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JP Morgan Chase Bank N.A Fined for Serious Failings

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JPMorgan Chase Bank N.A. fined £137,610,000 for serious failings relating to its Chief Investment Office's "London Whale" trades

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The Financial Conduct Authority (FCA) has fined JPMorgan Chase Bank N.A. ("JPMorgan") £137,610,000 (\$220 million) for serious failings related to its Chief Investment Office (CIO). JPMorgan's conduct demonstrated flaws permeating all levels of the firm: from portfolio

level right up to senior management, resulting in breaches of Principles 2, 3, 5 and 11 of the FCA's Principles for Businesses - the fundamental obligations firms have under the regulatory system.

The breaches occurred in connection with the \$6.2 billion trading losses sustained by CIO in 2012. These losses arose as a result of what became known as the "London Whale" trades, and were caused by a high risk trading strategy, weak management of that trading and an inadequate response to important information which should have notified the firm of the huge risks present in the CIO's Synthetic Credit Portfolio (SCP).

Tracey McDermott, the FCA's director of enforcement and financial crime said:

"When the scale of the problems at JPMorgan became apparent, it sent a shock-wave through the markets. Maintaining the integrity of markets is a key part of our wholesale conduct agenda. We consider JPMorgan's failings to be extremely serious such as to undermine the trust and confidence in UK financial markets.

"This is yet another example of a firm failing to get a proper grip on the risks its business poses to the market. There were basic failings in the operation of fundamental controls over a high risk part of the business. Senior management failed to respond properly to warning signals that there were problems in the CIO. As things began to go wrong, the firm didn't wake up quickly enough to the size and the scale of the problems. What is worse, they compounded this by failing to be open and co-operative with us as their regulator.

"Firms must learn the lessons from this incident and ensure that they have business practices, values and culture to control the risks in their businesses."

Summary of key facts

The trading strategy for the SCP in 2012 caused the size of its positions to grow so large that it was at risk of substantial losses from even a small adverse market move.

However the firm's response to breaches of relevant risk limits was to assume the numbers indicating a breach were unreliable or to doubt the accuracy of the methodology for risk measurement, and to approve temporary limit increases without adequate analysis of the root cause of the breaches.

When significant losses began to mount during 2012, JPMorgan's traders sought to conceal them by mismarking positions and through misconduct in the market in which the losses were occurring. Mismarking went undetected in 2012 owing to flaws in valuation controls, some of which had existed since 2007.

JPMorgan's failings extend to its senior management's response to the problems with the SCP in the second quarter of 2012. In preparation for a regulatory filing (of J.P. Morgan Chase & Co (the Group)'s first quarter net income) on 10 May 2012, the firm's senior management had commissioned a review of the SCP's valuations. However the review failed to uncover the extent of the valuation problems present in the SCP. The firm's senior management gave insufficient weight to inconsistencies raised in the information in its possession, especially in light of the context provided by the scale of the losses in the SCP. Firm senior management did not take sufficient steps to ensure that all crucial information reached the appropriate decision makers; findings made by Internal Audit were not escalated to senior management and therefore not considered as part of the review. In addition, the firm's senior management did not involve key parts of the firm's overall control framework in the review.

The Group filed a statement of its earnings in the US on 10 May 2012 which over-valued the SCP's positions. It subsequently filed a restatement on 13 July 2012. More effective analysis of the information available as at 10 May 2012 may have prevented the need for this restatement.

JPMorgan also failed to meet its obligations in respect of its relationship with the FCA*. During the first half of 2012, JPMorgan failed to be open and co-

operative with the FCA in that it concealed the extent of the losses as well as numerous serious and significant issues regarding the situation in the SCP.

JPMorgan's failings were extremely serious and undermined trust and confidence in UK financial markets.

Settlement discount

JPMorgan agreed to settle at an early stage of the FCA's investigation. JPMorgan therefore qualified for a 30% discount under the FCA's settlement discount scheme. Without the discount the fine would have been £196,586,000.

Overseas regulators

This was a significant cross-border investigation, and the FCA would like to thank the U.S. Securities and Exchange Commission, U.S. Attorney's Office for the Southern District of New York, Federal Bureau of Investigation, Office of the Comptroller of the Currency, New York Federal Reserve Bank and the U.S. Commodity Futures Trading Commission for their co-operation.

JPMorgan also agreed to settle actions brought by the U.S. Securities and Exchange Commission, who imposed a financial penalty of \$200 million and required the Firm to admit wrongdoing; the Office of the Comptroller of the Currency, who imposed a financial penalty of \$300 million, and the Federal Reserve, who imposed a financial penalty of \$200 million.

* On 1 April 2013, the Financial Services Authority (FSA) became the Financial Conduct Authority (FCA). References in this press release to the FCA should be read as to include reference to the FSA prior to 1 April 2013.

Notes for editors

1. **[Final Notice for JP Morgan Chase Bank NA.](#)**
2. Principle 2 requires regulated firms to conduct their business with due skill care and diligence.
3. Principle 3 requires regulated firms to take reasonable care to organise and control their affairs responsibly and effectively with adequate risk management systems.
4. Principle 5 requires firms to observe proper standards of market conduct.
5. Principle 11 requires firms to deal with their regulators in an open and cooperative way and to disclose to the FCA or PRA appropriately anything relating to their business of which the FCA or PRA would reasonably expect notice.
6. On the 1 April 2013 the Financial Conduct Authority (FCA) became responsible for the conduct supervision of all regulated financial firms and the prudential supervision of those not supervised by the Prudential Regulation Authority (PRA).
7. The FCA has an overarching strategic objective of ensuring the relevant markets function well. To support this it has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.
8. Find out **[more information about the FCA](#)**, as well as **[how it is different to the PRA](#)**.

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