

S. Hrg. 113-96

**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
UNITED STATES SENATE
ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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41. JPMorgan Chase internal emails, dated January 2012, re: Breach of firm var (Below please find details of the VaR limit breach. The VaR increase is driven by Core Credit (tranche) in EMEA. 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 0000141-145] 763
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43. JPMorgan Chase internal emails, dated January 2012, re: CIO VaR heads up and update (Importantly, for the same COB 26 January, the *new/full revaluation methodology* shows VaR decreased (\$1.3MM) from 70.8mm to 69.5mm. I estimate that this would make CIO global VAR closer to \$76MM vs. the currently reported number >\$115. We anticipate final approval on Monday and that the *new methodology should become the official firm submission from Monday, for 27 Jan COB * Limit issues should therefore cease beginning from Monday.). [JPM-CIO-PSI 0000177-179] 769
44. JPMorgan Chase internal emails, dated January 2012, re: draft of the MRG review of the HVAR methodology for the CIO core credit books (Operational Risk—The VaR computation is currently done off spreadsheet using a manual 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 marks and IB marks, 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 0000187-191] 772
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60. 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 regulatory arbitrage. Instead we should treat the regulatory capital calculation as an exercise of automati- cally finding the best results of an immensely arbitrary and complicated formula.) [JPM-CIO-PSI 0011025-026] 788
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53. JPMorgan Chase internal email, dated January 2012, re: there is more loss coming in core credit book (I reckon we have another 50M coming from CDX IG9 exposure. The guys have a huge skew trade on and they will defend it as much as we do.) [JPM-CIO-PSI 0001225] 796
54. JPMorgan Chase internal emails, dated February 2012, re: Csbpu limit— please read (We have a global credit csbpu limit. 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 limit. In any case it need to be recast with other limits.) [JPM-CIO-PSI-H 0002936] 797
55. JPMorgan Chase internal email, dated February 2012, re: CIO Global Credit spread BPV limit breach-COB 02/09/2012 (Since mid-January CIO has been in breach of its global csbpu limits, driven primarily by position changes in the tranche book.) [JPM-CIO-PSI 0001823-825, 832] 798
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60. JPMorgan Chase/OCC email, dated April 2012, re: materials for Fed/ OCC/FDIC call at noon today, attaching Synthetic Credit Book Review for Briefing by CIO to OCC. [OCC-SPI-00009712-724] 809
61. JPMorgan Chase/OCC emails, dated April 2012, re: CIO January 2012 valuation memo and metrics (Apologies for not distributing the February valuation work. I just sent the February and March reports.) [OCC-00004735-736] 822
62. JPMorgan Chase/OCC emails, dated April 2012, re: Quick questions pp 4 and 5 of yesterday's presentation (I believe there is modest long credit risk sensitivity to the portfolio now.) [OCC-SPI-00023815] 824
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64. JPMorgan Chase/OCC 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 the balance sheet information that was in it.) [OCC-00004723] 828
65. JPMorgan Chase/OCC emails, dated April 2012, re: Info on VaR, CSBPV, and stress status, and limits (We are working on a new set of limits for synthetic credit and the current CSOI will be replaced by something more sensible and granular.) [OCC-SPI-00022340-341] 829
66. OCC internal emails, dated April 2012, re: Weekly Market Summary period ending 4/13 (The Whale Trade issue is considered closed—email went out to Senior Management yesterday.) [OCC-SPI-00023057-060] 831
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-00023753-755] 835
68. OCC internal emails, dated May 2012, re: CIO Synthetic Position (Doug Braunstein and John Hogan called to provide an update on the CIO position. * * * Current losses are approximately \$1.6 billion.) [OCC-SPI-00021853] 838
69. OCC internal email, dated May 2012, re: CIO information for Wednesday (However I asked James to first, put in a request for more granular daily P&L on the synthetic credit. . . . Bank will likely object to this.) [OCC-SPI-00013737] 839
70. OCC internal emails, dated May 2012, re: My opinion on yesterday's meeting (I wasn't satisfied with the comments made about valuation process and thresholds yesterday, and so we have some followup here. * * * In addition to reserve, there were likely problems with the thresholds themselves. * * * Valuation was one of the things Hogan said they are looking at.) [OCC-00005302-304] 840
71. OCC internal emails, dated May 2012, re: J.P. Morgan Chase (We received a lot of pushback from the bank, Ina Drew in particular, regarding our comments. In fact, Ina called Crumlish when he was in London and "sternly" discussed our conclusions with him for 45 minutes. Basically she said that investment decisions are made with the full understanding of executive management including Jamie Dimon.) [OCC-00001746] 843
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75. OCC handwritten notes, dated May 2012, re: SBC Staff Briefing (JPMC transactions at issue 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-10-0000001] 847
76. OCC internal emails, dated May 2012, re: CIO call with Mike Brosnan (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 tell us what was happening risk wise.) [OCC-SPI-00021628-631] 848
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 1/27/12. Note the reduction of CIO VaR by 44% to \$57mm.) [OCC-SPI-00021932] 852
78. OCC internal emails, dated June 2012, re: 2nd Wilmer Hale Call (I then followed with a question relating to what I described as mismatched books to which Hogan forcefully stated JPM books were not mismatched, leaving both Eliwyn 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-000071386] 853

Documents Related to Misinformation to Investors, Regulators, and the Public:

79. a. JPMorgan Chase internal email, dated January 2012, re: *JPMC Firmwide VaR—Daily Update—COB 01/19/2012* (The impact of the new VaR model based on Jan. 18 will be a reduction of CIO VaR by 44% to \$57mm.) [JPM—CIO—PSI 0002457] 856
- b. JPMorgan Chase internal email, dated January 2012, re: *JPMC 95% 10Q VaR—Limit Excess Notification (COB 1/19/12)* (. . . reduction of CIO VaR by 44% to \$57mm.) [JPM—CIO—PSI 0001890] 857
- c. JPMorgan Chase internal email, dated January 2012, re: *APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval* (. . . reduction of CIO VaR by 44% to \$57mm.) [JPM—CIO—PSI 0004660-661] 858
- d. JPMorgan Chase internal emails, dated January 2012, re: *APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval (Jamie Dimon: I approve.)* [JPM—CIO—PSI 0001337-338] 860
- e. JPMorgan Chase internal email, dated January 2012, re: *JPMC Firmwide VaR—Daily Update—COB 01/26/2012* (. . . reduction of CIO VaR by 44% to \$57mm.) [JPM—CIO—PSI 0003346] 862
- f. JPMorgan Chase internal email, dated January 2012, re: *JPMC Firmwide VaR—Daily Update—COB 01/26/2012* (. . . reduction of CIO VaR by 44% to \$57mm.) [JPM—CIO—PSI 0003715] 863
- g. JPMorgan Chase internal emails, dated January 2012, re: *JPMC Firmwide VaR—Daily Update—COB 01/26/2012* (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.) [JPM—CIO—PSI-H 0001675] 864
- h. JPMorgan Chase internal emails, dated January 2012, re: *JPMC Firmwide VaR—Daily Update—COB 01/27/2012* (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).) [JPM—CIO—PSI 0001339] 865
80. JPMorgan Chase internal email, dated February 2012, re: *CIO Business Review Materials*. [JPM—CIO—PSI 0001940-942, 949-951, 958-961, 963] 866
81. J.P. Morgan Directors Risk Policy Committee—*CIO 2012 Opportunities and Challenges, March 2012* [JPM—CIO—PSI 0015015-018, 023] 877
82. JPMorgan Chase Audit Department Report, dated March 2012, *Audit Rating: Needs Improvement*. [JPM—CIO—PSI 0009289-296] 882
83. JPMorgan Chase internal emails, dated April 2012, re: *Jamie's fine with this (Here are some revised points based on your comments.)* [JPM—CIO—PSI 0000543-544] 890
84. a. JPMorgan Chase internal email, dated April 2012, re: *CIO (Post December as the macro scenario was upgraded and our investment activities turned pro risk, the book was moved into a long position.)* [JPM—CIO—PSI 0000539] 892
- b. JPMorgan Chase internal email, dated May 2012, (*WHAT HAPPENED?*) [JPM—CIO—PSI 0001212-214] 893
85. JPMorgan Chase internal email, dated April 2012, re: *Synthetic Credit Summary (In Q4, we decided to neutralize the risk profile of this book.)* [JPM—CIO—PSI 0001588-589] 896
86. JPMorgan Chase internal emails, dated April 2012, re: *Deliverables for meeting tomorrow (Doug had the question of why we just didn't reduce the HY position to reduce our risk rather than going long the IG 9 (we discussed carry (ie associated p&L)) [JPM—CIO—PSI 0001646-647]* 898
87. JPMorgan Chase internal emails, dated April 2011, re: *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.)* [JPM—CIO—PSI 0001086] 900
88. JPMorgan Chase internal emails, dated April 2012, re: *Single names CDS basis relative to IG 9 CDS—URGENT update* (. . . the market is quiet today. Folio early to tell but so far about flat P/L. The tension has stopped now. The bank's communications yesterday are starting to work.) [JPM—CIO—PSI-H 0002340, 342] 901
89. JPMorgan Chase internal email, dated April 2012, re: *updated (We are working on Jamie's request for Correlation of the credit book against the portfolio. . . .) [JPM—CIO—PSI 0001077-078]* 903

90. JPMorgan Chase internal email, dated April 2012, re: *synthetic credit information for April 13 earnings call, including SCP P&L scenarios*. [JPM—CIO—PSI 0001701-709] 905
91. JPMorgan Chase internal email, dated April 2012, re: *Synthetic Credit Materials (The way that we at CIO have book-run the Core Book to balance the negative carry cost of High yield Book overtime has been using Investment Grade strategies that gave us some carry or buying optionality (or both)) [JPM—CIO—PSI 0001100-106]* 914
92. JPMorgan Chase internal email, dated April 2012, re: *If asked about London / CIO and Volcker (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.) [JPM—CIO—PSI-H 0002418]* 921
93. JPMorgan Chase internal emails, dated April 2012, re: *CIO (Doug and I asked that the first day. Answer was it most "efficient" way to do it. I would say they just wanted to improve the carry on the book by selling protection and taking in some premium.) [JPM—CIO—PSI 0001753-757]* 922
94. Excerpt from April 13, 2012, *JPM—Q12012 JPMorgan Chase & Co. Earnings Conference Call* [JPM—CIO—PSI 0001151-160] 927
95. JPMorgan Chase internal email, dated May 2012, re: *10-Q call—Buyside and sellside comments (2) (Have a lot of contacts in Washington who said this is going to be a big deal for Volcker; need to manage this in DC because the hit there is going to be a lot bigger than the hit on earnings.) [JPM—CIO—PSI 0017754-758]* 937
96. JPMorgan Chase & Co. (JPM) *Business Update Call, 10-May-2012* 942
97. Correspondence from Douglas L. Braunstein, Vice Chairman, JPMorgan Chase & Co. to the Permanent Subcommittee on Investigations, dated February 4, 2013 (. . . my statements on April 13 regarding those hedging characteristics were references to the portfolio's design and historical performance as a hedge. I was not commenting on the hedging effectiveness of the portfolio as of April 13.) [PSI—JPMC-35-000001] 962
98. *Report of JPMorgan Chase & Co. Management Task Force Regarding 2012 CIO Losses*, January 16, 2013 963
99. Response provided by The Honorable Thomas Curry, Office of the Comptroller of the Currency, to question raised at the March 15, 2013 hearing 1095
100. a. Responses to supplemental questions for the record from Douglas Braunstein and Michael Cavanagh, JPMorgan Chase & Co., with attachment 1099
- b. *SEALED EXHIBIT: Attachments to supplemental questions for the record from JPMorgan Chase & Co* *
101. Responses to supplemental questions for the record from The Honorable Thomas Curry, Scott Waterhouse and Michael Sullivan, Office of the Comptroller of the Currency, with attachments 1113
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102. Documents cited in footnotes to *JPMorgan Chase Whale Trades: A Case History of Derivatives Risks & Abuses*, the Report released in conjunction with the Subcommittee hearing on March 15, 2013. A Document Locator List provides Bates numbers and document descriptions of the documents cited in the Report. Not included are documents related to Subcommittee interviews, which are not available to the public, and widely available public documents 1304