JPMORGAN CHASE WHALE TRADES:
A CASE HISTORY OF DERIVATIVES
RISKS AND ABUSES

HEARING
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
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COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
THOMAS R. CARPER, Delaware Chairman
MARCUS A. AMBERGER, Staff Director

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
THOMAS R. CARPER, Chairman
MARCUS A. AMBERGER, Staff Director

WITNESSES
FRIDAY, MARCH 15, 2013
Ashley Bacon, Acting Chief Risk Officer, JPMorgan Chase & Co., New York, New York
Peter Weiland, Former Head of Market Risk, Chief Investment Office, JPMorgan Chase & Co., New York, New York
Hon. Thomas J. Curry, Comptroller of the Currency, U.S. Department of the Treasury

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11. JPMorgan Chase internal emails, dated January 2012, re: update on core credit book (the only one I see is to stay as we are and let the book simply die. That we should take some hits because the market might create noise in the P&L is a certain reality. Yes, the control of the drawdowns will be the most tricky part in the long run. The risk is real but unlikely in the meantime we face larger drawdown and main risk versus the risk due to notional increases. Please let me know the course of action I should take here.) [JPM-CIO-PSI 0001766] 580
12. JPMorgan Chase internal email, dated January 2012, re: hello, quick update in core credit . . . we can show that we are not at odds but on realistic level. * * * 1st I went to ISMG and advised that we need to fight in markets to see whether it really happened. [JPM-CIO-PSI 0001229] 583
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23. JPMorgan Chase internal emails, dated March 2012 re: synthetic credit crisis action plan (Clearly, we are in a crisis mode on this.) [JPM-CIO-PSI 0002192-223] 613
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26. JPMorgan Chase internal email dated April 2012, re: Net positions vs average trading volumes (The below table shows that CDX.N.G.8 net position for CIO is $82.3bn, which is approximately 10-15 days of 100% of trading volume based on the 6-month volume published by JPMorgan Research. PTX 9 net position for CIO is $35.9bn, which is approximately 8-12 days of 100% trading volume based on the annual volume.). [JPM-CIO-PSI-001026-027] 642

27. OCC internal emails, dated May 2012, re: CIO call with Mike Brennan (who then spoke up in a manner that veered toward corporate magic "Composite Hedge."). [OCC-SPI-00021602-064] 644

Documents Related to Hiding Losses:


29. JPMorgan Chase internal emails, dated March 2012, re: update on Core PNL (The divergence has increased to 300 now). [JPM-CIO-0003475] 647

30. JPMorgan Chase internal email, dated March 2012, re: Synthetic Book - URGENT (Option B: we settle with the IB ... and have an impact on P/L that could be as large as $350MM.). [JPM-CIO-PSI-0000416] 649

31. JPMorgan Chase internal emails, dated April 2012, re: update (if we exclude very adverse marks to our basis, the potential loss due to market moves or any economic scenario ... would not exceed ... 200 MM USD.). [JPM-CIO-PSI-0001429] 650

32. a. JPMorgan Chase transcript of call between Julian Groat and Bruno Iksil, dated March 16, 2012 (I can't keep this going, we do a one-off at the end of the month to remain calm. I don't know where you stand but it's getting idiotic.). [JPM-CIO-PSI-H-0005320-629] 651

33. b. JPMorgan Chase transcript of instant message dated March 16, 2012 (it is 300 now 1000 for month end? ouch well that's the pace). [JPM-CIO-PSI-H-0003615-819] 654

34. c. Transcriber of Audio Recording (Production Subcommittee on Investigations, call between Javier Martin-Artajo, Ina Drew, and Gina Serpico). Undated (likely April 2012). (Ms. Drew: It's absolutely fine to stay conservative, but it's currently done, it is a large part of the mark to value process. Thus it is error prone, and not easily scalable. * * * ACTION PLAN: CIO should re-examine the data quality and explore alternative data sources. For days with large discrepancies between dealer mark and IB mark, the integrity of the IB marks is critical). [JPM-CIO-PSI-A-0000076.wav] 659

35. d. JPMorgan Chase transcript of call between Javier Martin-Artajo and Alexey Weber, dated May 8, 2012 (even when, if we roll forward to March, if the front office marks had migrated ... to the aggressive side, most of them, not all of them, to the aggressive side, but they've also migrated from either paid to somewhere close to being at the same level). [JPM-CIO-PSI-0003670-576] 661


37. a. JPMorgan Chase internal emails, dated April 2012, re: Credit Index and Tranche Book. (CIO FO marked their book at the most advantageous levels.) [JPM-CIO-PSI-H-0006636-639] 675


40. d. JPMorgan Chase internal memorandum, dated May 2012, re: Firm’s re-evaluation of its CIO EMER credit portfolio in light of the current market conditions and distance that occurred in April 2012. [JPM-CIO-PSI-0006730-747] 687

Documents Related to Disregarding Limits:

Overview and Organization:

37. J.P. Morgan slide presentation, Market Risk Limits, March 2012. (Business Unit must take immediate steps to reduce dollar exposure to be within the limit, unless an Other-Off Approval is granted by all Granthants of Grant limits) [OCC-SPI-00117682] 705


39. JPMorgan Chase internal email, dated May 2012, re: Information needed (please find the CIO excess attached) [JPM-CIO-PSI-000593-067] 715

VcA Models and Limits:

40. JPMorgan Chase internal email, dated January 2012, re: JPM firmwide VaR—Daily Update—COB 01/09/2012 (Pat’s model is in line with the 70 VAR and has a much better explanation for these changes. Hopefully we get this approved as we speak.). [JPM-CIO-PSI-00093-067] 718

41. JPMorgan Chase internal email, dated January 2012, re: Break of firm VAR (Please find details of the VaR Limit breach. The VaR has increased steadily since the end of December as positions in CDX.HY on-the-run indices have been added to the portfolio to balance the book, which has been taken longer risk.). [JPM-CIO-PSI-0000141] 746

42. JPMorgan Chase internal email, dated January 2012, re: CIO VaR (FYI: Dual plan. . . .) (as discussed keep the pressure on our friends in Model Validation and QR.). [JPM-CIO-PSI-000151] 758

43. JPMorgan Chase internal email, dated January 2012, re: CIO VaR updates: up and update (Importantly, for the same COB 26 January, the new full revaluation methodology shows VaR decreased (81.2MM) from 70.8MM to 69.5MM. I estimate that this would make CIO global closer to $76MM vs. the currently reported number $81.5. We anticipate final approval on Monday and that the new methodology should be the official firm submission from Monday, for 27 Jan COB. Limit issues should therefore cease beginning from Monday.). [JPM-CIO-PSI-0001018-191] 759

44. JPMorgan Chase internal email, dated January 2012, re: draft of the MGR review of the HVAR methodology for the CIO core credit books (Operational Risk—The VaR computation of the CIO credit books uses the empirical process. Thus it is error prone, and not easily scalable. ** * ACTION PLAN: CIO should re-examine the data quality and explore alternative data sources. For days with large discrepancies between dealer mark and IB mark, the integrity of the data used for HVAR calculation should be verified. **Please go ahead with the implementation of the new HVAR methodology for the CIO credit books.). [JPM-CIO-PSI-0001817-917] 772

45. JPMorgan Chase internal email, dated January 2012, re: CIO VaR (FYI: We discovered an issue related to the VAR market data used in the calculation which we need to discuss. This means our reported standalone VaR for the five business days in the period 10-16th April was underestimated.). [JPM-CIO-PSI-0001205] 777

RWA, CRM and Optimization:

46. JPMorgan Chase internal emails, dated December 2011, re: RWA—Tranche Book (The estimates of reductions will be: Model reduction QR CRM (acknowledged already) 5 billion (Pat estimate); Model reduction QR CRM VAR 0.5 billion (Pat estimate); Model Reduction QR 0.5 billion (Pat estimate)). [JPM-CIO-PSI-0000392-034] 778

47. JPMorgan Chase internal emails, dated March 2012, re: CIO CRM results (We got some CRM numbers and they look like garbage as far as possible. 2x what we saw before). [JPM-CIO-PSI-0000368-038] 781

48. JPMorgan Chase internal emails, dated March 2012, re: New CRM numbers (With their new model, QR is reporting that we have a stand alone CRM of roughly $50bn. This is radically higher than the current loss estimate and is outside our confidence level; the loss would be well below 2bn.). [JPM-CIO-PSI-0003642-344] 783

49. JPMorgan Chase internal emails, dated March 2012, re: CIO CRM results (Based on our models, though, we believe that the $50bn increase in RWA is entirely explained by a $35bn notional increase in short protection (long risk) in your portfolio between Jan and Feb.). [JPM-CIO-PSI-000371-372] 786
50. JPMorgan Chase internal emails, dated March 2012, re: Optimizing regulatory capital (To optimize the firm-wide capital charge. I believe we should optimize the split between the tranche and index books. * * * I don't think we should treat this as a regulatory capital calculation, instead we should treat the regulatory capital calculation as an exercise of automatically finding the best results of an immensely arbitrary and complicated formula). [JPM-CIO-PSI-0001294-028] 788


52. JPMorgan Chase internal emails, dated April 2012 (We haven't made the credit risk and we can't state the case of this book runs off and whether risk can be managed effectively yet). [JPM-CIO-PSI-000497-498] 794

Credit Spread Risk Metrics and Limits:

53. JPMorgan Chase internal email, dated January 2012, re: there is more loss coming in core credit book (I reckon we have another 50% coming from CDS IG exposure. The guys have a huge skew trade on and they will defend it as much as we do). [JPM-CIO-PSI-0001225] 795

54. JPMorgan Chase internal emails, dated February 2012, re: Cds limit—please read (We have a global collateral policy and it was set up at the initiation of the credit book. Unfortunately we have been breaching for most of the year. * * * I have no memory of this book needing to be revised with other limits). [JPM-CIO-PSI-H 0000086] 796

55. JPMorgan Chase internal email, dated February 2012, re: CDS Global Credit spread BPV limit breach-COB 02/09/2012 (Since mid-January CDS Global Credit has been in breach of its collateral limits. The model for setting those limits is based on its global credit. The decisions are made with its full global credit decision process. The credit book includes Jamie Dimon). [JPM-CIO-PSI-0001823-825, 828] 797

56. JPMorgan Chase internal emails, dated April 2012, re: CIO Day 1's CDS by 10% CSW by my group's model estimate is long 245mm of risk; there is a model limit (run by Wallaby) was about 145mm. I don't think we have a great deal of margin on this position (still looks long). [JPM-CIO-PSI-0000449-451] 798

57. JPMorgan Chase internal emails, dated May 2012, re: CDSBPV History (Early in 2012 net CDSBPV increased dramatically as IG positions were added and offset between HY and IG). [JPM-CIO-PSI-H 0000810-811] 802

Documents Related to OCC Oversight:


59. OCC internal emails, dated April 2012, re: CIO deck (I have not seen the CIO deck so far). [OCC-00004720] 805

60. JPMorgan Chase/OC email, dated April 2012, re: materials for Fed/ OCC call at noon today, attaching Synthetic Credit. [JPM-CIO-PSI-00000692] 806


62. JPMorgan Chase/CIO emails, dated April 2012, re: Quick questions pp 4 and 5 of yesterday's presentation (I believe there is modest long credit risk in the portfolio now). [OCC-SPI-00003815] 808

63. OCC internal email, dated April 2012, re: CIO CDSBPV (JPM's CIO has been using a synthetic credit (credit derivative) portfolio since 2006. It was initially set up to provide income to mitigate other significant credit losses that would surface under a broad credit stress scenario). [OCC-00012521-523] 811

64. JPMorgan Chase/OC emails, dated April 2012, re: CIO EMR? (Does the CIO still produce an EMR? It wasn't included in the January Treasury EMR, which is where I used to see it. I'm looking for a balance sheet). [OCC-00004733] 812

65. JPMorgan Chase/OC emails, dated April 2012, re: Info on VAR, CDSBPV, and stress status and limits (We are working on a new set of limits for synthetic credit and the current CDS will be replaced by something more sensible and granular.). [OCC-SPI-0002340-341] 813


67. OCC internal email, dated April 2012, re: Weekly Market Summary period ending 4/20 (For the second consecutive week, CIO is breaching its $1.0bn stress limit. * * *). [OCC-SPI-00023573-575] 815

68. OCC internal email, dated May 2012, re: CIO Synthetic Portfolio (Doug Braunstein and John Halligan called to provide an update on the position of the Synthetic Portfolio). [OCC-SPI-000021853] 816

69. OCC internal email, dated May 2012, re: CIO information for Wednesday (However I asked James to first, in a request for more granular daily P&L on the synthetic credit. . . . Bank will likely object to this). [OCC-SPI-00013737] 817

70. OCC internal emails, dated May 2012, re: My opinion on yesterday's meeting (I wasn't satisfied with the comments made at valuation process and thresholds yesterday, and so we have some follow up here. * * * In addition to reserve, there were likely problems with the thresholds themselves. * * * Valuation was one of the things we said they were at risk). [OCC-00005302-304] 818

71. OCC internal email, dated May 2012, re: I have no memory of this book needing to be revised with other limits. [OCC-SPI-0000816] 819

72. Morgan Chase/CIO emails, dated May 2012, re: CIO P&L reporting (We'd like to get the synthetic credit P&L for the past five weeks broken out on at least a weekly basis). [OCC-SPI-00004798] 820

73. OCC internal emails, dated May 2012, re: (Does not add up. Collateral dispute of $700 mil versus a double digit reserves amount!). [OCC-SPI-00009356] 821

74. Morgan Chase/CIO emails, dated May 2012, re: Not Getting CIO daily P&L after one day (I got one CIO daily P&L distribution and then didn't yesterday). [OCC-0000454] 822

75. OCC handwritten notes, dated May 2012, re: SCCP Staff Briefings (JPM’s transactions offset involved an effort to hedge the bank’s credit risk. Hedging credit risk is not uncommon, and if done properly, reflects sound management risk.). [PSI-OCC-10-000001] 823

76. OCC internal emails, dated May 2012, re: CIO newsletters (I told Mike B that the Joe Sabatini emails with selected position information were sent by the bank after initial OCC and FRB enquiries. We concluded that this information was pretty much useless, as it did not seem to be making much difference). [OCC-SPI-00020168-0169] 824

77. OCC internal emails, dated May 2012, re: cio var change (Here are a few comments from the days preceding the synthetic credit VaR model change that became effective May 1/27/12. Note the reduction by 44%). [OCC-SPI-00020193] 825

78. OCC internal emails, dated June 2012, re: 2nd Wilmer Hale Call (I then followed with a question relating to what I described as mismarked books. I had been forcefully stated JPM books with mismarked positions: leaving both Elyse and me left puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect.). [OCC-SPI-00071386] 826