he has, like you know, they are known to the IB. And, like you know, the positions. [Speaking to Mr. Martin-Artajo] What is the system that you were telling me called?

Mr. Martin-Artajo: ICE.

Mr. Macris: [Speaking to Mr. Pinto] ICE. That the, the thing that goes into ICE. You know, the dealers, you know, see. I don't know. You know what I'm saying? I have not investigated. I don't know. My thought it was not about the disciplinary things or punishing anybody. What I'm not saying, like you know-

Mr. Pinto: No, Achilles, Achilles, Achilles? Sorry. That's, that's not right. Someone is acting wrong. So, I'm not going to accept any of the persons that work for me that don't, that don't operate with 100 percent integrity.

Mr. Macris: Ok.

Mr. Pinto: So, there is, **there is an accusation.** This is what it is. You may have, it may be right or wrong. Alright? Let's investigate and, and, and come to a conclusion.

Mr. Macris: Good.

Mr. Pinto: If someone did something wrong, so there, there will be a consequence of it. Of course.

Mr. Macris: All I'm saying to you is, like you know, that is not where my thought is, like you know, I'm happy that, like you know, that **I opened to you** what, like you know, Javier presents to me. Same thing, together from the same time, like you know, as I do, because I asked him to compile it and to put it down, because **I understand the seriousness of this thing. It's not where my head is.** Do you understand? Like, ok, we'll look at it, but, I understand, you know, that your approach is like, you know, on the up and up. I much appreciate it. You know, the, the point of this call that I was asked to do here, you know, and you people involved like Irv does not know the book, and, you know, whatever, Ashley, on the outside of the airplane, obviously **I don't operate this way,** as you know, for many years. You know, it is, like you know, the issue, there is, like, you know, **something that will play in the public arena.** Right? You know, for **whatever reason,** you know, let's sort it out. So I think that it's not-

Mr. Pinto: But, but, ah, yeah but to think, to think, that someone from us, or Olivier, or anyone else went and openly in the market, talked about your positions, really? I would be extremely surprised.

Mr. Macris: Ok.

That the market knows that, what your positions are, that may be, because you bought tons of it.

Mr. Macris: Yeah.

Mr. Pinto: So then, so then, [indecipherable] for now. I mean, **if you sold them back, there are only three players in this space**. So, it is very likely that people know what you have. But in any case, I think that we'll take a look and see what it is. If we did something wrong-

Mr. Macris: Again, I, all, all I want to tell you, like, I think that is, that is. great that you are doing it, and I appreciate it. It is not, like you know, for me here, you know, I don't want to, like you know, represent to anybody, and I certainly did not represent this, you know, on the quid quo, where at, like with Irv and Ashley, that like you know, there is, like you know, something here with, you know, disciplinary, you know, actions. You know, we're talking, like you know, if there is-

Mr. Pinto: Yeah, but Achilles, Achilles, you know that when-

Mr. Macris: Ok, but **I choose to, to, have like what is important to me**. I'm just stating it to you. Right? You know, you-

Mr. Pinto: Yeah, I, I understand but, but, as I told you, things that that, when **Ina goes and talks to Hogan and the whole company**, this, this is, it was really it, probably.

Mr. Macris: Yeah.

Mr. Pinto: Ok, thank you.

Mr. Macris: Alright, man. Take care. Ciao.

[table of key items](#)

***Testimony of Ina R. Drew Former Head of the Chief Investment Office, JPMorgan Chase & Co. Before the U.S. Senate Permanent Subcommittee on Investigations Washington, D.C. March 15, 2013: “***

I have since come to learn – based on the Company’s public statements in July 2012 and Task Force Report in January of this year – that valuations for many of the book’s positions were inflated and not calculated or reported in good faith; that the original version of the second quarter scenario analyses reflected much higher projected losses and was specifically re-done before it was sent to me so as to reflect lower projected losses; and that some members of the London team participated in or condoned such conduct and hid from me important information regarding the true risks in the book. I have also since come to learn – based on the same public statements of the Company – that the new VaR model was flawed and significantly understated the true risks in the book. **Needless to say, I had no knowledge of these things at the time....**

...

Ultimately, it appears that my oversight of the synthetic credit book during 2012 was undermined by **two critical facts** of which I was not aware at the time but have come to learn based on the Company’s Task Force Report and other public statements: (i) the new VaR model was flawed and significantly understated the real risks in the book; and (ii) some members of the London team failed to value positions properly and in good faith, minimized reported and projected losses, and **hid from me important information regarding the true risks** of the book. I believe it goes without saying that it is extremely difficult, if not impossible, to oversee a portfolio under such circumstances.

Also, it appears that my oversight of the book was undermined by control failures by CIO Risk Management and CIO Finance. In particular, it appears that CIO Risk Management failed to properly understand and assess the risks in the book, and that **CIO Finance failed to properly review the position valuations recorded by the traders.**

....

**I believe that my management of the CIO and oversight of the synthetic credit book was reasonable and diligent.**



...

Since my departure I have learned of the deceptive conduct by members of the London team, and I was, and remain, deeply disappointed and saddened to learn of such conduct and the extent to which the **London team let me, and the Company, down.**"

[table of key items](#)

*Senate report page 150:* "As the CIO CFO John Wilmot explained to Mr. Dimon and Mr. Braunstein: "Credit Tranche markets have always been considered less liquid (compared to Index markets) and Liquidity reserves are therefore computed and taken. However, in the past, the Liquidity Reserve associated with these 6 Series-9 Tranche positions was not taken because their markets were deemed sufficiently liquid. The additional +\$155 Million Liquidity Reserve was taken due to the inclusion of these 6 Series-9 tranche positions; this reflects the market's reduced liquidity."<sup>838</sup>

**When asked about the reserve, CIO head Ina Drew professed not to know its purpose.** She told the Subcommittee that in December 2011, a "\$30 million reserve was taken by finance at year-end against the position. I don't know what kind of reserve it was, exactly. There hadn't been reserves previously. This was probably a liquidity reserve."<sup>839</sup>

*Senate report page 201:* "Ms. Drew was informed of the CIO Global Spread CSBPV limit breaches in an email from Mr. Goldman on February 13, 2012.<sup>1121</sup> In the email Mr. Goldman wrote: "We will need a one off limit increase."<sup>1122</sup> Ms. Drew replied later that day: "I have no memory of this limit. In any case it need[s] to be recast with other limits. **[It is] old and outdated.**"<sup>1123</sup> On February 15, 2012, the CIO's Chief Market Risk Officer, Mr. Weiland, discussed the CS01 breaches in an email with the CIO's Chief Risk Officer in London, Keith Stephan. His email was, in part, seeking assistance in drafting language to request an increase in the Global CS01 limit.

[table of key items](#)

*Senate report page 122:* "When asked about the **March 20 SCP P&L report**, Ms. Drew told the Subcommittee that, while she routinely received the CIO's daily EOD P&L emails and was meeting the next day to discuss the SCP, **she did not open or read that particular email.** When shown the text, Ms. Drew told the Subcommittee that she interpreted it as disclosing potential SCP losses and said, had she seen the \$800 million figure at the time, it would have been a "game changer" in how she viewed the SCP book.<sup>712</sup>

A week after her interview, Ms. Drew's legal counsel contacted the Subcommittee to indicate that Ms. Drew had changed her interpretation of the email.<sup>713</sup> He told the Subcommittee that Ms. Drew had become "**emotional**" when listening to the recording of the conversation between Mr. Iksil and Mr. Martin-Artajo in preparation for her second Subcommittee interview and had become "**emotional**" **again** when seeing the transcript of the call during the interview. The legal counsel said that, upon reflection, Ms. Drew decided she had been too quick to interpret the \$600 to \$800 million figure in the email as referring to unreported losses, and that upon reading the email again, it appeared the traders were trying to reassure her by writing about a lag in market performance and predicting the SCP would regain \$600 to \$800 million in value. This telephone call took place after the Subcommittee's interview of **Michael Cavanagh, head of the bank's internal investigation of the SCP losses, in which he and the bank's general counsel, Stephen Cutler,** told the Subcommittee that they viewed the March 20 email, not as disclosing unreported losses, but as predicting that the market would rebound and add \$600 to \$800 million to the value of the SCP holdings.<sup>714</sup> This interpretation of the March 20 email as conveying a positive message about future market performance is difficult to reconcile with the email's generally negative tone regarding the

SCP. The purpose of the email's commentary was to explain a \$43 million loss, which was the largest of the year and followed two straight months of losses. **The email described problems with three key credit index positions held by the SCP;**<sup>715</sup> **used the words “underperformance,” “lagging” and “loss” to describe those problems; attached a monetary figure to each described problem; then added up the figures and concluded that the “lag in P&L” was “material” and in the range of \$600 to \$800 million. The email also referred to the Eastman Kodak and Rescap bankruptcies, which cannot be interpreted as any type of prediction of better market performance.** In addition, predictions about future market performance are rarely described as “material,” and the email contains no positive descriptors of the \$600 to \$800 million figure.<sup>716</sup> Moreover, those figures did, in fact, reflect the ballpark amount of unreported losses then at stake, given the CIO's valuation practices; the bank's subsequent restatement put the first quarter's unreported losses at \$660 million.<sup>717</sup> In any event, whether or not the March 20 email was intended to or did disclose the extent of the unreported CIO losses to CIO management, Ms. Drew told the Subcommittee that she did not see the email at the time it was sent to her.”

[table of key items](#)

*Senate report page 115:* “And despite the spreadsheet's indicating a \$200 million increase in losses for the day using midpoint prices, the CIO reported internally on March 16, that the SCP incurred a daily loss of just \$3.9 million.<sup>688</sup>

When asked about the Grout spreadsheet, CIO head **Ina Drew told the Subcommittee that she first became aware of the spreadsheet in late April or early May when Douglas Braunstein and John Hogan were reviewing the marks with the CIO team** over one of the weekends.<sup>689</sup> When asked about the spreadsheet again in a later interview, Ms. Drew **retracted her earlier statement** and told the Subcommittee that she learned of the spreadsheet in July when the firm publicly announced the problems with the CIO's marks.<sup>690</sup> **This spreadsheet, however, was not disclosed to the public in July and, by then, Ms. Drew had already left the bank.**

Ms. Drew also told the Subcommittee that she had never before seen that type of “**shadow P&L document.**”<sup>691</sup>

Three days after the spreadsheet was apparently discontinued, on **March 19, 2012**, the CIO traders appear to have calculated that, by mid-day, the cumulative unreported losses were in the range of \$500 million. Mr. Iksil provided Mr. Martin-Artajo with the following analysis of the market:

“When markets are caught in a squeeze like this one, the P&L [profit and loss] volatility can become very large : this is what is happening since the beginning of this year in CDX IG9 and Main ITRAXX S9 series. The hit amounts to 5-10 Bps [basis point] lag in those forwards .... [T]he loss is likely to range between [\$]100m[illion] to [\$]300m[illion] – main reason is the CDX IG9 lag (2-3 bps or 100-150m) – second next is CDX HY : the hit is another 100m spread within the tranche and index bid-ask. Typical here, you cannot really trade but the mid does not change. – third is Main itraxx : the curve in S9 steepened by 5bps pushing the forward back up while the other curves steepened 1 bp in the rally. The hit here is 80-100m. – **the estimated bid-ask on the book grossly amounts to 500m all-in** (200m for IG, 100m for Itraxx main, 200m for CDX HY).<sup>692</sup>“

[table of key items](#)

## **The 'London whale' is born**

- **30<sup>th</sup> March: 'holiday season'....**

*Senate report 1<sup>st</sup> batch of exhibits disclosed in March 2013, page 166: Javier Martin-Artajo to the IB controller Allistair Webster on a May 8<sup>th</sup> Call about March 2012 month end: "My guess is that they were already, Bloomberg and Wall Street Journal were already writing their story so so their story was ready then. I think they were ready to publish it. I think they only needed to confirm a few things and they just delayed it for one week. So I think that information was already in the dealers and the hedge funds to be honest with you."*

*Senate report Senate 2<sup>nd</sup> batch of exhibits disclosed in November 2013 page 1482: "*

**Goldman:**How have you been?

**Martin-Artajo:** I'm good man. What's up?

**Goldman:** Ina just called me. She was curious at me ....

**Martin-Artajo:** Sorry I can't hear you very well

**Goldman:** She was curious if you had any range of estimate about what the day is going to look like. I know you said 2.

**Martin-Artajo:** What do you mean 2. Do you mean 2 your time?

**Goldman:** Yeah

**Martin-Artajo:** What time is it now?

**Goldman:** It's 12. She just wanted to --

**Martin-Artajo:** I don't have that yet, unfortunately. I don't have it Irv. I don't have it. It is not looking good. I don't have it yet. .. um, it is just that it is illiquid, you see. The market is I don't know --

**Goldman:** I know, I think she is just concerned about--

...

**Goldman :** So what are you doing? Are you marking at the other 300?

**Martin-Artajo** No, I am not marking. I have not had the time to do that and **it is not mark to market, which is not helping us with the problem that we have.** That is why it doesn't matter if mark it or not because it is like a 'first

**Goldman** Right, I know,

**Martin-Artajo** So, the gains that we have on mark to market are probably going to be somewhere in the 60 million, but Ina told me not to consider that. She wanted me to give you the number of what the book here does so that Irene adjust that.

.....

**Martin-Artajo** I don't know, man. **I have a bad feeling about the bid offer** here, ok? I think we are going to show a hundred --

**Goldman** You think the worst case?

**Martin-Artajo** Don't say anything to Ina yet, please, because I am just telling you. We are not trading in the market, ok. There is one position here that matters. I mean 3 bps in that position will explain 100 million.

**Goldman** I know

**Martin-Artajo** The issue is that the market is very sensitive to --

**Goldman:** We are all just trying to be supportive. Need to move forward. By the way, **I sent**

**that email about the vacation stuff** because I think there's just ... When you consider the strategy, we are going into the holidays. I don't know what people's vacation schedules are but if people are not around, I mean like, and **something goes on**, you know, **I think it is going to be an issue**.

**Martin-Artajo:** I don't understand what you are saying

**Goldman** I don't know what people's vacation schedules are there because we are going into Easter. This is one of these all hands on deck sort of things. So I am sure it is going to come up as a question when you go into strategy, "everyone is going to be around, aren't they?" I just don't want you to be ... It's you and Achilles. It is your business. I am just saying you should be sensitive to that because I think people ...

**Martin-Artajo** You mean that I should be in the office?

....

**Martin-Artajo** I don't understand what you are saying. Of course I am going to be in the office

**Goldman** I am just saying **I don't know if Bruno is planning on vacation**. I don't know what it is. You guys just have to consider that. When you're like ... **I am sure it is going to be a question that comes up in the strategy session**, "we are going into the holidays, people are going to be here, right?" You don't want to say, no, these people are on vacation

**Martin-Artajo** No, there's no one going on vacation. I am here, Bruno is here. You know, Olivier is going to be here.

**Goldman** I am just being a risk guy and I wanted to make sure you thought of everything

**Martin-Artajo** I am staying here. I am **not going skiing**. I am not going anywhere. I am not going to let anything, you know, derail this. **This is a big problem I have**. I've had this problem before. Before you came, **we had a problem similar to this in the beginning of '09**. I don't know if you heard about this. It was almost as bad as this. No man. **Ina wanted us to do a big deep dive**. I am working on a deep dive. am going to really be open and explain everything that's gone.

....

**Martin-Artajo** Of course. You are getting into something that I think is important that you know about this. There is no question that it doesn't matter that our books are up everything except this book. What matters is that I need to make sure that this book is in good shape because this is an incredibly important thing. So, I am not going to go on holiday from now until I sort this out, even if it is in the summer. I'm not, I'm not, this is my priority and ... I am not going anywhere. **I told this to my wife. I told this to everybody. The team here is not going anywhere**.

**Goldman** Right. Ok. That's good, I am **just double checking**. It is not like anyone here said anything.

...

**Martin-Artajo** :I know that **Ina is helping here**. She has seen this many times. Ina really has seen blowups more than anybody I know. She knows how stressful it is, how bad you feel about it and how rational you need to be about this and not become an emotional ... just saying things as they are. What is the rational thing to do. What is the next move, forget about what you've done. Forget about mistakes. I am working on that. I will have a presentation on that. The minute I have an estimate, I will let you know. I will call you or send you an email.

*Senate report Senate 2<sup>nd</sup> batch of exhibits disclosed in November 2013 page 1561: “*

*Email from Ina drew the Thursday 5<sup>th</sup> April to Jamie Dimon and operating committee members, on the eve on the articles publication at 5:58PM: “*  
*... Have a good holiday »*

*Email from Ina drew the Thursday 5<sup>th</sup> April to Jamie Dimon alone, on the eve on the articles publication at 22:08 PM: “*

However we are working with Ashley and Venkat to see IF both the IB and CIO positions could be moved out into the **winters fund**.

I have been assessing the **trade off between p&1 and RWA** for the second quarter. I can go over **all the technicals with you at any time. I wanted to this week but understood you were on vacation.**”

[table of key items](#)

## • 3<sup>rd</sup> April: price differences, limit violations, ‘run off’

*Senate report Senate 1<sup>st</sup> batch of exhibits disclosed in March 2013 page 180: 20<sup>th</sup> April 2012 Email from the CIO VCG London Jason Hughes describing his march month end control that ended on April 3<sup>rd</sup> 2012 to the CIO VCG NY-based head Ed Kastl:*

Ed, At March month end the CIO **FO marked their book at the most advantageous levels** based on the positions they held in specific indices and tranches. CID VCG price tested the positions initially mid versus mid and that resulted in the following adjustments ...(\$193 million down adjustment measured in every possible detail by VCG)

**However, based on our normal practice** we then applied market derived thresholds to each of the individual positions. If a position was within tolerance then no adjustment was required and if a position was outside tolerance an adjustment was passed to bring it back within tolerance. After applying these tolerances the adjustment became....(a \$17 million down adjustment)

**The difference between the 2 numbers highlights the size of the positions CIO hold and the difference that can result from marking within a normal market bid/offer spread.**

### liquidity Reserve

**Our policy has been to exclude Series 9 of the ITAXX and CDX IG** based on the liquidity of these series as they are still very liquid for the correlation markets. The following table shows the changes we have been able to make to our positions in these indices and tranches during 2012 (Positions are in local currency)



[table of key items](#)

*Senate report Senate 1<sup>st</sup> batch of exhibits disclosed in March 2013 page 298: Email from the CIO CFO John Wilmot to Ina Drew: “*

Here is my general reaction to this and to the document circulated last night:

If,

1. I don't get the sense of clarity that we know what is driving the RWA (economic risk versus VaR, stress VaR, CRM and IRC) or the **p&l- or more importantly that either will be manageable going forward**
2. We are a **significant player in a market that is less liquid**, hence any attempt to manage p&l or capital away from an "as is" approach will either **result in p&l dislocation** or RWA constraints (a la 4Q11/1Q12)
3. **We haven't made the case of how this book runs off** and whether risk can be managed effectively within a fixed maturity, is that we can de-risk without creating continual tail risk further out past tranche maturities. **This plane will never land.**
4. We also haven't made the case of **what it costs to significantly decrease the size of the book (in my mind the only certain way to reduce RWA)**

I profess to probably being the least knowledgeable about this book amongst the senior team, so that leads me to be skeptical when we aren't directly answering questions. I think we have moved beyond the commercial utilization of this book in some jump-to-default capacity as it exhibits **neither acceptable risk/return profiles nor market liquidity characteristics to justify capital.**

*Senate report Senate 1<sup>st</sup> batch of exhibits disclosed in March 2013 page 298: Email from the Achilles Macris to Ina Drew that Ina Drew forwarded to John Wilmot ad sparked the comment above: “*

...I am **very concerned** by over-acting in the market relative to **our size and poor liquidity**. We really need to minimize our market involvement and focus our *activity* to certain RWA reduction plans (**pre-priced by Olivier**) while utilizing liquidity in an orderly way.”

**February 2016 letter:** “I kept raising alarms in the first half of March 2012 opposing CIO management envisioned plans to add further to the IG9 position that I characterized as ‘huge’ internally at the time. The situation at CIO then was ‘not normal’ at all. Since the 14<sup>th</sup> March Ashley Bacon prepared a transfer of some positions of the book to hedge funds. Since the 19<sup>th</sup> March, Compliance employees were alerted about ‘information leaks’, and ‘targeting’ of CIO positions in the markets by few very well identified players. Ina Drew allegedly had ‘freaked really’ on the 22<sup>nd</sup> March as per Irv Goldman, the CIO chief risk officer. For considerations related to a recent ‘RWA’ massive increase, CIO senior management decided to stop trading temporarily on this book by the 23<sup>rd</sup> March 2012, namely 2 good weeks before the first articles. I was told then that Ina Drew elevated ‘all the way up’ CIO management’s own concerns about the growing losses, being connected to a suspected market manipulation organized from within JPM. The whole CIO officially swung into a ‘Crisis mode’ on the following last week of March 2012 and actively prepared the ‘post mortem’ of this book. Starting the Wednesday 28th March late afternoon, I was told to work onwards into the whole week-end on a very high level meeting involving Doug Braunstein and CIO top

chiefs. The ‘key’ meeting was scheduled for the very first days of April 2012 (Monday 2<sup>nd</sup> or Tuesday 3<sup>rd</sup>), dealing with the issues of this book as I was told then. I did not attend this meeting. I did not see the meeting materials and got no further instruction from CIO chiefs resulting explicitly from this meeting.”

[table of key items](#)

## • 4<sup>th</sup> April: Evangelisti and \$600 million ‘leak

*Senate report*: “By early April, press speculation about the large trades in the credit markets was building. On **April 4, 2012, Peter Weiland, the head of market risk for the CIO, received a call from a reporter at the Wall Street Journal** indicating that the paper was working on a story about Bruno Iksil and the CIO.”

*Senate report second batch of exhibits disclosed in November 2013*: “

**From:** Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>

**Sent:** Wed, 04 Apr 2012 23:22:52 GMT

**To:** Goldman, Irvin J <irvin.j.goldman@jpmchase.com>

**Subject:** RE: Call

Greg got back to me tonight. He's not writing tonight. He'll give me more details tomorrow morning, and then I'll work with Ina and others on next steps. Thanks, Joe

-----Original Message-----

From: Goldman, Irvin J

Sent: Wednesday, April 04, 2012 7:20 PM

To: Evangelisti, Joseph

Subject: Fw: Call

----- Original Message -----From: Weiland, Peter

Sent: Wednesday, April 04, 2012 06:22 PM

To: Goldman, Irvin J

Subject: Call

So I'm sitting in Laguardia about to get on a plane. I pulled out my iphone and I had a message. It was Greg Zuckerman from the Wall Street Journal, said he was writing a story that would mention me and wanted to give me a heads up. He's doing a story on Bruno and CIO. His number is 212 416 3614. He talked to me about the story trying to get a reaction and all I told him was that I could not make any comment. To be honest what he said actually sounded fairly balanced, but you never know what might actually get into print. Left you a vmail at work too. Boarding soon but call if you want to talk.”

## • 5<sup>th</sup> April: Ina drew emails ‘Partnership and drawdown’-\$600 million confidential information leak

*Senate Report first batch of exhibits disclosed in March 2013, exhibit 83*:

**From:** Drew, Ina

**Sent:** Thursday, April as, 2012 **04:53 PM**

**To:** Evangelisti, Joseph; Zubrow, Barry L

Subject: **Re: Jamie's fine with this.**

**Point two. Assets and liabilities We do not disclose cio earnings - part of corporate**

From: Evangelisti, Joseph

Sent: Thursday, April 05, 2012 **04:45 PM** .

To: Drew, Ina; Zubrow, Barry L

**Subject: Jamie's fine with this.**

**From: Dimon, Jamie**

Sent: Thursday, April 05, 2012 **4:45 PM**

To: Evangelisti, Joseph

**subject: Re: Revised: WSJ/Bloomberg CIO stories**

Ok

From: Evangetisti, Joseph

Sent: Thursday, April as, 2012 **04:41 PM** .

To: Drew, Ina; Dimon, Jamie; Hogan, John J.; Scher, Peter I; ZubrOw .. Barry L; Staley, Jes; Cutler, Stephen M; Radin, Neila; Braunstein, Douglas; Wilmot,. John .

**Subject; Revised: WSJ/Bloomberg CIO Stories**

Here are some revised points based on your comments. The WSJ's deadline is in 10 minutes.

Thanks, Joe

- The Chief Investment Office is responsible for managing and hedging the firm's foreign exchange, interest rate and other structural risks.
- **CIO is focused on managing the long-term structural liabilities of the firm and is not focused on short-term profits.**
- Our CIO activities hedge structural risks. and invest to bring the company's asset and liabilities into better alignment.
- **Our CIO results are disclosed in our quarterly earnings reports.**
- **We cooperate closely with our regulators," who are aware of our hedging activities.**
- Background: **Not correct to attribute gains to a single trader.** Members of the CIO took long-term hedging positions in the context of-our overall liquidity management structure.
- Background: \$200 billion vastly overstated. **\$600 million in gains overstated.**
- Won't comment on a specific people.

From: Evangelisti, Joseph

Sent: Thursday, **April 05; 2012 4:06 PM**

To: Drew, Ina; Braunstein, Douglas; Hogan, John.].; Staley, Jes; Scher, Peter L

Cc: Dimon, Jamie; Youngwood, Sarah M

**Subject: WSJ/Bloomberg CIO stories**

The Wall Street Journal and Bloomberg are working on prominent stories about Bruno Iksil, a managing director in our Chief Investment Office in London.

They are saying that Iksil currently has more than \$200 billion in positions in credit trading products and **has made JPM more than \$600 million in profits over the past two years.** They said his' current CDS positions on the IG9 Index are roiling the market and that some of his positions may result in losses.

More generally, the WSJ and Bloomberg are saying that **JPMorgan basically has a large proprietary trading shop hidden in its CIO,** and that many analysts are unfamiliar with specifics around its activities. They also say that with increased capital rules the upcoming Volcker Rule, these activities could come under pressure.

I'd like us to hit hard the points that the CIO's activities are for hedging purposes and that the regulators are fully aware of our activities. I'd like to give them the following on the record:

- The Chief Investment Office is responsible for managing and hedging the firm's liquidity, foreign exchange, interest rate and other structural risks.
- **Gains in the CIO offset and hedge losses in other parts of the firm.**
- The investments and positions undertaken by the CIO are to hedge positions and losses in other parts of the firm and are done in the context of our overall company risk management framework
- Hedging gains reflected in our financial statements represent one side of a transaction that is hedging a loss in one of our main businesses.
- **We cooperate closely with our regulators, and they are fully aware of our hedging activities.**
- Background: **Not correct to attribute gains to a single trader.** Members of the CIO take long-term hedging positions in the context of our overall liquidity management structure.
- Background: \$200 billion vastly overstated. **\$600 million in gains overstated.**
- Won't comment on a specific people.

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, page 1561: “*

**From: Drew, Ina** <InaDrew@jpmorgan.com>

Sent: Thu, 05 April 2012 **22:08:57 GMT**

To: Dimon, Jamie <jamie.dimon@ipmcnase.com>

Subject: Re: CIO

**If** you are referring to the **wind down in the ib credit exotics book**, it is separate. Achilles and I targeted the CIO tranche and derivative activity *as* a reduction item (I specified in last bus review) due to the high rwa it draws under **basle III**. We have **also had issues with QR that have made the rwa outcome less predictable**. However we are **working with Ashley and Venkat to see IF both the ib and CIO** positions could be moved out into the **winters fund**. I have been assessing the **trade off between p&1 and RWa for the second quarter**. I can go over all the technicals with you at any time. **I wanted to this week but understood you were on vacation.**

-- Original Message ---**From: Dimon, Jamie**

Sent: Thursday, April 05, 2012 **06:00 PM**

To: Drew, Ina

Subject: Re: CIO

Ok. Send me some info. **Also how does it relate to or not to our wind down credit exotics book?**

-- Original Message ----**From: Drew, Ina**

Sent: Thursday, April 05, 2012 **05:58 PM**

To: Dimon, Jamie; Zubrow, Barry L; Staley, Jcs~ Cutler, Stephen M; Maclin, Todd;

Braunstein, Douglas; Erdoes, Mary· E; Smith, Gordon; Peloo, Douglas B.; Bisignano, Frank;

Hogan, John J; Cavanagh, Mike

Subject: CIO

I want to update the **operating committee** on what is going on with the credit derivatives book in CIO especially given a wsj article which will come out tomorrow.

One of the activities in cio is a credit derivatives book which was **built under Achilles in London at the time of the merger**. The book has been extremely profitable for the company (circa 2.5 billion) over the last several years. **Going into the crisis, we used the instrumentation to hedge mortgage risk and credit widening**. Recently, in December, the book outperformed as it was positionned in for "jump" risk or default risk throughout the summer as a relatively inexpensive hedge for fallout from weak markets during the european crisis. The fourth quarter 400 million gain was the result of the unexpected American Airlines

default. Post December 11 as the macro scenario was upgraded and our investment activities turned pro risk, the book was moved into a long position. The specific derivative index that was utilized has not performed for a number of reasons. In addition the position was not sized or managed very well. **Hedge funds that have the other side** are actively and aggressively battling and are using the situation as a forum to attack us on the basis of **violating the Volcker rule**. Having said that, we made mistakes here which I run in the process of working through. **The drawdown thus far has been 500 mil dollars but net to 350 mil since there are other non derivative positions in the same credit book. The earnings of the company were not affected in the first quarter since we realized gains out of the 8.5 billion of value built up in the securities book.** John Hogan and his team have been very helpful I wanted my partners to be aware of the Situation and I will answer any specific questions at oc monday.

Have a good holiday,

[table of key items](#)

## • 6<sup>th</sup> April: articles: ‘black jeans’...

*February 2016 letter:* “The first articles propagating the “London Whale” story went public on the 6<sup>th</sup> April 2012. For no good reason, I was singled out by the media (under the name “Bruno Michel Iksil” and not the name I commonly use, which is quite unusual for a “story” that targeted a relatively large audience) as being the sole person responsible for the losses and consequently, in the mind of the reading public. Still in 2016 “Bruno Iksil” is associated with the moniker the “London Whale” even though it was not a nickname I claimed for myself nor was I responsible for the losses resulting from a trading strategy directed by the JPM CIO’s management. By continuing to refer to the “London Whale” you are persisting with the prejudicial association of the name with “Mr. Iksil”. “

**Senate report:** “Mr. Braunstein and Ms. Drew met the following day, on April 6. Mr. Braunstein asked Ms. Drew to **provide a detailed overview of the Synthetic Credit Portfolio’s position** by the following Monday, **April 9**. Later on April 6, Mr. Braunstein sent Mr. Dimon a brief **update on his discussions** that day regarding the Synthetic Credit Portfolio. He informed Mr. Dimon that he **“[s]poke with Ina. Would like to add a liquidity reserve<sup>73</sup> for [the] Series 9 Tranche Book (approx 150mm).** Wilmot will be sending e-mail detailing analysis.” Mr. Braunstein also informed Mr. Dimon of the overview he had just asked Ms. Drew to prepare by April 9, and added that he was **“working with [the Investment Bank] to make sure there are no similar positions in the [Investment Bank’s] book....** Separately think we need to look at **coordinating between the CIO and [Investment Bank] approaches.** Have talked to John Hogan about this as well.”<sup>74</sup>

[table of key items](#)

## • 9<sup>th</sup> April: ‘S9 tranche only’ reserve

*Senate report second batch of exhibits disclosed in November 2013, page 1603:”*

**From: Drew, Ina <Ina.Drew@jpmorgan.com>**

**Sent: Sat, 07 Apr 2012. 16:40:15 GMT**



To: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Wilmot, John  
<JOHN.WILMOT@jpmorgan.com>

Subject: Fw: Sunday call

**I am going a deep dive tomorrow in prep for a review with doug &jamie**

From: macris@~

Sent: Saturday, April 07, 2012 02:50 AM

To: Drew, Ina

Cc: Martin-Artajo Javier Xi Adam, Philipa C

Subject: Sunday call

I am changing my flight to return to London Sunday early morning GMT -- any time is fine for me.

How about Sunday 14.00 EST·· 19.00 GMT?

Javier we can take the call together from my flat if you like

From: "Drew, Ina" <Ina.Drew@jpmorgan.com>

To: "Martin-Artajo, Javier X" <javierxmartin-artajo@jpmorgan.com>; "macris@ .....

Sent: Saturday, 7 April 2012, 1 56

Subject: Re: Credit

Give me a time sunday that works for you.

From: Martin-Artajo, Javier X

Sent: Friday, April 06, 2012 04:42 PM

To; Drew, Ina; macris@

Subject: Re: Credit

Will do , Thank you

**From: Drew, Ina**

Sent; Friday, April 06, 2012 09:22 PM

**To: macris@j**

**Cc: Martin~Artajo, Javier X**

Subject: Re: Credit

Ok. Thanks, Maybe we should receive what you have sunday. Let me know

From: macris@;

Sent: Friday, April 06, 2012 04:04 PM

**To; Drew, Ina**

**Cc: Martin~Artajo, Javier X**

Subject: Re: Credit

Hi Ina,

**We spoke with Javier at length following our conversation. We will be prepared for the call on Monday ..**

Javier is convinced that our overall economic risk is limited. There is no default event to amplify our losses as the same critical names are part of our short in HY and our long in IG.

Any further draw-down, will be the result of further distortions and marks between the series where we are holding large exposures. This clearly needs to be estimated with much more precision.

I also have no doubt that both time and events are heating our position. **I am however unsure on the potential magnitude of a "one touch" draw-down for Q2 which is highly dependant on marks.**

Both Javier and Bruno continue to be **extremely concerned about the confidentiality** around our **specjfic large exposures**. The press seems to be referring to **CIO position size which is different to the overall JPM size on the same instruments**. Additionally, **there were some specific HF's calling our team and trying to get information from both front-office and infrastructure personnel (!).**

As you know, I am not regularly giving much credence to such rhetoric. I have nevertheless asked for a summary of the specifics for your information.

Best,

Achilles

**From: "Drew, Ina"** <-lna.Drew@jpmorgan.com>

**To: "Macris. Achilles Oil"** <achilles.o.macris@jpmorgan.com>; "macris@) .....

Sent: Friday, 6 April 2012, 17:13

Subject: Credit

**Jamie and Doug want a full diagnostic Monday. I will need it Sunday night. More focused on p&l than rwa at moment as I indicated. I'm not comfortable with the level of analysis so far.** I tried to reach you by phone and text.

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, page 1562:"*

From: Iksil, Bruno M <bruno.m.iksiJ@jpmchase.com>

Sent: Sat, 07 Apr 2012 15:42:11 GMT

To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>

Subject: Re: IMPORTANT

Totally agreed. **Fundamentally they resist this because the whole business model in credit derivs becomes obsolete.** Now you know that JPMorgan was the historical sponsor of this: **self regulation, private markets, bilateral contract pure commercial rights. If they admit that the index is the reference, then it could and should be traded on an exchange, and the super-senior should trade like a bond. Then the banks lose 70pct of their pricing power through the whole credit world.**

**From:** Martin-Artajo, Javier X

Sent: Saturday, April 07, 2012 03:23 PM

To: Iksil, Bruno M

Subject: Re: IMPORTANT

**This is really the problem that the hedge funds have. They cannot get out and they are blaming the indexes. I think that somebody needs to do some work on this in terms of liquidity because the volumes there are dismal and if it really gets out there that only the indexes trade then the whole idea of fair value is gone.** This will tie up with my complaint to **QR about a bottoms up model that is not tradable.** Only the indexes.

Let me know if you agree ...

**From:** Iksil, Bruno M

Sent: Saturday, April 07, 2012 02:58 PM

To: Martin-Artajo, Javier X

Subject: Re: IMPORTANT

**The skew has always remained elevated since 2008 on ig9 and S9.** The on the run skew is generally biased but comes back to zero when the index gaps out. **October and the crisis in europe** has increased the counterparty risk and many european banks

**BofA; CSFB, db, bnp, sg, bardays, ubs, rbs and smaller players like natixis or calyon exited the skew market.**

Martin-Artajo, Javier X

Sent: Saturday, April 07, 2012 02:36 PM

To: Iksil, Bruno M

Subject: Re: IMPORTANT

Also, let's discuss about the single names. I think that **this is all about these guys unable to get single names since October last year probably.**

From: Iksil, Bruno M

Sent: Saturday, April 07, 2012 02:23 PM

To: Martin-Artajo, Javier X

Subject: Re: IMPORTANT

Yes I was working on it this morning.

I will send you a first batch of **max downside cases. They all range from -350 to -750.**

The stress provide a large upside beyond 1 bln.

Probability weighted that comes down to 100m. Yet some scenarios can likely make a loss of 300m. **It is just that they are unlikely in my view.**

From: Martin~Artajo Javier X

Sent: Saturday, April 07, 2012 02:18 PM

To: Iksil, Bruno M

Subject: IMPORTANT

'Bruno,

Please confirm that you have seen this email. I will have a call with Ina and Achilles tomorrow Sunday to brief her on the **downside risks for Q2.**

**I need you to work on the scenarios that we discussed** and be available tomorrow morning to send them to me and discuss. I am available from 8am to 10 am or from 12 to 2 PM. All London time.

**Please send me the spreadsheet as soon as you have it** either today or early tomorrow morning.

Best regards

Javier

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, page 1604:"*

**From:** Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>

**Sent:** Mon, 09 Apr 2012 11:49:16 GMT

**To:** macris@ Drew, Ina <Ina.Drew@jpmorgan.com>

**Subject:** One point about yesterdays call

**Ina**

When you asked last week about what we needed to do in the Core Book I forgot to mention yesterday that the book as it is is stable and does not need to be rebalanced unless there is a credit event. So at this point with all major risks balanced the book as it is **we do not need to trade in the market for a few months**

Regards

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013, page 1566:"*

From: Wilmot John <JOHN.WJMJOT@jprnorgan.com>

Sent: Mon, 09 Apr 2012 12:47 GMT

To: Braunstein. Douglas <Douglas.Braunstein@jprnorgan.com>; Dimon, Jamie <jarnie.dimon@jpmchase.com>

**Subject: FW: Series 9 tranche liquidity reserves**

Below is detail relative to the liquidity reserve taken on the Series 9 credit tranche positions. I will forward the related notional exposures tomorrow morning as they are not included below and london is closed. John

John C. Wilmot Chief Investment Office John,wilmotl@jpmorgan.com

## 6 CREDIT TRANCHE POSITIONS IMPACTED

3 Maturities of ITRAXX Series 9 (5yr, 7yr, 10yr Maturity)

3 Maturities of CDX Investment Grade (5yr, 7yr, 10yr Maturity)

CREDIT TRANCHE LIQUIDITY RESERVE DETAILS

Total Increase of approximately +\$155Million

## RATIONALE FOR ADDITIONAL TRANCHE LIQUIDITY RESERVES

As part of CIO's recurring liquidity review, **Credit Index markets (post Series 8) are deemed liquid and are excluded from CIO's Liquidity Reserve computation**. Liquidity reserves are taken for the Series. 6, 7, and 8- Credit Index and Tranches.

Credit Tranche markets have always been considered less liquid (compared to Index markets) and Liquidity reserves are therefore computed and taken. However, in the past, the liquidity Reserve associated with these 6 Series~9 Tranche positions was not taken because their markets were deemed sufficiently liquid. The additional +\$155Million Liquidity

**Reserve was taken due to the inclusion of these 6 Series-9 tranche positions; this reflects the market's reduced liquidity.**

## CALCULATON METHODOLOGY (DEFINED BELOW)

**liquidity Reserve ''' [CS01] X Square Root {Holding Period} X [Spread Volatility]**

(???! Why use 'volatility' when this is all about bid-offer and price uncertainty)

[A] CS01 (Credit Spread sensitivity to a 1bps change in market spreads relative to Position Size)

[B] Holding Period (JPM IB suggested maximum 120days used by CIO)

[C] Spread Volatility (**provided by JPM IB VCG**; varies by position in capital structure; highest volatility for Equity tranches; lowest volatility for Super Senior tranches)

- **13<sup>th</sup> April 'tempest in a teapot'**
- **20<sup>th</sup> April: collateral 'dispute' (check on the exhibits for the numbers between the 23<sup>rd</sup> and the 30<sup>th</sup> April)**

*Senate report first batch of exhibits disclosed in March 2013: exhibit 25 and 26:*

From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>

Tue, 10 Apr 2012 22:50:48 GMT

To: **Dimon**, Jamie <jamie.dimon@jpmchase.com>; **Braunstein**, Douglas

<Dou~las.Braunstein@jpmorgan.com>; **Hogan**, John J.

<JohnJ.Hogan@jpmorgan.com>; **Drew**; Ina <Ina.Drew@jpmorgan.com>; **Zubrow**, Barry L

[barry.l.zubrow@jpmchase.com](mailto:barry.l.zubrow@jpmchase.com) cc: Goldman, Irvin] <irvin.j.goldman@jpmchase.com>;

Stephan, Keith <keith.stephan@jpmorgan.com>; Weiland, Peter

<peter.weiland@jpmchase.com> ' .

Subject: Net positions vs average trading volumes

Net Positions in **Selected Indices** vs. 1m daily trading volume:

The below table shows that **CDX.IG.9 net position for CIO is \$82.2bio**, which is approximately **10-15 days of 100% of trading volume** based on the 1m avg volume published by JPMorgan Research. **ITX.9 net position for CIO is \$35bio**, which is approximately **8-12 days of 100% trading volume** based on the 1m avg volume. For on the run positions the numbers are much smaller, **ranging from 0.25 days to 2 days volume in IG and HY respectively.**

**From: Drew Ina**

Sent: Tuesday April 10 2012 07:08 PM

To: Dimon, Jamie; Braunstein, Douglas; Wilmot, John; Zubrow Barry L; Staley Jes

Subject: Credit

**The mtm loss is 412 mil today, an 8 standard deviation** event mostly from the steepening of the IG9 curve. SPECIFIC to our position. No other high grade or high yield index moved much **clearly anticipating our liquidation.**

I'm in the office further reviewing the p&l scenario with London and will send it on shortly "

**From: Braunsteint Douglas**

Sent: Tuesday April 10th 2012 07:14 PM

**To: Hogan, John J.**

Subject: Fw: Credit

**A bit more than we thought**

**From: Hogan, John J.** <JohnJ.Hogan@jpmorgan.com>

Sent: Tue, 10 Apr 2012 23:17:16 GMT

To: **Braunstein, Douglas** <Douglas.Braunstein@jpmorgan.com>

Subject: Re: Credit

**Lovely**

*Senate report second batch of exhibits disclosed in November 2013: page 1489:*

From: **Hogan, John J.**

Sent: Friday, April 20, 2012 11:24 AM

To: Br<!unstein, Douglas

Subject: Fw: Collateral Disputes

**This isn't a good sign on our valuation process on the Tranche book in CIO. I'm going to dig further.**

From: Goldman, Irvin J

Sent: Friday, April 20, 2012 11:21 AM

To: Hogan, John J.

Subject: FW: **Collateral Disputes**

-----Original Message-----From: Lewis, Phil Sent: Friday,

From: **Braunstein, Douglas**

Sent: Friday, April 20, 2012 11:31 AM

To: Hogan, John J.

Subject: Re: Collateral Disputes

**Is this the first time this has happened**

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>

Sent: Fri, 20 Apr 2012 15:34:20 GMT

To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>

Subject: Re: Collateral Disputes

**Will find out,**

*Senate report main body page 139: how did this difference evolve between the 20<sup>th</sup> April and the 2<sup>nd</sup> May 2012? "*



Date	collateral difference	Biggest dispute
4/20/2012 <sup>784</sup>	\$ 520 million	\$ 115 million Morgan Stanley
05/02/2012 <sup>785</sup>	\$ 182 million	\$ 55 million Morgan Stanley
05/03/2012 <sup>786</sup>	\$ 194 million	\$ 57 million Morgan Stanley
<a href="#">table of key items</a>		

## • 25<sup>th</sup> April 2012 MRM report

*Senate report page 226:* “The bank notified the OCC about those stress limit breaches, like other internal risk limit breaches, in the bank’s **regular Market Risk Management (MRM)** Reporting emails which listed risk limit breaches and in its **weekly** Market Risk Stress Testing reports.<sup>1268</sup> »

*Senate report page 233:* “The MRM Reporting emails were typically sent to the OCC with attached **spreadsheets detailing risk limits at different lines of business**, including the CIO, and when those limits were breached. Thus, the OCC received contemporaneous notice when all five of the risk limits covering the SCP were breached in the first quarter of 2012: **VaR, CS01, CSW10%, stress loss, and the stop loss advisories**.<sup>1317</sup> The bank began reporting the CIO breaches in January and continued to report multiple breaches for months. »

*Senate report page 233 footnote 1317:* “ See, e.g., **4/4/2012 email from MRM Firmwide** Reporting, JPMorgan Chase, to Fred Crumlish, OCC, and others, “Firmwide Risk Daily: Market Risk Limits and VAR Reports – Regulators (COB 4/3/2012),” at OCC-SPI- 00132363 (see tab: CIO\_Global\_Credit, listing VaR Limits, 10% Credit Spread Widening, Credit Spread BPV, and **Stop Loss Advisory Limits for MTM One Day, Five Day, and Twenty Day**, among other listed risk limits). For more information about the breaches of the CIO risk limits, see Chapter V.”

*Senate report page 239:* “The OCC also told the Subcommittee that it later determined that the CIO’s April 16 presentation contained “**material misrepresentations**,” The OCC was unable to explain why it did not, at that point, confront the bank with its analysis that the SCP was not, in fact, a hedge. <sup>1352</sup> including a misrepresentation that the 2012 first quarter SCP losses totaled \$580 million,<sup>1353</sup> when first quarter losses had actually been internally reported as \$719 million.<sup>1354</sup> More significantly, at the time the bank briefed the OCC in April, the SCP losses were more than double the \$580 million figure provided by the bank; the bank should have told the OCC that the losses by **then totaled \$1.25 billion**.<sup>1355</sup>“

*Senate report page 240, while the OCC received the MRM April 18th 2012 report:* “In the OCC’s initial inquiry on **April 19, 2012**, an OCC examiner asked the CIO Market Risk Officer for additional information about data indicating that the CIO had breached three of the bank’s primary risk limits: “Would you have **any color** around some observations about the CIO **VaR** [Value-at-Risk], **CSBPV** [Credit Spread Basis Point Value, also known as the **CS01** risk limit] and **stress results**? **I received the following** from another examiner this morning. Thanks. [‘]The increase in the Firm’s Var is primarily driven by CIO Synthetic Credit portfolio. »

**Senate report page 243:** “Then, on **May 4, 2012**, a few days before JPMorgan Chase had to file a 10-Q report with the SEC publicly disclosing its first quarter financial results, two **senior bank executives telephoned** the OCC Examiner-In-Charge to inform the OCC that the SCP had incurred “**current losses**” of “**approximately \$1.6 billion.**”<sup>1372</sup>....

While it was waiting, on **April 25, 2012**, the **OCC received** a weekly summary showing that the CIO’s mark-to-market **losses had climbed to \$1.4 billion.**<sup>1377</sup> The OCC told the Subcommittee that amount of loss was “material” and should have prompted an immediate OCC communication to the CIO.<sup>1378</sup> While the **OCC examiner** who normally reviewed that weekly report **was then on vacation**, **his subordinates failed to notice** the size of the loss and no one made any call to the bank to ask about it.<sup>1379</sup> “

***Senate report page 108: see P&L path over this period“***

<i>Date</i>	<i>CIO estimate YTD in Mln</i>	<i>P&amp;L communicated by JPM execs</i>	<i>\$70 mln Stop loss advisory breached? (1D-5D-20D)</i>
<i>3<sup>rd</sup> April</i>	<i>-\$717</i>		<i>5D &amp; 20D</i>
<i>13<sup>th</sup> April</i>	<i>-\$1215</i>	<i>-\$580</i>	<i>5D &amp; 20D</i>
<i>18<sup>th</sup> April</i>	<i>-\$1270</i>		<i>20D</i>
<i>19<sup>th</sup> April</i>	<i>-\$1300</i>		<i>20D</i>
<i>24<sup>th</sup> April</i>	<i>-\$1575</i>		<i>5D &amp; 20D</i>
<i>25<sup>th</sup> April</i>	<i>-\$1763</i>		<i>1D &amp; 5D &amp; 20D</i>
<i>2<sup>nd</sup> May</i>	<i>-\$2185</i>		<i>5D &amp; 20D</i>
<i>3<sup>rd</sup> May</i>	<i>-\$2277</i>		<i>1D &amp; 5D &amp; 20D</i>
<i>4<sup>th</sup> May</i>	<i>-\$2380</i>	<i>-\$1600</i>	<i>1D &amp; 5D &amp; 20D</i>

[table of key items](#)

### • **30<sup>th</sup> April: Dimon: ‘I want to see the positions’**

**WSJ May 18<sup>th</sup> 2012 article: “Inside JP Morgan’s blunder”:** “On April 30, associates who were gathered in a conference room handed Mr. Dimon summaries and analyses of the losses. But there were no details about the trades themselves. “I want to see the positions!” he barked, throwing down the papers, according to attendees. “Now! I want to see everything!”

When Mr. Dimon saw the numbers, these people say, he couldn't breathe.

.....

Among other things, Mr. Dimon initially resisted ousting the executive at the center of the mess, confided in his wife that he had “missed something bad,” and expressed regrets with his colleagues one night over vodka about how they had all let the firm down.

...

The stakes are high. Mr. Dimon personally approved the concept behind the disastrous trades, according to people familiar with the matter ...

J.P. Morgan executives—including General Counsel Steve Cutler, the former Securities and Exchange Commission enforcement chief—weighed whether or not to disclose the losses immediately.

....

In recent years, some of the group's trading morphed into what essentially amounted to big directional bets, and its profits and clout grew. Last year, Mr. Macris dropped risk-control caps that had required traders to exit positions when their losses exceeded \$20 million. Ms. Drew and Mr. Macris declined to comment.

....

At Monday morning operating-committee meetings, where Mr. Dimon grilled business heads about their units' problems, he would rarely question Ms. Drew rigorously, according to attendees. When Mr. Dimon reviewed the profit-and-loss statements, the CIO group routinely showed a profit.

...

He didn't sleep well for the next several nights, he told colleagues, and fought the anxiety by getting up very early to exercise and head into the office.

Mr. Dimon tried to keep a business-as-usual face for peers and clients. On May 2, he attended a meeting at the Federal Reserve Bank of New York, where he is a director, and the next day an economic conference hosted by the University of Rochester, a big banking customer

....

Late that Friday night, several executives gathered in Mr. Dimon's office. Messrs. Dimon and Cavanagh drank vodka. Others had wine. They told their boss how they had let down the firm, attendees say. "We all did," Mr. Dimon replied, according to attendees. "Put on your JPM jerseys and get ready. We are going to take a lot of hits. We'll draft our best team and get through this."

Nearly all senior executives came into the office on Mother's Day to help Mr. Cavanagh set up a SWAT team. Since then, the team has been holed up in conference rooms “

[table of key items](#)

## • 10<sup>th</sup> May 10-Q report

*February 2016 letter:* “I expressed many times to the bank my disagreement with its public statements regarding the CIO losses, **starting on 11<sup>th</sup> May 2012** right after the 10-Q report and Jamie Dimon’s public comments. Other letters followed on the 13<sup>th</sup> July and 27<sup>th</sup> July 2012. In the meantime, I fully cooperated with the investigations conducted by the Bank, the SEC, DOJ, the CFTC, and the FCA. I wrote to JP Morgan again on January 7<sup>th</sup> 2016 to complain about the way it terminated me, the way the media conveyed so many erroneous descriptions about my role, about my conduct and the real context of this scandal.”

***Senate report first batch of exhibits disclosed in March 2013: exhibit 84:***

**From:** Drew, Ina <Ina.Drew@jpmorgan.com>

**Sent:** Wed, 02 May 2012 13:34:09 GMT

**To:** Drew, Ina <Ina.Drew@jpmorgan.com>

**Subject:**

**LEADING INTO THE CRISIS AND ECONOMIC DOWNTURN: IN DISCUSSION WITH JD. CIO DECIDES TO BUY CREDIT PROTECTION. USING INSTRUMENTATION ON THE SYNTHETIC CREDIT DERIVATIVES MARKET, PRINCIPALLY IN THE HIGH YIELD SPACE WHICH LEFT US SHORT RISK OR LONG PROTECTION IN WHICH CASE THE POSITION WOULD PROFIT AS HIGH YIELD COMPANIES DEFAULTED. AS TIME PROGRESSED AND THE FILINGS OCCURRED, THIS POSITION WAS BALANCED TO A MODERATE EXTENT WITH INVESTMENT GRADE LONG RISK POSITIONS. OVER THE LAST 5 YEARS, THE POSITIONS MADE APPROXIMATELY 2.3 BILLION DOLLARS, WERE REASONABLY STABLE WITH PREDICTABLE PNL ALTHOUGH THERE WERE A **COUPLE OF PERIODS OF DISTORTIONS** MAINLY CENTERED AROUND SYSTEMATIC MARKET EVENTS INCLUDING LEHMAN AND AIG. IN **NOVEMBER OF 2011 THE POSITION WAS QUITE STABLE AND IN BOUNDS FROM ALL PERSPECTIVES.****

WHAT HAPPENED?

**FOUR THINGS HAPPENED AROUND THE MONTH OF DECEMBER TO CHANGE MY THINKING ON THE NEED FOR A PRO DEFAULT BIASED HEDGE.**

1 . . THE COMPANY WAS STARTING TO DO THE MATH AROUND THE **BASLE III RWA RULES**. THE SAME BOOK THAT WAS DRAWING 20 OF CAPITAL UNDER BASLE I (THE REGIME THAT WAS IN PLACE DURING THE ENTIRE TIME OF THE HEDGE CONSTRUCTION) WAS GOING TO NEED APPROXIMATELY 60 BIL OR **THREE TIMES THE CAPITAL** TO SUPPORT

2. WE HAD A BIG PAY DAY. AMERICAN AIRLINES FILED EARLY AND WE OWNED IN THE HIGH YIELD HEDGE, A SIGNIFICANT OPTION ON THAT OUTCOME. WE RECORDED \$450 MILLION OF GAINS. ALTHOUGH THIS WAS A POSITIVE EVENT FOR THE BOOK, **THE HIGH YIELD MARKETS WERE RIOLED AND DISLOCATED FOR THIS AND OTHER TECHNICAL REASONS.**

3. **THE LTRO IN EUROPE WAS ANNOUNCED ON DECEMBER 8TH** PROVIDING STRONG SUPPORT FOR THE CREDIT UNIVERSE.

4. THE ECONOMY, PARTICULARLY IN THE UNITED STATES WAS LOOKING MUCH BETTER FROM ALL MACROECONOMIC STATISTICS AND WAS FURTHER FUELED BY THE LARGE SCALE EUROPEAN LIQUIDITY INJECTION. WE HAVE A **PRO RISK THEMATIC THROUGH THE INVESTMENT BOOKS.**

BOTTOM LINE: FOR ALL OF THE REASONS CITED, WE MADE A DECISION TO REDUCE THE SIZE OF THE HIGH YIELD SHORT. THE TRADERS WERE DETERMINING HOW BEST TO REDUCE THE SHORT IN THE HIGH YIELD MARKET GIVEN THE DESCRIBED LACK OF LIQUIDITY IN THE HIGH YIELD MARKET. A DIRECT REDUCTION OF THE EXPLICIT POSITION WAS DEEMED NOT POSSIBLE AND ENORMOUSLY EXPENSIVE. THE DESK THEN TURNED TO THE NEXT BEST PROXY WHICH IS CALLED THE IG9 INDEX. IT IS AN OLD INDEX FROM 2007. COMPOSED OF 125 EQUALLY WEIGHTED NAMES. WHICH MADE SENSE GIVEN THAT THE INDEX HAD 5 NAMES INCLUDING RADIAN, MBIA, ISTAR AND SPRINT OR COMMONALITY IN SINGLE NAMES THAT WOULD DIRECTLY OFFSET THE HIGH YIELD POSITION. **THIS CHOICE WAS VIEWED AS HAVING AMPLE LIQUIDITY** AND A GOOD PROXY TO REDUCE THE SHORT. LIMIT THE, CONSTRAINING OPERATING LIMIT IN PLACE WAS VAR AND THE VAR HAD BEEN A GOOD PREDICTOR OF THE RISK. IN FACT, AS POSITIONS WERE ADDED THE VAR WAS COMING DOWN WHICH WAS ALSO A KEY DRIVER OF THE INTENDED CAPITAL REDUCTION, THE DESK ADDED A VERY LARGE INVESTMENT GRADE POSITION TO TRY TO KEEP UP WITH THE REBALANCING THAT BELIEVED WAS NECESSARY AS THE HIGH YIELD MARKET WAS RISING IN PRICE.

WHAT WENT WRONG?

THIS IS WHERE AND HOW THE MAJOR PROBLEMS STARTED. **FIRST WE DID NOT HAVE LIMITS CONSTRAINING THE NOMINAL AMOUNTS OF POSITIONS THAT WOULD CLEARLY HAVE FLAGGED THE PURCHASES AS TOO LARGE AND CONCENTRATED FOR THE UNDERLYING LIQUIDITY OF THE MARKET** DESPITE THE FACT THAT THE RISK EQUIVALENT OF THE PURCHASES WERE WITHIN LIMIT. THE MODEL GOT IT WRONG. ALL THE THEORETICAL UNDERPINNINGS OF VALUATION HAVE BROKEN DOWN AND THE VOLATILITY HAS BROKEN ALL HISTORICAL AND WORSE CASE BANDS. **THERE WAS NO ELEVATION OF THE SIZE OF THE POSITION CHANGE OR A DISCUSSION AROUND THE MAGNITUDE OF NEW LONG RISK BEING ADDED TO EFFECTIVELY CLOSE DOWN OR BALANCE THE SHORT HIGH YIELD POSITION.**

THE RESULT

THE RESULT IS A VERY LARGE, CONCENTRATED POSITION WHICH RETAINS ITS PRO DEFAULT PROPERTIES UNTIL THE END OF THE YEAR, IE STILL SHORT THE HIGH YIELD MARKET. HOWEVER THE OVERALL BOOK IS LONG AGGREGATE CREDIT PRINCIPALLY IN INVESTMENT GRADE IN EUROPE AND THE UNITED STATES THE STRESS LOSS HAS FLIPPED FROM A POSITIVE RESULT TO A NEGATIVE RESULT SHOULD THERE BE A SEVERE SHOCK OR DOWNTURN.

WHAT ARE WE DOING?

THE FIRM WITH **SIGNIFICANT HELP FROM THE INVESTMENT BANK AND THE RISK MANAGEMENT ORGANIZATION** IS FRAMING A-RISK REDUCTION PLAN THAT IT HAS STARTED TO GENTLY IMPLEMENT. THIS WILL TAKE AT LEAST THREE MONTH. WE ARE UNABLE TO PREDICT THE SIGNIFICANT PNL VOLATILITY THAT MAY ARISE AS A CONSEQUENCE. I HAD STARTED. REDUCING THE ALLOCATION TO INVESTMENT GRADE CREDIT IN THE INVESTMENT PORTFOLIO IN THE FIRST QUARTER AND AM ACCELERATING THOSE SALES TO MONETIZE SOME OF THE 9 BIL OF GAINS WE HAVE HARVESTED FROM THOSE CASH INVESTMENTS. **WE CONSIDER THOSE SALES TO BE BOTH GOOD ECONOMIC SALES AND ALSO THE RIGHT THING TO DO TO BRING DOWN THE FIRMS EXPOSURE TO CREDIT**, ALBEIT TOP OF THE CAPITAL STRUCTURE, WHILE THE RISK REDUCTION PLAN FOR THE EXCESS POSITION IN THE CREDIT DERIVATIVES BOOK IS BEING UNWOUD. WE ARE WORKING THROUGH THE 10Q DISCLOSURE AND DOUG AND JAMIE ARE WEIGHING THE RISK REWARD TO THE COMMUNICATION PLAN AROUND A PRESS RELEASE AND ANALYST MEETING AND THE POTENTIAL IMPACT ON THE MARKET AND OUR ABILITY TO REDUCE THIS POSITION. WHAT WENT WRONG:

[table of key items](#)

*Senate report 1<sup>st</sup> batch of exhibits disclosed in March 2013, page 166: May 8<sup>th</sup> Phone call between Javier Martin-Artajo and Allistair Webster“*

ALLISTAIR WEBSTER: So I have, we've obviously been through a lot of detail on sort of pricing moves and how we got to where we got to at each position level.

...

ALLISTAIR WEBSTER: The 18 positions that **we reviewed with Doug.**

JAVIER MARTIN-ARTAJA: Yeah.

ALLISTAIR WEBSTER: So if I look at those back in January, the front office marks were all either mid or somewhere close to mid.

JAVIER MARTIN-ARTAJA: Right.

ALLISTAIR WEBSTER: That ..

JAVIER MARTIN-ARTAJA: **In terms of conservative and aggressive. That's what you're asking?**

ALLISTAIR WEBSTER: **Well, it's subtly different, subtly different.**

JAVIER MARTIN-ARTAJA: Okay.

.....

JAVIER MARTIN-ARTAJA: ... So we were on one side of the market obviously because that's what we were doing.

**Allistair:** But would that be, **if you were trading would you, you would be on the conservative side of the market as opposed to the aggressive side, right?**

JAVIER MARTIN-ARTAJA: **If you're trading, I don't understand your question.**

....

JAVIER MARTIN-ARTAJA: The thing that I experienced that was **incredibly strange to us**, right, is not only that you're telling us about about bid offer spread, but we were actually finding very surprising is a **move between the actual marks** that we mark the book at the end of the month okay ...

ALLISTAIR WEBSTER: Umhmm.

JAVIER MARTIN-ARTAJA: and **what we got from Markit and Totem three days later**, okay.

ALLISTAIR WEBSTER: Umhmm.

JAVIER MARTIN-ARTAJA: That is an incredibly surprising thing to me and to the traders. How much that difference was. So what **my conspiracy theory** is telling me is that **there's information between when we close our books at the end of March and where they agreed where the market was three days later.**

ALLISTAIR WEBSTER :Umhmm.

JAVIER MARTIN-ARTAJA: That is very very difficult for me to explain and, to be honest with you, I still don't know, I mean I still don't know why that happened. I'm still looking into it and I will never give up until I find out what happened there. **My guess is that they were already, Bloomberg and Wall Street Journal were already writing their story** so so their story was ready then. I think they were ready to publish it. I think they only needed to confirm a few things and they just delayed it for one week. So I think that information was already in the dealers and the hedge funds to be honest with you. that is a big move for me, and when we look at the actual move of that and we look at how the difference of our book marks at the end of the month, and when **I look at the IB marks at the end of the month that they gave us, and I look at Totem marks, what surprised me incredibly was the same amount that the IB would have priced our book at...**that was actually the price that at which Totem would have marked it. Now, I think that is very very very interesting to look at that and compare to the quotes that we had from JPMorgan at the end of of March.

ALLISTAIR WEBSTER: Um hmm.



JAVIER MARTIN-ARTAJO : and that is an amazingly, **interesting thing for you as an auditor and as an accountant.** I'd love you to help me with that once this is a little bit less critical, because ...

ALLISTAIR WEBSTER: Okay

....

JAVIER MARTIN-ARTAJO : I know you're saying that, but **let me tell you what Ashley told me.** He says that we are not. **He told me that I should be even more conservative than that, so, there's lots of opinions on this.**

ALLISTAIR WEBSTER: Oh no; **I have to agree with that ...**

.....

JAVIER MARTIN-ARTAJO : This is an OTC market. We trade in the markets. **We have an interpretation. We are changing it into what you guys are guiding us that we should do** and we're going to do it. **I mean I will do what the Firm wants me to do.**

...

JAVIER MARTIN-ARTAJO : and you know, **we contribute to the marking of the books.** As you know, **we do the estimates** and the best estimates that we can. Today we still have issues because today, I was just before this meeting, trying to explain, you know again, you know, how we did it for last week. So it's not exactly like we are yet with a firm way to explain this. Unfortunately, it's difficult to to get to the right methodology. **We differ from the IB--we trade at different times we have different markets and, I know that the firm wants us to have one standard but you know that I think it's difficult to agree with that** because you know I was stil I'm still doing this in parallel to see what it means for our book, and I think we're going to get a lot of volatility if we do that so I think it's better if we actually get some tolerance which is lower and we try to price everything in ICE or Markit everyday....

...

JAVIER MARTIN-ARTAJO : Is that what you wanted from this call?

ALLISTAIR WEBSTER: No, I mean, to be honest with you, I mean you you can interpret it any which way you want to and **I'm not here to accuse you** or anything like that. It was more, just a sort of, someone will ask that, you know, cause obviously **we've documented everything** you've done and you know we've been through the process, **position by position,** and well, they say, well they did this on that one and what they did with this on that one.

[table of key items](#)

*Senate report second batch of exhibits disclosed in November 2013: page 1503: Valuation validation memo redacted by Allistair Webster, Bret Dooley and Shannon Warren on May 9<sup>th</sup> 2012*

Privileged and Confidential  
Attorney Client Work Product  
May 10, 2012

#### Table of Contents

- I. Background
- II. JPMorgan Chase Fair Value Measurement Policy
- III. CIO Valuation Approach
- IV. Conclusions
- V. Appendix A – 3/31/12 Position Marks
- VI. Appendix B – Q1 Price Testing Analysis
- VII. Appendix C – CIO Transaction Data

This memo summarizes the Firm's review of the valuation of its CIO EMEA credit portfolio in light of the current market conditions and dislocation that occurred in April 2012.

#### I. Background

The CIO EMEA credit portfolio is made up of Investment and Core Credit portfolios<sup>1</sup>. The Investment portfolio consists of available-for-sale investment securities, while the Core Credit Portfolio primarily consists of synthetic credit positions -- credit derivative positions on various credit indices and tranches of those indices (the index and tranche credit derivatives portfolio). These synthetic positions were entered into to manage the market value deterioration in a potential stress scenario associated with investment securities held in the available-for-sale portfolio; the positions have changed over time depending on the Firm's view of credit risk.

These changes have been unusual compared to the historical relationship between investment grade and high yield indices, as well as the relationship between index and tranche exposures. Due to the complexity and the size of the Firm's positions, the effect of these changes, in conjunction with other market factors, on the estimated fair value of the Firm's positions has been significantly negative during April. As noted throughout this memo, relatively small variations in price can have a relatively large impact on the estimated fair value of the entire portfolio, given the size of the Firm's positions.

Where available, quoted market prices are the principal reference point for establishing fair value. Market quotations may come from a variety of sources, but emphasis is given to executable quotes and actual market transactions (over indicative or similar non-binding price quotes). In certain circumstances valuation adjustments (such as liquidity adjustments) may be necessary to ensure that financial instruments are recorded at fair value.

As noted below, CIO's evaluation of valuation adjustments has been based on market liquidity for the positions, rather than on the absolute size of CIO's positions. In the normal course of business, CIO will continue to review its valuation practices in light of its current risk management and exit strategies to ensure its valuation practices continue to represent CIO's estimate of exit price.

Then depending on the product and availability of information the following processes are followed:

- For index products:
  - "On the run" indices (i.e. most recent series, 5y point): as these are the most liquid instruments, the front office typically uses the dealer runs.
  - "Off the run" indices: Front office looks at bid-offer spreads, volumes, recent price changes and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.
- For tranche products:
  - For liquid tranches: front office computes the best-bid/best-ask using the dealers' runs - the tranche is then marked using the mid of this 'best' market.
  - For illiquid tranches: front office looks at bid-offer spreads, volumes, recent price changes, relevant index prices, and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.

#### D. Determining a book price

- The CIO VCG mid-market price plus/minus the price testing threshold set by CIO VCG per instrument (the VCG valuation range) is compared to the front office mark. If the front office mark is outside the VCG valuation range, the position mark is adjusted to the outer boundary of the range. Within the VCG valuation range front office marks may be used without adjustment.
- Irrespective of threshold levels, any difference between front office mark and the mid-market price may be adjusted, at CIO VCG's discretion.
- CIO VCG has not historically adjusted front office marks directly to Markit/Totem spreads/prices for the less liquid indices and tranches because:

- CIO has observed that the business valuation cut-off time may differ from the data provided by Markit/Totem. The combination of intra-day price moves on the last day of the month and the difference between the time when Markit/Totem fixes and the time when CIO closes its books can result in pricing differences that while small from a price perspective, could be significant for such a large portfolio.

As additional analysis, CIO estimated that as of March 31, 2012, the sum total of the differences between the front office marks and the CIO VCG mid market estimates was \$512 million before adjustment to the boundary of the VCG valuation range (considering price testing thresholds) and \$495 million after adjustment.

#### Comparison to Industry Practice

The Firm believes that its valuation practices in CIO are consistent with industry practices for other non-dealer investors/managers. CIO, like other non-dealer investors/managers, relies more heavily on transaction-level data available through its own market activity, and its valuation process reflects its exit market and the participants in that market. In the normal course, the Firm evaluates its own business and risk management practices, and makes appropriate refinements to reflect its best estimates of fair value.

There was evidence that actual transactions and broker quotes diverged from Markit/Totem prices in some cases.

- As additional analysis, CIO estimated the aggregate difference in the front office marks and the CIO VCG mid-market estimates. This difference (\$512 million), less the price testing threshold adjustment of \$17mm and less the liquidity reserve of \$188mm, was approximately \$307 million as of March 31, 2012, compared to the gross value of derivative receivables and payables of approximately \$8 billion.

#### IV. Conclusions

- CIO believes that its marks as of March 31, 2012 represents CIO's estimate of its exit price as of that date.

*Senate report page 6:* “

On May 10, 2012, the bank's Controllor issued an internal memorandum summarizing a special assessment of the SCP's valuations from January through April. Although the memorandum documented the CIO's use of more favorable values through the course of the first quarter, and a **senior bank official even privately confronted a CIO manager about using “aggressive” prices in March**, the memorandum generally upheld the CIO valuations. The bank memorandum observed that the CIO had reported about \$500 million less in losses than if it had used midpoint prices for its credit derivatives, and even disallowed and modified a few prices that had fallen outside of the permissible price range (bid-ask spread), **yet found the CIO had acted “consistent with industry practices.”**”  
[table of key items](#)

*Senate report page 11:* “

A month later, in connection with its May 10, 2012 10-Q filing finalizing its first quarter financial results, the bank announced that the SCP had lost \$2 billion, **would likely lose**

**more**, and was much riskier than earlier portrayed. The 10-Q filing stated: “Since March 31, 2012, CIO has had significant mark-to-market losses in its synthetic credit portfolio, and this portfolio has proven to be **riskier, more volatile and less effective as an economic hedge** than the Firm previously believed.....

**-Page 12**

**“Omitting VaR Model Change.** Near the end of January, the bank approved use of a new CIO Value-at-Risk (VaR) model that cut in half the SCP’s purported risk profile, but failed to disclose that VaR model change in its April 8-K filing, and omitted the reason for returning to the old model in its May 10-Q filing.”

**-Page 252**

“Given the information that bank executives possessed in advance of the bank’s public communications on April 10, April 13, and May 10, the written and verbal representations made by the bank were incomplete, contained numerous inaccuracies, and misinformed investors, regulators, and the public about the CIO’s Synthetic Credit Portfolio”

**-page 262:**

“During the business update call, **Mr. Dimon** spoke at length about the SCP:

“We are also amending a disclosure in the first quarter press release about CIO’s VAR, Value-at-Risk. **We’d shown average VAR at 67. It will now be 129.** In the first quarter, we implemented a new VAR model, which we now deemed inadequate. And we went back to the old one, which had been used for the prior several years, which we deemed to be more adequate. ... Regarding what happened, the **synthetic credit portfolio was a strategy to hedge the Firm’s overall credit exposure, which is our largest risk overall ....** We’re reducing that hedge. But **in hindsight, the new strategy was flawed, complex, poorly reviewed, poorly executed and poorly monitored. The portfolio has proven to be riskier, more volatile and less effective [an] economic hedge than we thought....** We have more work to do, but it’s obvious at this point that there are many errors, sloppiness and bad judgment. I do remind you that **none of this has anything to do with clients.** ... **[W]e’ve already changed some policies and procedures**, as we’ve gone along. In addition you should know that all appropriate corrective actions will be taken, as necessary, in the future. ... The portfolio still has a lot of risk and volatility going forward. ... It could cost us as much as \$1 billion or more. ... These were grievous mistakes, they were self inflicted, we were accountable and **we happened to violate our own standards and principles** by how we want to operate the company. ... **[W]e admit it, we will learn from it,** we will fix it, we will move on, hopefully in the end, it will make us a better company.”<sup>1472</sup> In response to questions during the call, Mr. Dimon also said: “**You should assume that we try to keep our readers update[d] about what we know and when we know it** and it’s just a constant practice of the company. And when I said, it was caught, we started [to] dig into this more and more, most of the things were bearing big losses in the second quarter. And of course, when you start to see something like that you act probably – obviously we should have acted sooner. [Analyst question]: [W]hen did the losses accumulate? [W]as this something that happened most recently or this was an era in the past and is just updating your risk amount now? [Mr. Dimon]: There were small ones in the first quarter, but real ones that we talked about the \$2 billion were all in the second quarter. And it kind of grew as the quarter went on. And obviously it got our attention, that and other things, which came to our attention.”<sup>1473</sup>

**Page 273-**“For example, hours after the May 10 call, one analyst asked the bank’s head of investor relations, “**who was watching the CIO? Doesn’t internal audit monitor this?**”<sup>1513</sup> Another analyst commented: “Pretty big confidence blow for best risk manager; **very puzzling.**”<sup>1514</sup>

[table of key items](#)

***Senate report first batch of exhibits disclosed in March 2013: “***

**From:** Wong, Elwyn

**Sent:** Tuesday, May 15, 2012 1:17 PM

**To:** Kirk, Mike; Crumlish, Fred; Fursa, Thomas; Hohl, James

**Subject:** RE:

**Good point. Does not add up. Collateral dispute of \$700 mil versus a double digit reserves amount?**

**From:** Kirk, Mike

**Sent:** Tuesday, May 15, 2012 1:14 PM

**To:** Wong, Elwyn

**Subject:** RE:

Just looked at it and can't find what I would think is the whole book ... wondering are there items they weren't price testing? **Wondering how could they have a large collateral dispute and with these reports showing pricing this tight (16MM adjustment only)** Is the synthetic portfolio completely covered by this report? It's not clear to me.

**From:** Wong,

**Sent:** Tuesday, May 15, 2012 11:18 AM

**To:** Kirk, Mike

**Subject:**

Talked to Tom. There is March CIO VCG report in WISDM **under FVP/CIO**. The Powerpoint mentioned increase by a small amount of reserves for CDS but we didn't find total amount in Spreadsheet. I will look more closely too. **CIO VCG reports to CIO Controller not to Jean Francois Bessin obviously.”**

[table of key items](#)

- **13<sup>th</sup> June 2012: “it morphed into something”**

*June 6<sup>th</sup> : Thomas Curry-OCC testified before Congress*

*June 13<sup>th</sup> Jamie Dimon testified before Congress*

- **12<sup>th</sup> July 2012 restatement**
- **15<sup>th</sup> Jan 2013: task force report**
- **15<sup>th</sup> March 2013: Senate report**
- **13<sup>th</sup> August 2013: ‘a voice of reason’...**
- **September-October 2013: Levin, The Economist and the Fines of JPM**
- **October 2014 Comptroller report: FED and OCC**

**Page 9** “In its 2012 annual report, JPMC reported earnings of \$21.3 billion—a 12 percent increase over JPMC’s 2011 earnings, even after incurring the losses associated with the CIO’s



trading activities. The losses reduced JPMC's earnings but did not jeopardize the institution's solvency or diminish its capital position.<sup>4</sup>

- **July 2015: FCA (maximum deterrence, FSMA 2000, final notice appeals, Byrne and partner statements)**
- **September 2015: droits de réponse Les Echos, Le monde**
- **February 2016: Macris FCA final notice- Iksil letter**

## Collateral effects...

**January 27<sup>th</sup> 2014:** "JP Morgan employee who fell to death from bank's London office in Canary Wharf named as Gabriel Magee"

Mr Magee joined the JP Morgan group when it merged with his company, Chase Manhattan. After the merger he moved to JP Morgan in London in 2007 and had been happy, even talking of becoming a citizen, the colleague said....

Local workers spoke of their shock at the scene. Emily Brimson who works nearby, said yesterday morning: "The police came and moved the body a little, took measurements, etc, but then they all left. Now the body is lying there covered by a sheet. One policeman is manning the door."

The 33-floor building has been the European, Middle East and Africa headquarters of JP Morgan since July 2012. It was previously occupied by Lehman Brothers and Enron before that.

<http://www.independent.co.uk/news/business/news/jp-morgan-employee-killed-in-fall-from-banks-london-office-in-canary-wharf-named-as-gabriel-magee-9091649.html>

- **March 18<sup>th</sup> 2014: "Young banker's suicide becomes twelfth in financial world this year"**

Before moving into his last position, the New York Post reported Bellando worked as an investment banker at JP Morgan Chase. His brother, John Bellando, also works at JP Morgan as an investment officer; the Post stated that multiple emails by John Bellando were presented as evidence during Senate hearings regarding the "London Whale" trading scandal.

<https://www.rt.com/usa/twelfth-banker-suicide-finicial-world-634/>

- **May 21<sup>st</sup> 2014: Bloomberg on Magee "JPMorgan Tech Worker Death Was Suicide, Coroner Says"**

Gabriel Magee, 39, had worked as a computer programmer since 2004 in the corporate and investment bank's technology support department.

Magee's manager, Andrew Harding, said at the hearing that Magee had difficulties at work in the year before he died. The bank's head of investigations for Europe, Middle East and Africa, Jonathan Shatford, said that notes were found on Magee's computer that mentioned jumping off a building.

Magee appeared to have gotten out on the roof of the 32nd floor by climbing a ladder and cutting a padlock on an unalarmed hatch, Shatford said. Surveillance footage shows Magee using his employee swipe card to gain access to an off-limits area that led to the roof and exploring it on at least two other occasions in November and January, Shatford said.

#### Tequila, Padlock

Paul Hollands, a police sergeant who responded to the scene, said he and Shatford found a bag, a mobile phone, a tablet computer and an empty bottle of tequila on the roof. Shatford said police also found a pair of bolt cutters buried under gravel on the roof and that he found a padlock there that had been cut.

While a company laptop Magee had used contained encrypted software he had installed, an external firm was unable to break the code so the contents weren't examined, Shatford said.

<http://www.bloomberg.com/news/articles/2014-05-20/jpmorgan-technology-worker-magee-death-was-suicide-coroner-says>

#### **Parts still missing:**

*Motivations of Rhule, Weinstein Hubbard to team with the IB, ICE, connections...*

*Synchronized loss after march 12<sup>th</sup> 2012 meeting with Bacon*

*Real loss path dependent upon Dimon lies and recovery post 2012*

*Proof that nothing was missing in the valuation process ever in official documents. Contrast policy and data in public docs*

*Proof that the tranche P&L remained nil during the official dispute*

*Proof that the mismarking lies entirely in the CFO and controllers hands, with full support of regulators ( see the 2007 controllers policy, next the January 2012 policy redacted in May 2012 by Webster, next the NBIA, next the May 10<sup>th</sup> memo all being in the Second batch of senate exhibits)*

***Proof that Drew gave the instruction to JMA on March 6<sup>th</sup>: no one else could. JMA was under watch and out of control already by Macris.... 'maximize P&L' on jan 10<sup>th</sup>, 'tweak that mark back' on April 17<sup>th</sup>, 'narrow bid-offer' from Dimon on April 20<sup>th</sup>, 'bid offer***

*attribution' on March 30th, 'iksil holiday and ski' on March 30<sup>th</sup>, elevation on March 23<sup>rd</sup> from 'one position causing \$250 million', March 5<sup>th</sup> email from Grout to Goldman on Skew and IG9 10yr. Strange call from JMA to BI on ski resort...JMA is under close watch: demotion on early Feb, 'defend the P&L' and Bacon from Macris on March 1st*

*On the follow of the point above....Proof that CIO prices in march became public after Drew elevation at the decision of the firm. This was a change decided by Dimon again. Use Lehman case to document the full control of the IB for CIO MTM. Show that Webster changed the policy in May, retroactively from January 2012 to make CIO responsible for the collateral marks. Show that this decision is made once the collateral dispute has failed. Authorities are complicit: look for 'traders interests are going to diverge from banks interests' in June 2012 in exhibits...*

*Proof with the conclusion on the case of johnathan Flam (or flum) that the jp chiefs should be jailed for decades. The evidence is very strong but the general context if hard to understand.*

*Connections between Jamie Dimon press coverage and his orders to CIO about the SCB*

*Connection between fake dispute, bacon sent to London, 'I want to see the positions', Totem row with Webster, Bacon 'optics management for regulators', o'Rehilly nasty email, Dimon email to Drew and Macris, Braunstein & Hogan call on may 4<sup>th</sup>, alcoholic party on the 7<sup>th</sup>, Hogan pretence on limit violations that day, nasty calls from Webster, james pearce late manipulations*

*Deeper analysis on the series of failures for Bear, Lehman, AIG, accounting favor on WAMU from the financial crisis report and the role played by Dimon*

### ***Anecdotes:***

*Macris in February 2007 with Paulson and JMA*

*TABX issue with IB at end of June 2007*

*July 2007 : Issue with the super-senior tranches-Jon Masur emails for Dimon*

*September 2007: email fromBonocore upon Ina Drew inclusion in daily estimate emails*

*Macris in October 2007: CLO and Jamie wants to declare victory*

*Dec 2007: write down on CLOs*

*January 2008: Quebecor gains: "spend it"*

*Bruno Iksil to Ina Drew in March 2008 after Bear Stearns: JMA cutting positions, 'you told me that' and the annuities*

*July 2008: Ina Drew caps and the tripartite repo and Lehman (Jamie is arms twisted to be global custodian for Lehman)*

*September 2008 lehman manipulation from IB guys on CIO prices*

*Ina Drew in September 2008: '3 defaults that's a lot'*

*JMA in December 2008: Jamie wants the book to be on mean reversion trades, write down on CLOs*

*February-March 2009: weekly VCG checks, liquidity reserve, Drew in London*

*April-May-June 2009: Villani, Rosen, Jeremy Barnum and GM filing*

*July 2009: positions cuts done by JMA*

*September-December 2009: "FO reserve" reintegrated by finance into the estimate P&L*

*March 2010: visits of Cavannagh and Dimon: 'I hate them'*

*June 2010: Land the plane due to illiquidity*

*July 2010: positions cuts done by JMA again*

*March to September 2010: Jason Hugues computes projected liquidity reserves based upon S9 indices-Nothing is taken finally*

*Equity dividend trade and Ina Drew in September 2010*

*December 2010: 'FO reserve' of \$100 million reintegrated into the estimate P&L again*

*MD promotion strange facts in early 2011: no filling by JMA, no meeting with Macris; Weiland or Drew, but meetings with Corio, Szabo, Goldman, Irene Tse*

*Smash the RWA in march 2011 and Ina drew Visit: solution of BI: "freeze the book and split it"- No warning on stress tests*

*April 2011: 8 Page doc memo on RWA model suspected flaws: HY losses understated vs OG losses, curve steepening in spread widening, 4 defaults already priced in (!?), Skew motionless*

*June 2011: Anger of JMA about treasury short and distressed subprime*

*Real genesis of the forward spread trades (RWA vs defaults) and strategy 27 July 2011*

*August 2011: email from BI to Drew and Macris about lower predicted performance*

*September 2011: NY trip and the lies of QR-dealers manipulate the Skew quotes: they set an hostile chat against CIO*

*October 2011: charts about the main risk metrics*

*November 2011: Credit Hybrids close and history with CIO*

*Early December 2011: IB guys refuse to collapse-Bloomberg IG9 fixings start being wrong*

*9<sup>th</sup> December 2011: events with 'talent is overrated'*

*22<sup>nd</sup>-28<sup>th</sup> events: valuation issues with CIO involving CCAR, collateral, IB, Dimon, 'we should have taken this reserve- we made a mistake ok'-Ina Drew stated in late April or early May*

*December 2011 valuation is a problem: 16<sup>th</sup> first valuation, prices are frozen until 28<sup>th</sup> December, second year end valuation, collateral issues with IB, Macris: 'we are CIO value ours books conservatively', Grout cannot provide the first batch in early January, JMA orders BI to keep trading, Drew orders to keep trading, Macris orders to keep trading, Drew 'we made a mistake about this reserve', :JMA 'we should have stopped this last year en just rebalance de book (30<sup>th</sup> March with Goldman), Iksil 'I find it stupid to get long risk'*

*18<sup>th</sup> January 2012: Ina drew anger at BI statements about unwind costs*

*20<sup>th</sup> January 2012: Ina Drew statement about Kodak*

*26<sup>th</sup> Jan-30<sup>th</sup> Jan-31<sup>st</sup> Jan-2<sup>nd</sup> Feb- 3<sup>rd</sup> Feb: real events, real manipulations in official reports: JMA demotion*

*7<sup>th</sup>-8<sup>th</sup> February one slide to prevent the trades to occur*

*9<sup>th</sup>-10<sup>th</sup> IRC/ CRM split from Hogan in early February 2012- Drew open collapse talks after RESCAP and \$150 Million YTD loss*

*22<sup>nd</sup> February 2012 slides from BI to warn on imminent further losses due to the 'gigantic' IG9- Slides from Kalimtgis and slides from Drew. Weinstein sister calls*

*February 29<sup>th</sup> Weinstein manipulations with CSFB*

*February 29<sup>th</sup> Ina Drew statement about 'national preference'*

*February 29<sup>th</sup> JMA statement about Guy America*

*March 1<sup>st</sup> call from Gabriel Roberts from CITIGROUP about Weinstein: 'there is only one guy'*

*March 2<sup>nd</sup> Abrupt resignation of Evan Kalimtgis and causes for that*

*March 5<sup>th</sup>-6<sup>th</sup>-7<sup>th</sup> events with Drew and Goldman: orders from NY and skew driven losses*

*March 15<sup>th</sup>- Iksil corrects Grout who conceals things*

*March 16<sup>th</sup> Iksil depressed: all this RWA campaign was a pure setup*

*March 19<sup>th</sup> compliance alert ordered by JMA*

*March 20<sup>th</sup> JMA call*

*March 21<sup>st</sup> meeting: Iksil cannot speak once again*

*March 23<sup>rd</sup> events: Iksil is sidelined despite communicating the right figures to JMA and Grout*

*March 30<sup>th</sup> events: JMA and Grout stay late together, sidelining Iksil again*

*April 10<sup>th</sup> who told JMA to send a \$5 million loss that day?*

*April 29<sup>th</sup> blow of Webster about Totem*

*May 2<sup>nd</sup>: Bacon not unwinding but only managing the 'optics' for the regulators*

*May 3<sup>rd</sup> nasty email from O rehilly*

*May 6<sup>th</sup> strange behavior of Macris, Banit, Artajo*

*May 8<sup>th</sup> strange behavior of Hogan*

*May 11<sup>th</sup>: Iksil email to HR and evangelisti about the wrong statements made by Dimon after the 10-Q*

*May 15<sup>th</sup>: last 2 studies handed to Bacon and Vigneron- James Pearce manipulation backed by Zames and Pinto- JPM interview No 1*

*Early June 2012: strange statement from Julien grout*

*Mid June 2012: lies of Dimon before Congress- check upon senate exhibits, Dooley, Webtser and Warren*

*Late June 2012: strange statements from Francois Brochard- 2 days interview with task Force*

*Details of the ongoing harassment next by FCA ....*