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Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended

Federal Reserve System: Board of Governors

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UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

JPMORGAN CHASE & CO.
New York, New York

Docket No. 13-031-CMP-HC

Order of Assessment of a Civil
Money Penalty Issued Upon Consent
Pursuant to the Federal Deposit
Insurance Act, as Amended

WHEREAS, JPMorgan Chase & Co., New York, New York (“JPMC”) is a registered bank holding company, as defined in the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.*, and owns and controls JPMorgan Chase Bank, N.A., Columbus, Ohio (the “Bank”), other U.S. insured depository institutions, various Edge Act corporations organized under section 25A of the Federal Reserve Act, 12 U.S.C. § 611 *et seq.*, and multiple other nonbank subsidiaries;

WHEREAS, JPMC is a large, complex organization that has a number of separate business lines and legal entities;

WHEREAS, JPMC has adopted a firmwide risk management program designed to identify and manage risks across the consolidated organization;

WHEREAS, JPMC has adopted a firmwide internal audit program;

WHEREAS, prior to May 2012, one of JPMC’s business lines, the Chief Investment Office (the “CIO”), managed a large synthetic credit portfolio (“SCP”) that suffered significant losses commencing in early 2012;

WHEREAS, in the second quarter of 2012, the Federal Reserve Bank of New York (the “Reserve Bank”) commenced a review of JPMC’s processes, procedures, and controls related to the CIO, including the SCP. Among other things, the Reserve Bank identified deficiencies in the risk management function’s oversight of the risks associated with the SCP; the model governance function’s oversight of the model validation processes relating to the CIO; the finance function’s development of appropriate internal financial reporting for the CIO; the internal audit function’s assessment of the CIO’s internal controls; and senior management’s elevation of issues to the board of directors, which did not allow for the board of directors’ meaningful consideration of such issues;

WHEREAS, on January 14, 2013, JPMC consented to the issuance of a Consent Order (the “Consent Order”) by the Board of Governors of the Federal Reserve System (the “Board of Governors”) in recognition of the common goals of JPMC, the Board of Governors, and the Reserve Bank that JPMC operate in a safe and sound manner on a firmwide basis, particularly regarding activities conducted by the CIO, and that JPMC continue to implement an effective firmwide risk management program regarding trading activities, not including activities undertaken as agent or fiduciary for non-affiliated parties, that is commensurate with JPMC’s size, complexity, and risk profile;

WHEREAS, the Consent Order required, among other things, improvements in oversight by JPMC’s board of directors of the risk management, internal audit and finance functions of JPMC, as well as enhancements to JPMC’s risk management program, finance function, and internal audit function to address deficiencies uncovered to date by the Reserve Bank;

WHEREAS, on January 14, 2013, the Bank consented to the issuance of a Consent Order by the Office of the Comptroller of the Currency (the “OCC”) designed to remedy deficiencies, identified by the OCC in the Bank’s board and management oversight, as well as Bank governance, risk management, model risk management, valuation control, and internal audit programs;

WHEREAS, after the issuance of the Consent Order, the Reserve Bank has continued to review JPMC’s operations, policies, procedures, and controls related to the SCP losses and to obtain additional information regarding these matters;

WHEREAS, on September 19, 2013, the OCC assessed a consent civil money penalty of \$300 million against the Bank with respect to unsafe and unsound practices and violations of law based on deficiencies in the Bank’s trading oversight practices;

WHEREAS, on September 19, 2013, the Securities and Exchange Commission (the “SEC”) issued an enforcement action against JPMC, including assessing a penalty of \$200 million, with respect to the failure to maintain effective internal controls over financial reporting and effective disclosure controls and procedures in connection with filing financial reports for the first quarter of 2012 that inaccurately valued SCP positions managed by the CIO (the “SEC Order”);

WHEREAS, on September 19, 2013, the Financial Conduct Authority of the United Kingdom (the “FCA”) issued an enforcement action against the Bank, including a penalty assessment of £137.6 million, with respect to the failure of the Bank’s London Branch to follow applicable Principles for Business relating to skill, care, and diligence, management and control, proper market practice, and disclosure to regulators in connection with the management of the SCP;

WHEREAS, this Order of Assessment of a Civil Money Penalty Issued Upon Consent (the “Consent Order of Assessment”) is issued with respect to the following:

A. JPMC exercised inadequate oversight over the CIO and failed to implement adequate controls to ensure the full and adequate disclosure of relevant information to senior management and to the JPMC board of directors regarding deficiencies in these controls, specifically including deficiencies identified in the Consent Order and in the SEC Order;

B. JPMC failed to ensure that significant information related to the valuation of SCP positions by the CIO and deficiencies identified in risk management systems and controls needed by Reserve Bank examiners to adequately assess the risks related to the SCP was provided in a timely and appropriate manner to the examiners;

WHEREAS, the Board is assessing a civil money penalty of \$200 million against JPMC pursuant to section 8(i)(2)(B) of the FDI Act, as amended, 12 U.S.C. § 1818(i)(2)(B), for the unsafe or unsound practices described above;

WHEREAS, on September 16, 2013, the board of directors of JPMC, at a duly constituted meeting, adopted a resolution authorizing and directing Stephen M. Cutler to enter into this Consent Order of Assessment on behalf of JPMC and consenting to compliance with each and every applicable provision of this Consent Order of Assessment by JPMC and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1813(u) and 1818(b)(3), and waiving any and all rights that JPMC may have pursuant to section 8 of the FDI Act, including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Consent Order of Assessment; (iii) judicial review of this Consent Order of Assessment; (iv) contesting the issuance of this Consent Order of Assessment by the Board of Governors; and (v) challenging or

contesting, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Consent Order of Assessment or any provision hereof.

NOW, THEREFORE, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, it is hereby ordered pursuant to section 8(i)(2)(B) of the FDI Act, 12 U.S.C. § 1818(i)(2)(B), that:

1. (a) The Board of Governors hereby assesses JPMC a civil money penalty in the amount of \$200 million for the unsafe or unsound practices described in this Consent Order of Assessment.

(b) The civil money penalty assessed shall be paid to the Board of Governors at the time of the execution of this Consent Order of Assessment by Fedwire transfer of immediately available funds to the Federal Reserve Bank of Richmond, ABA No. 051000033, beneficiary, Board of Governors of the Federal Reserve System. The Board of Governors or the Federal Reserve Bank of Richmond on its behalf shall remit the funds to the United States Treasury, pursuant to section 8(i) of the FDI Act, 12 U.S.C. § 1818(i).

Notices

2. All communications regarding this Consent Order of Assessment shall be sent to:

(a) Bruce T. Richards
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

(b) Stephen M. Cutler
Executive V.P. and General Counsel
JPMorgan Chase & Co.
270 Park Avenue, 48th Floor
New York, New York 10017

Miscellaneous

3. The provisions of this Consent Order of Assessment shall be binding on JPMC and its institution-affiliated parties in their capacities as such, and their successors and assigns.

4. Each provision of this Consent Order of Assessment shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Board of Governors.

5. Notwithstanding any provision of this Consent Order of Assessment, the Reserve Bank may, in its sole discretion, grant written extensions of time to JPMC to comply with any provision of this Consent Order of Assessment.

6. Except as provided for in this Consent Order of Assessment, the Board of Governors hereby releases and discharges JPMC and its affiliates, successors, and assigns from all potential liability for a civil money penalty based on the facts described in this Consent Order of Assessment and in the OCC, SEC, and FCA enforcement actions described above. Nothing in this Consent Order of Assessment bars or prohibits the Board of Governors, the Reserve Bank, or any federal or state agency or department from taking any action against any institution-affiliated party of JPMC and its affiliates, successors, and assigns. The foregoing release and discharge shall not preclude or affect any right of the Board of Governors to determine and ensure compliance with the Consent Order or this Consent Order of Assessment,

or any proceedings brought by the Board of Governors to enforce the terms and provisions of the Consent Order or this Consent Order of Assessment.

By Order of the Board of Governors effective this 18th day of September, 2013.

JPMORGAN CHASE & CO.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Stephen M. Cutler
Stephen M. Cutler
Executive V.P. and General Counsel

By: /s/ Robert deV. Frierson
Robert deV. Frierson
Secretary of the Board