

JPMorgan Chase London Whale Z: Background and Overview¹

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Abstract

In December 2011, the Chief Executive Officer and Chief Financial Officer of JPMorgan Chase (JPM) instructed the bank's Chief Investment Office to reduce the size of its Synthetic Credit Portfolio (SCP) during 2012, so that JPM could decrease its Risk-Weighted Assets as the bank prepared to adopt the impending Basel III bank capital regulations. However, the SCP traders were also told to minimize the trading costs incurred to reduce Risk-Weighted Assets, while still maintaining the opportunity to profit from unexpected corporate bankruptcies. In an attempt to balance these competing objectives, head SCP derivatives trader Bruno Iksil suggested in January 2012 that the SCP expand a strategy first implemented in 2011 to buy large volumes of certain credit derivatives while simultaneously selling large volumes of other credit derivatives. The strategy quickly proved unsuccessful, and JPM's Chief Investment Officer ordered Iksil and the other SCP traders to halt this strategy on March 23. However, losses continued to mount as the credit-derivative positions were unwound, ultimately reaching \$6.2 billion by December 2012.

¹ This case study is one of nine produced by the Yale Program on Financial Stability (YPFS) examining issues related to the JPMorgan Chase London Whale. The following are the other case studies in this case series:

- *JPMorgan Chase London Whale A: Risky Business*
- *JPMorgan Chase London Whale B: Derivatives Valuation*
- *JPMorgan Chase London Whale C: Risk Limits, Metrics, and Models*
- *JPMorgan Chase London Whale D: Risk-Management Practices*
- *JPMorgan Chase London Whale E: Supervisory Oversight*
- *JPMorgan Chase London Whale F: Required Securities Disclosures*
- *JPMorgan Chase London Whale G: Hedging Versus Proprietary Trading*
- *JPMorgan Chase London Whale H: Cross-Border Regulation.*

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1. Introduction

On April 6, 2012, Bloomberg and the *Wall Street Journal* published the first news stories about a mysterious derivatives trader known as the “London Whale.” The trader in question, Bruno Iksil, worked in the London office of the largest United States (US) bank holding company, JPMorgan Chase & Company (JPM). In response, bank officials maintained that Iksil’s trading activities were not focused on short-term profits but were instead used to help JPM hedge certain of its structural risks. However, the articles questioned whether Iksil’s derivative bets were so large that he was in fact exposing the bank to more risk.

JPM released its preliminary earnings results for the first quarter of 2012 just a week later on April 13, and Chief Executive Officer Jamie Dimon assured investors and analysts on the conference call that the matter was just a “tempest in a teapot,” though evidence would later reveal that Iksil’s failed trading strategy had lost over \$1 billion by this date.

The bank set up an internal task force in early May to investigate the losses. When JPM reported its final first-quarter financial results on May 10, Dimon acknowledged that the Chief Investment Office (CIO), the unit in which Iksil worked, had taken on more risk than previously thought because a recently implemented risk-measurement model had been inadequate. At the same time, several of JPM’s counterparties disputed the amount of collateral that had been assigned to Iksil’s credit-derivative contracts, thus raising doubts whether the CIO was complying with US Generally Accepted Accounting Principles when estimating the fair value of its derivatives.

The US Senate began holding hearings into the matter in June and launched a formal investigation in July. This investigation resulted in a 300-page report in March 2013, accompanied by an additional 600 pages of supporting exhibits. The internal JPM task force also released its own 130-page report in early 2013. Both of these reports detailed the flaws in Iksil’s trading strategy, the violation of proper accounting treatment for the credit derivatives in question, and the failures in JPM’s risk-management system that allowed the losses and the accounting irregularities to occur.

Though CIO senior management halted Iksil’s trading in March 2012, before the Bloomberg and *Wall Street Journal* articles were even published, the bank needed the rest of the year to unwind the credit derivatives trading book. Market losses continued to escalate, finally totaling \$6.2 billion by December, as other investors were aware of the size and composition of JPM’s derivatives holdings and traded against the firm as a result.

As a global-diversified financial services firm, JPM is supervised by many different regulatory agencies, both in the US and internationally. These regulators later admitted to having been surprised when they first saw the April 6 articles, and they penalized JPM for its regulatory violations. JPM settled these charges in fall 2013 for a total penalty of \$1.02 billion, including admitting wrongdoing in certain circumstances. (See Figure 1.)

The remainder of this overview case study is organized as follows. Sections 2, 3, and 4 provide background on JPM, the bank’s Chief Investment Office, and credit default swaps, respectively. Section 5 summarizes the other case studies. See Appendix 1 for a timeline of key events and Appendix 2 for an organizational chart of key players.

Figure 1: JPM Settlements with Regulators

Date	Amount	Regulator/Supervisor
September 19, 2013	£ 137.6 million **	(UK) Financial Conduct Authority
September 19, 2013	\$ 200 million	(US) Federal Reserve Board
September 19, 2013	\$ 300 million	(US) Office of the Comptroller of the Currency
September 19, 2013	\$ 200 million	(US) Securities and Exchange Commission
October 26, 2013	\$ 100 million	(US) Commodity Futures Trading Commission

** About \$220 million.

Source: Project Editor Notes.

2. The Bank: JPMorgan Chase & Company

New York banker John Pierpont Morgan and Philadelphia banker Anthony Drexel founded the firm of Drexel, Morgan & Company in New York City in 1871. The bank grew over the years, both organically and via many acquisitions, eventually absorbing over 1,000 predecessor financial institutions, the oldest of which dates back to 1799. By December 2011, what is now known as JPMorgan Chase & Company had grown to become the largest bank holding company in the US, with 260,000 employees, \$19 billion of net income, \$97 billion of total net revenue, \$184 billion in total stockholders' equity, and \$2.3 trillion in total assets (JPM 10-K 2011, 62). According to the Federal Financial Institutions Examination Council, the only other US bank holding company with total assets over \$2 trillion at that date was Bank of America.

JPM is incorporated under Delaware law and continues to maintain its headquarters in New York City, New York. JPM has two primary national bank subsidiaries: JPMorgan Chase Bank, which is a commercial bank with branches in 23 US states, and Chase Bank USA, which specializes in credit cards. JPM's main non-bank subsidiary is JPMorgan Securities, which is an investment banking firm (JPM 10-K 2011, 1).

The holding company is managed on a line-of-business basis with six reportable segments. (See Figure 2). In addition, JPM maintains a "Corporate/Private Equity" function that includes the firm's internal treasury department, a private equity group, the Chief Investment Office, corporate staff units, and other centrally managed expenses (JPM 10-K 2011, 1, 79 and 107).

As can be seen in Figure 1, JPM is supervised by numerous government agencies. The Federal Reserve Board acts as an "umbrella regulator" of the holding-company structure. Among other financial regulators, the national bank subsidiaries are primarily regulated by the Office of the Comptroller of the Currency; JPMorgan Securities is regulated by the Securities and Exchange Commission; and the firm's use of derivatives is regulated by the Commodity Futures Trading Commission. As a global financial services firm, JPM is also supervised by

international regulators, including the Financial Services Authority, which was the sole financial regulator in the United Kingdom (UK) during the relevant 2011-12 time period.

Figure 2: JPM Lines of Business

Wholesale Businesses
Investment Banking
Commercial Banking
Treasury and Security Services
Asset Management
Consumer Businesses
Retail Financial Services
Card Services and Auto

Source: Project Editor Notes.

Jamie Dimon has been the public face of JPM since becoming the bank's Chief Executive Officer in December 2005 and Chairman of the Board in December 2006. Dimon's salary and incentive compensation totaled \$23 million in both 2010 and 2011 (JPM Proxy 2012, 4 and 20). Douglas Braunstein served as JPM's Chief Financial Officer from June 2010 through December 2012, at which time he became Vice Chairman. Barry Zubrow had served as JPM's Chief Risk Officer since November 2007, before becoming Head of Corporate and Regulatory Affairs in January 2012 (and subsequently retiring in 2013). Zubrow was succeeded as Chief Risk Officer by John Hogan (JPM Task Force 2013, 18-19).

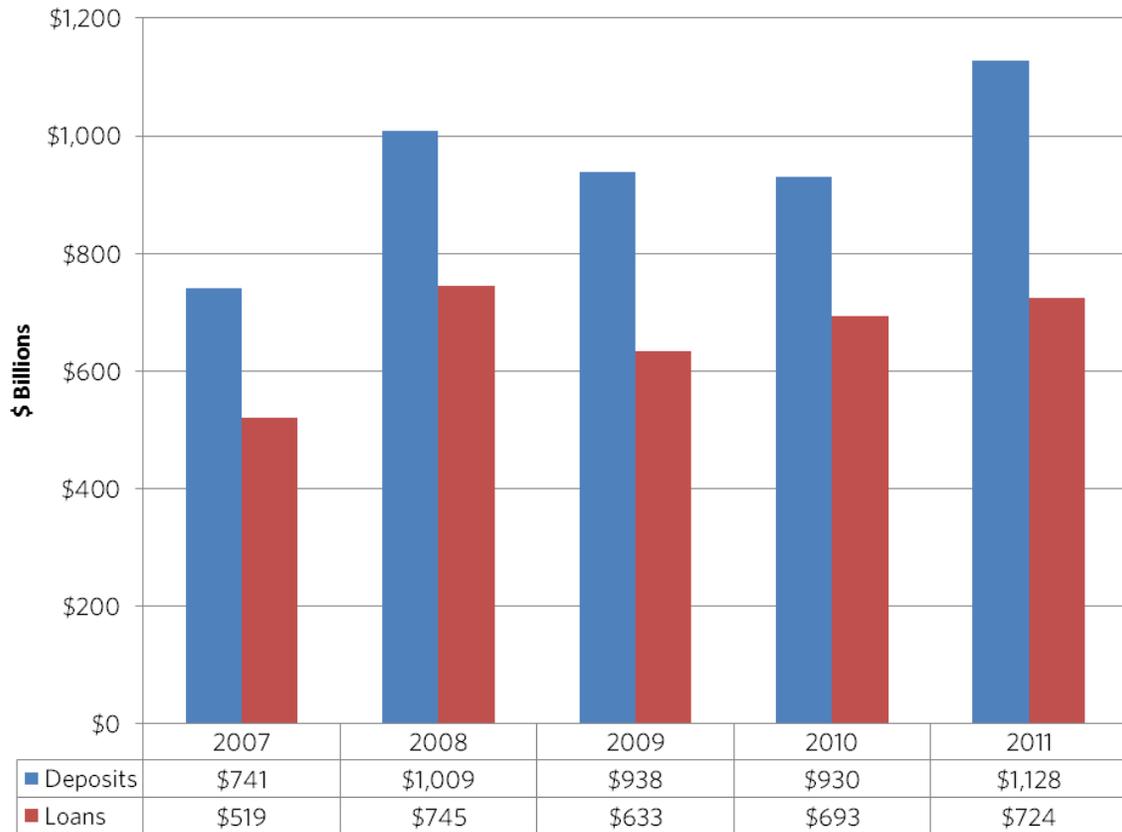
3. The Unit: Chief Investment Office

JPM separated its Chief Investment Office (CIO) from its Treasury unit in 2005, with CIO becoming a separate unit within the bank. As noted in Section 2, CIO was part of the bank's Corporate/Private Equity function, rather than part of the reportable business segments. By year-end 2011, CIO had 428 employees based in New York and London, consisting of 140 front-office traders and 288 middle- and back-office staff (JPM Task Force 2013, 21).

JPM provides a wide variety of financial services, yet its commercial bank subsidiaries continue to engage in the basic banking functions of taking deposits and making loans. In recent years, the amount of deposits held by JPM on behalf of its customers was consistently greater than the amount of money loaned by the bank. (Note that we refer to the difference between deposits and loans as "excess deposits" herein and in the other case studies.)

For example, as can be seen in Figure 3, JPM had \$1.128 trillion of deposits payable to customers at December 31, 2011, but only \$724 billion of loan balances receivable, resulting in excess deposits of about \$400 billion.

Figure 3: JPMorgan Chase Deposit and Loan Balances as of December 31



Source: JPM 10-K 2011, 62.

By definition, JPM had not loaned out this money, so the bank needed a way to profitably yet safely invest these excess deposits. This task was assigned to the CIO unit, and it was the unit's primary responsibility. CIO invested the bank's excess deposits in Treasury bonds and other investment grade (i.e., high-quality) fixed-income securities, including corporate, municipal, and asset-backed bonds. This conservative investment approach was consistent with how other banks managed excess deposits, and the average credit rating for CIO's investments was AA+.

By December 2011, CIO managed a \$350 billion portfolio of fixed income securities, an amount that was approximately double JPM's total stockholders' equity of \$184 billion at that date. Because this bond portfolio was funded by deposits (most of which were uninsured corporate deposits, but part of which were covered by deposit insurance), CIO's primary financial regulator was the Office of the Comptroller of the Currency (i.e., the primary regulator of JPM's national bank subsidiaries that had taken in the deposits) (US Senate Report, 21-22).

CIO had various additional objectives, including funding JPM's retirement plans, as well as hedging the risks associated with interest rates and mortgage servicing rights on behalf of other units within the bank. One of CIO's other objectives was to partially hedge JPM's credit risk. Like other lenders, JPM is exposed to credit risk (also known as default risk), which is

the risk that someone who has borrowed money from the bank is unwilling and/or unable to repay the money when due.

The JPMorgan Chase & Company Management Task Force (JPM Task Force) charged with internally investigating the CIO losses stated in its final report, “The Synthetic Credit Portfolio managed by CIO was intended generally to offset some of the credit risk that JPMorgan faces, including in its CIO investment portfolio and in its capacity as a lender” (JPM Task Force 2013, 2). The Synthetic Credit Portfolio (SCP), which was the source of the CIO losses, consisted of long and short positions in various credit default swaps and other credit derivatives, described more fully in Section 4.

Ina Drew, who was JPM’s Chief Investment Officer, was also head of CIO from its start as a separate unit in 2005 until her retirement in May 2012 one month after the CIO trading losses had become public. Drew’s salary and incentive compensation was \$15 million in 2010 and \$14 million in 2011 (JPM Proxy 2012, 20). Her subordinate Achilles Macris ran the CIO London office in his capacity as International Chief Investment Officer. Javier Martin-Artajo directly oversaw the SCP as Head of Europe and Credit and Equity, and reported to Macris. Bruno Iksil, the “London Whale,” was the senior trader of the SCP and reported to Martin-Artajo. Julien Grout was a junior trader who in turn reported to Iksil. JPM fired Macris, Martin-Artajo, and Iksil in July 2012, while suspending Grout (who subsequently resigned). Martin-Artajo and Grout were indicted in absentia by the US Department of Justice in August 2013. Iksil had entered into a non-prosecution agreement with the US government and accordingly was not charged.

In an internal memo dated March 31, 2014, JPM said that it would recombine the CIO and Treasury units, which is how asset-liability management function is traditionally structured at most banks (Braithwaite and Massoudi 2014).

4. The Derivatives: Credit Default Swaps

As noted in Section 3, CIO used the SCP to attempt to offset some of the credit risk to which JPM was exposed. The SCP consisted of positions in credit default swap indices and related instruments.

A derivative is a financial instrument whose value is derived from the value of some other security. The value of a credit derivative is derived from the creditworthiness of an underlying fixed income security, such as an asset-backed, corporate, or government bond. One simple type of credit derivative is a credit default swap (CDS). A CDS contract is similar to an insurance contract in certain aspects. One party to the contract sells insurance or credit protection to the second party against the possibility that one or more borrower(s) named in the contract default(s) on a debt, such as by filing for bankruptcy. The protection buyer periodically pays premiums to the protection seller, similar to insurance premiums. The protection buyer is said to be “long protection” or “short credit risk,” whereas the protection seller is said to be “short protection” or “long credit risk.” However, unlike a typical insurance policy, a CDS contract does not require the protection buyer to have actual exposure to the underlying risk. In fact, a protection buyer and seller can use CDS to speculate on future changes in creditworthiness.

The size of a CDS contract or market is measured in what is termed “notional” or “net notional” amounts. The “notional” amount of a CDS contract is akin to the amount of insurance coverage purchased, not the much smaller annual premium paid. For example, if an investor pays \$5 million per year to buy credit protection on a \$100 million bond, the

notional size of the contract is \$100 million. The “net notional” amount reflects the difference between long and short notional amounts.

A credit index tracks a specific basket of credit instruments, and a credit tranche tracks a specific portion of a credit index. The main products traded by Iksil were based on the CDX.NA.HY and CDX.NA.IG indices administered by the Markit Group Limited (Markit). Iksil bought protection on the CDX.NA.HY, which is a credit index of 100 companies located in North America and classified as High Yield (i.e., higher risk) based on their credit rating. He sold protection on the CDX.NA.IG, which is a credit index of 125 companies located in North America and classified as Investment Grade (i.e., lower risk). Iksil also carried out similar trades on European credit indices.

Markit creates two new series of each index every year, as new bonds are issued and existing bonds mature or default. When selling credit protection, Iksil primarily used the CDX.NA.IG9 series of the index. IG9 was created in 2007 before the height of the financial crisis, and it included five companies that were rated as investment grade in 2007 but were later downgraded to high-yield status, thus providing a closer offset to the CDX.NA.HY high-yield credit protection held in the SCP book.

US Generally Accepted Accounting Principles require that credit derivatives and certain other financial instruments be adjusted to fair value every day, with the resulting profit and loss also being recorded on a daily basis, known as “mark-to-market” accounting. However, unlike exchange-traded securities (for example, common stock of companies in the Dow Jones Industrial Average), credit derivatives trade in a much smaller, less liquid dealer market, which introduces greater uncertainty and discretion into the valuation process.

Credit derivative prices are quoted at a “bid-ask spread,” representing the prices at which market makers are willing to buy from (at the lower bid price) or sell to (at the higher ask price) participants who are not market makers. Less liquid securities, such as credit derivatives, generally are quoted at wider bid-ask spreads than securities that are more actively traded.

5. Summary of the Case Studies

JPMorgan Chase London Whale A: Risky Business

In December 2011, Dimon and Braunstein instructed CIO to reduce the size of the SCP during 2012, so that JPM could reduce its Risk-Weighted Assets (RWA) as the bank prepared to adopt the impending Basel III bank capital regulations. However, Martin-Artajo, Iksil, and Grout were also expected to minimize the trading costs of decreasing RWA, while still maintaining the chance to profit from unexpected corporate bankruptcies. In an attempt to balance these multiple competing objectives, Iksil suggested in late January 2012 that SCP expand a strategy first implemented in 2011 to buy credit protection on (higher risk) high yield companies, while funding some of the premiums by selling protection on (lower risk) investment-grade companies. The resulting rapid increase in trading caused the net notional size of the SCP portfolio to triple from \$51 billion at year end 2011 to \$157 billion by March 31, 2012, and brought Iksil to the attention of Bloomberg and the *Wall Street Journal*. Unfortunately, the trading strategy was not successful, as changes in credit spreads caused the value of protection owned by SCP to decrease more rapidly than did the value of protection that the traders had sold. Although Drew ordered the SCP traders to halt this strategy on March 23, losses continued to mount as the credit derivative positions were unwound, ultimately reaching \$6.2 billion by December 2012.

JPMorgan Chase London Whale B: Derivatives Valuation

After consistently producing positive revenues through 2011, the SCP traders were alarmed by a consistent string of losses beginning in January 2012. In an effort to minimize the losses reported to their superiors until such time that market prices turned in their favor, Martin-Artajo, Iksil, and Grout began valuing the largest SCP positions in a manner that was not consistent with US Generally Accepted Accounting Principles (GAAP) and JPM policy. GAAP requires that derivatives be adjusted to fair value each day, with the resulting gain or loss also being recorded in a company's accounting records. Whereas many firms choose to value their derivatives at the midpoint between the bid price and the ask price, since this option is offered as a safe harbor under GAAP, Grout was valuing SCP's positions using whichever side of the bid-ask spread was more favorable. The SCP fair values were reviewed by CIO's own Valuation Control Group (as required by banking regulators) and by the JPM Controller, but neither review raised any objection to the SCP marks. However, after the JPM Task Force uncovered evidence that the SCP traders had not estimated fair values in good faith, the bank restated its first-quarter 2012 earnings on July 13, reducing consolidated total net revenue by \$660 million (2.5%), which in turn reduced after-tax net income by \$459 million (8.5%).

JPMorgan Chase London Whale C: Risk Limits, Metrics, and Models

All major financial institutions use various risk limits, metrics, and models to measure and monitor the risk of their lending and investing activities. The amount of risk taken is measured on a daily or weekly basis using various risk metrics, and these amounts are compared with the relevant limits. Value at Risk (VaR) is one of the most commonly used ways to measure and monitor market risk. VaR is an estimate of the most that one or more financial instruments could decrease in value over a fixed time period (e.g., one day) with a given level of confidence (e.g., 95%). After large derivative positions in the SCP book caused the CIO to exceed not only its own VaR limit for four consecutive days in January 2012, but also the higher firm-wide VaR limit, the CIO changed to a new VaR calculation model on January 30, which appeared to immediately reduce CIO VaR by half. However, JPM later discovered that the new CIO VaR model was not properly implemented and included formula and operational errors, causing the bank to go back to using the previous model. Furthermore, the SCP traders and their managers also disregarded several other risk metrics during the first quarter of 2012. The only risk limit that CIO management heeded is known as Credit Spread Widening 10% (CSW10%), which is the expected change in portfolio value if the credit spread on each position simultaneously widened by 10% of its current amount (e.g., from 2.00% to 2.20%). After Drew learned on March 23 that Iksil and the SCP had breached the CIO's mark-to-market CSW10% limit the day before, she ordered trading of the SCP portfolio to be halted immediately.

JPMorgan Chase London Whale D: Risk-Management Practices

JPM prided itself on having the best risk management practices in the financial industry, surviving the 2007-09 financial crisis in better shape than many of its competitors, and Dimon often spoke of the bank's "fortress balance sheet." Of course, a focus on risk management is vital to JPM's longevity, as is the case with all highly leveraged financial institutions. However, the JPM Task Force concluded that risk-management practices at CIO were given less scrutiny by senior bank management than those of client-facing businesses, despite the fact that CIO managed about \$350 billion in assets, an amount almost double JPM's total stockholders' equity at December 31, 2011.

JPMorgan Chase London Whale E: Supervisory Oversight

As a diversified financial service provider and the largest US bank holding company, JPM is supervised by multiple regulatory agencies. JPM's commercial bank subsidiaries hold a national charter and therefore are regulated by the Office of the Comptroller of the Currency (OCC). Since the CIO invested the surplus deposits of JPM's commercial bank units, the OCC was also CIO's primary regulator. During the critical period from late January through March 2012, JPM did not provide the OCC with required monthly reports that included CIO performance data and the results of CIO's internal reviews of the fair values assigned by traders to their derivative positions, yet OCC failed to request the missing information.

JPMorgan Chase London Whale F: Required Securities Disclosures

On April 13, 2012, Braunstein participated in a conference call to discuss JPM's first-quarter 2012 earnings, commenting that the purpose of Iksil's trading activity was to help JPM manage losses in a stressful credit environment, that trading decisions were made on a long-term basis, that SCP positions were transparent to banking regulators and also approved by the firm-wide risk-management function, and that SCP's hedging function would be allowable under the Volcker Rule. On May 10, JPM finalized its first-quarter financial results. At issue is whether the regulatory filings on April 13 and May 10, as well as Braunstein's and Dimon's verbal comments on those dates, were misleading and thus violated relevant securities laws enforced by the Securities and Exchange Commission.

JPMorgan Chase London Whale G: Hedging Versus Proprietary Trading

In December 2013, a handful of US regulatory agencies jointly adopted final rules to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is often referred to as the "Volcker Rule." Section 619 prohibits banks from engaging in activities often considered to be particularly risky, including using the bank's own money to generate trading profits (known as proprietary trading) and owning hedge funds or private equity funds. Banking regulators designed the final prohibition against proprietary trading in part to help prevent future trading losses like those at JPM. Given the controversial nature of the Volcker Rule, the regulatory agencies received 18,000 comment letters, including a 67-page letter from JPM.

JPMorgan Chase London Whale H: Cross-Border Regulation

As a global financial service provider, JPM is supervised by banking regulatory agencies in different countries. Iksil was based in JPM's London office, which was regulated by both the OCC and the Financial Services Authority (FSA), which served as the sole regulator of all financial services in the UK. Banking regulators in the US and the UK have entered into agreements with one another to define basic parameters for sharing information gleaned during bank examinations and even assisting one another with bank inspections under certain circumstances. However, the OCC apparently never requested assistance from its UK counterpart in examining CIO's London office even though the OCC did not assign any of its own London staff to examine these operations. JPM misled the FSA in much the same way that the bank misled the OCC.

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Appendix 1: Timeline of Key Events

2005		JPMorgan Chase & Company (JPM) spun off the Chief Investment Office (CIO) as a separate unit to invest the bank's excess deposits. Ina Drew, JPM's Chief Investment Officer, was appointed head of CIO.
2006		CIO approved a proposal by Achilles Macris to trade credit derivatives.
2007		JPM conducted the first internal audit review of "CIO Global Credit Trading." The final audit report noted that CIO "credit trading activities commenced in 2006 and are proprietary position strategies."
2008		According to the Office of the Comptroller of the Currency (OCC), the CIO began calling this derivative trading the Synthetic Credit Portfolio (SCP). SCP annual revenues = \$170 million.
2009		SCP annual revenues = \$1.050 billion.
2010	June	The Chancellor of the Exchequer announced that the government of the United Kingdom would overhaul the financial regulatory framework, including abolishing the Financial Services Authority (FSA) and splitting its functions into two new successor agencies.
	July 21	The Dodd-Frank Act was signed into law.
	December 31	SCP annual revenues = \$149 million. Year-end net notional = \$4 billion.
2011	January 27	Increased trading activity in the SCP caused the CIO to exceed its stress loss risk limit for the next seven weeks.
	Midyear	Bruno Iksil and his fellow SCP traders began buying credit protection on (higher risk) high-yield companies, while funding some of the cost by selling protection on (lower risk) investment-grade companies.

	October–November	Patrick Hagan developed the new 10-Q Value at Risk (VaR) model used by the CIO for financial reporting.
	November 7	Dynegy filed for bankruptcy.
	November 29	American Airlines filed for bankruptcy, resulting in a \$400 million to \$550 million profit for SCP.
	December	Jamie Dimon (Chief Executive Officer) and Douglas Braunstein (Chief Financial Officer) instructed CIO to reduce Risk Weighted Assets so that JPM could reduce its regulatory capital requirements. CIO's one-day, five-day, and 20-day stop-loss advisory limits were each raised from \$60 million to \$70 million.
	December 31	SCP annual revenues = \$453 million. Year-end net notional = \$51 billion. CIO had 428 employees and managed a \$350 billion portfolio of low-risk fixed income securities.
2012	January	John Hogan replaced Barry Zubrow as JPM Chief Risk Officer. Mr. Hogan appointed Irvin Goldman to be CIO's first official Chief Risk Officer. CIO merged its Tactical Asset Allocation portfolio, which included the SCP, with the Strategic Asset Allocation portfolio.
	January 1	JPM 10-Q VaR limit = \$125 million. CIO 10-Q VaR limit = \$95 million.
	January 6	CIO Credit Spread Basis Point Value (CSBPV) \$5 million mark-to-market limit first breached; CIO remained continuously over this limit until May.
	January 16–19	SCP breached the VaR limit for both the CIO and JPM for four days. This fact was reported to Mr. Dimon.
	January 18	CIO Comprehensive Risk Measure (CRM) = \$3.2 billion. JPM's quant team was not able to calculate CIO CRM for the next five weeks. CIO CSBPV \$12 million global limit first breached.
	January 23	Dimon and Hogan approve an increase in the firm-wide VaR from \$125 million to \$140 million until January 31.
	January 25	CIO CSBPV \$12 million global limit breached again; CIO then remained continuously over this limit until May.
	January 26	CIO meeting at which Iksil proposed expanding purchases of credit protection on high-yield corporate bonds, while selling even larger amounts of default protection on investment-grade corporate bonds. The proposal was approved and implemented immediately.

January 27	SCP VaR = \$126 million, over its temporary limit of \$105 million.
January 30	Iksil expressed concern about the new strategy to his superior Javier Martin-Artajo and suggested letting the SCP positions expire. CIO received JPM approval to adopt a revised VaR model, which reduced VaR by 50%.
January 31	SCP lost money on 17 of 21 business days (81%), for a monthly loss of \$100 million. An e-mail from Mr. Iksil to Mr. Martin-Artajo provided the earliest evidence that the CIO had begun using unreasonably favorable valuations for the SCP book. OCC held a regularly-scheduled quarterly meeting with John Wilmot (CIO Chief Financial Officer), who indicated that CIO Risk Weighted Assets would decrease from \$70 billion to \$40 billion during 2012.
February	CIO held its 2012 annual business review of risk limits.
February 13	JPM sent a letter to the OCC and other bank regulators, expressing concern that SCP's asset liability management activities "during the financial crisis would have been endangered by the proposed [Volcker] rule."
February 22	CIO CRM = \$6.3 billion, dismissed by Peter Weiland (CIO Head of Market Risk) as "garbage."
February 29	SCP lost money on 15 of 21 business days (71%), for a monthly loss of \$69 million.
March 12-16	Julien Grout, who reported to Iksil, prepared a spreadsheet tracking the difference between daily SCP values he was reporting and values that would have been reported using midpoint prices. The distance between the marks was \$203 million on March 12, \$207 million on March 13, \$269 million on March 14, \$498 million on March 15, and either \$432 or \$499 million on March 16 (both amounts shown).
March 15	Iksil asked Mr. Grout to e-mail the spreadsheet to Martin-Artajo.
March 22	SCP breached the CSW10% limit, which was considered by Drew to be the most important risk limit.
March 23	Drew ordered the CIO traders to stop trading the SCP.
March 28	CIO Risk Committee held its first meeting of 2012. FSA held a quarterly supervisory meeting with JPM.

March 29	SCP caused CIO's stress loss limits to be exceeded.
March 30	<p>Last trading day of the first quarter.</p> <p>SCP lost money on 16 of 22 business days (73%), for a monthly loss of \$550 million.</p> <p>JPM's Internal Audit group released a report, stating that CIO Valuation Control Group (CIO VCG) "needs improvement."</p> <p>Macris e-mailed Hogan that he had "lost confidence" in his team and requested help.</p>
First Quarter	SCP lost money on 48 of 64 business days (75%), for a quarterly loss of \$719 million. Net notional increased from \$51 billion to \$157 billion. Mr. Iksil and his team of SCP traders executed over 4,300 trades, an average of almost 70 trades per day.
April 2	FSA reorganized itself internally into a so-called "twin peaks" operating model, separating prudential and conduct regulation.
April 4	CIO VCG completed its regular review of SCP's March 31 marks.
April 4-5	<i>Wall Street Journal</i> notified CIO that it planned to publish an article about Iksil. Drew informed the JPM Operating Committee.
April 6	Bloomberg and the <i>Wall Street Journal</i> published the first news stories about the "London Whale."
April 9	Thomas Curry took office as the 30 th Comptroller of the Currency. OCC examiners met with Ms. Drew to discuss the media reports.
April 10	<p>First trading day after the London Whale gained public attention.</p> <p>The initially reported SCP daily loss of \$6 million was revised upward to \$395 million just 90 minutes later (\$415 million final loss reported).</p> <p>JPM provided the OCC with a summary list of CIO derivative positions, but did not include profit-and-loss data and omitted certain derivatives.</p> <p>FSA met with CIO London management for the first time since the media stories. CIO management did not inform the FSA that cumulative losses from the SCP book were more than \$700 million during the first quarter and were expected to and in fact did exceed \$1 billion by the end of the trading day.</p>

April 11 Mr. Wilmot sent an analysis to Mr. Dimon and Mr. Braunstein showing that the SCP would lose money if credit spreads widened in anticipation of increased defaults.

April 13 JPM filed a Form 8-K with the Securities and Exchange Commission (SEC) that included the bank's first quarter 2012 earnings release, appearing to show that average CIO VaR barely changed from \$69 million during the fourth quarter of 2011 to \$67 million during the first quarter of 2012. The earnings release made no mention of the change in CIO's VaR model.

On the earnings call, Dimon referred to the incident as a "tempest in a teapot," and Braunstein made possibly misleading statements.

April 16 JPM provided to the OCC, Federal Deposit Insurance Corporation, and Federal Reserve a 13-page written presentation about the SCP book, which was the first written response to the matter given by the bank to its regulators.

April 20 SCP had collateral disputes with 10 different counterparties, involving \$690 million. The largest dispute was with Morgan Stanley.

April 25 JPM senior management ordered the Investment Bank's own Valuation Control Group to test SCP's March 30 marks for accuracy and to evaluate CIO VCG's review of those marks.

April 28 The Controller's office began a special assessment of CIO's month-end profit-and-loss figures for the first quarter.

May The JPMorgan Chase Management Task Force (JPM Task Force) was formed to investigate the reasons for the CIO losses and to suggest remedies.

Mismarking ended after Ashley Bacon (JPM Deputy Chief Risk Officer) ordered CIO to mark the SCP positions the same as the Investment Bank, which used an independent pricing service.

May 4 Braunstein and Hogan telephoned the OCC Examiner-in-Charge of JPM to inform him that the SCP had lost \$1.6 billion thus far in the second quarter.

May 10 JPM finalized its first-quarter financial results in a Form 10-Q filing with the SEC. The bank reported the same net income of \$5.383 billion on total net revenue of \$26.712 billion that it had released in the Form 8-K of April 13. However, JPM did make certain significant changes to the disclosures pertaining to CIO between the 8-K and the 10-Q.

By this time, the JPM Task Force discovered errors in the new CIO VaR model that incorrectly reduced CIO VaR. JPM went back to the old model, revised average first-quarter CIO VaR from \$67 million to \$129 million, but made no mention in the Form 10-Q filing of the reason for the change.

The Controller's special assessment memorandum determined that CIO "properly reported" \$719 million in total losses at March 31, instead of the \$1.2 billion that would have been reported if midpoint pricing had been used, and that CIO had acted "consistent with industry practices."

	May 13	Drew resigned.
	Late May	Collateral disputes between CIO and its counterparties generally ended.
	June	JPM officials began doubting the SCP marks, when the JPM Task Force uncovered evidence that traders were criticizing their reported marks.
	July	Goldman resigned.
	July 12	JPM terminated the employment of Iksil, his superior Martin-Artajo, and Martin-Artajo's superior Macris. JPM suspended Grout, who later resigned.
	July 13	JPM restated its first-quarter earnings, reducing consolidated total net revenue by \$660 million from \$26.712 billion to \$26.052 billion, which in turn reduced after-tax net income by \$459 million from \$5.383 billion to \$4.924 billion.
	October	Weiland resigned. Zubrow announced that he would resign from JPM, effective February 2013.
	November 6	The OCC issued six Supervisory Letters to JPM, with 20 Matters Requiring Attention that the bank needed to correct. The bank did not dispute the findings or the recommendations.
	December 31	Year-to-date SCP losses = \$6.2 billion. Braunstein stepped down as JPM Chief Financial Officer.
2013	January	The OCC filed a Cease and Desist Order against JPM, directing it to correct deficiencies in its derivatives trading activity.

January 16 The JPM Task Force issued its report.

April 1 FSA replaced by the Prudential Regulation Authority and the Financial Conduct Authority.

August 14 The SEC and Justice Department charged Martin-Artajo and Grout with fraud.

September-October Four regulators in the US and one in the UK reached settlement agreements with JPM, totaling \$1.020 billion in penalties.

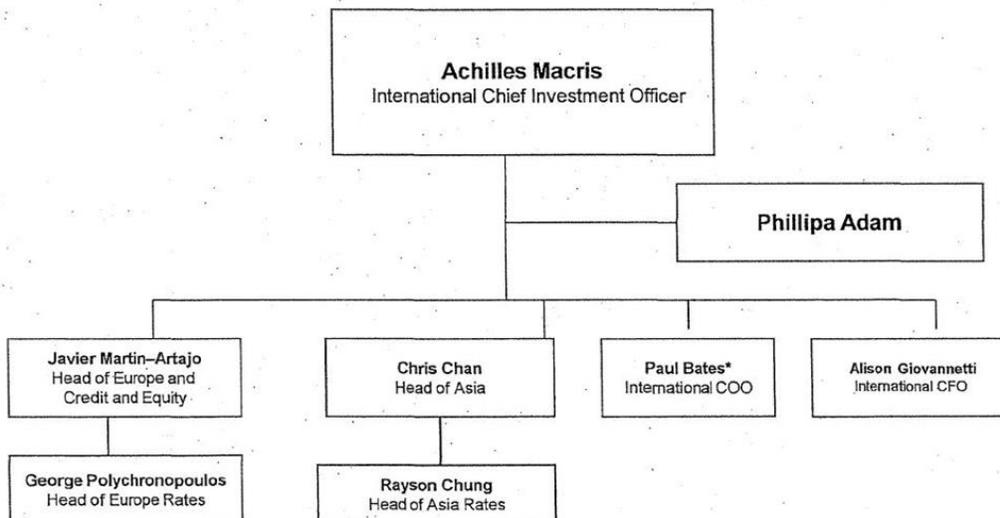
December 10 The Federal Reserve System, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, OCC, and SEC issued the final Volcker Rule.

Appendix 2: JPM Partial Organizational Chart

Chief Investment Office – Direct Reports



International CIO



Source: US Senate Exhibits, 28.

International Chief Investment Office

Equity and Credit

