JP Morgan Chase hit by $2 billion derivatives loss

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Speculation by a derivatives trader in London has produced a $2 billion trading loss for the US financial services giant JP Morgan Chase, the bank acknowledged late Thursday. The loss is one of the largest since the financial collapse of 2008, when two major Wall Street institutions, Bear Stearns and then Lehman Brothers, went bankrupt, the latter collapse triggering a global financial panic.

Bank stocks plunged after the initial announcement by JP Morgan Chase, although they recovered some ground later on Friday. The bank's stock price fell 9.3 percent, wiping out more than $12 billion in market capitalization, six times the actual trading loss.

JP Morgan Chase is a particularly critical financial institution, since in addition to its vast holdings, it serves as one of the two main clearing banks in New York City, along with Bank of New York Mellon, handling financial transactions for all other banks. Any challenge to its solvency immediately puts a question mark over the whole financial system.

The huge loss demonstrates that nothing has changed on Wall Street since the 2008 crash, despite the hyperventilation by bankers and brokers over the Dodd-Frank legislation, the bill enacted by the Democratic-controlled Congress in 2010 and signed into law by Obama. The bill has proven to be less than even a slap on the wrist for the financial criminals.

A single executive at JP Morgan Chase, Bruno Iksil of its London office, was supposedly responsible for the trading positions that resulted in the $2 billion loss. The French-born trader, given the nickname "London Whale" for his location and influence on the market, worked in a branch of the bank known as the Chief Investment Office.

Iksil apparently bet heavily on the US economic recovery, accumulating a derivative position of $100 billion that began to show losses as the US economy slowed. Iksil was not a "rogue" trader, but worked closely with supervisors to execute strategies that conformed to the bank's risk management model, according to press reports. His managers "were happy to sign off on the trades," according to press reports.

The financial instrument used by Iksil was a CDS, or credit default swap, the same type of transaction that plunged the world economy into free fall in September 2008. Iksil was selling CDS contracts tied to a basket of companies.

When the one-sided bet on US economic growth was first reported last month by Bloomberg News and the *Wall Street Journal*, JP Morgan Chase executives dismissed suggestions that this represented an undue risk. CEO Jamie Dimon called the criticism "a complete tempest in a teapot."

On Thursday, after the close of trading on the New York Stock Exchange, Dimon issued a statement calling the bank's trades through the Chief Investment Office "flawed, complex, poorly reviewed, poorly executed and poorly monitored." Dimon claimed that all that was involved, however, was "egregious, self-inflicted" mistakes, and that no criminal behavior or fraud was involved.

Dimon said that the bank had still earned $4 billion after taxes despite the huge one-time loss. The Chief Investment Office accounted for $350 billion in investment securities at year-end, according to bank documents, about 15 percent of the total assets of JP Morgan Chase. The bank's "value-at-risk," a numerical measure of the total losses it could face in any given day, has nearly doubled, from $88 million a day in 2011 to $170 million a day now, with most of the additional risk accounted for by the Chief Investment Office.

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Dimon has been one of the most vocal bank CEOs in denouncing any additional regulation of Wall Street in the wake of the 2008 crash, even the largely toothless measures enacted by the Obama administration. He led a group of Wall Street bosses at a meeting May 2 with the Federal Reserve to oppose any restrictions on bank trading on the grounds that this might undercut profits.

The crisis in JP Morgan Chase demonstrates the rubber-stamp character of the ongoing regulatory efforts by the Federal Reserve and the Obama administration. Only two months ago, the Federal Reserve completed a "stress test" of the 19 largest US banks, which gave all of them a green light in terms of solvency, and approved increased dividends or stock buybacks for 15 of the 19 banks.

JP Morgan Chase then declared a dividend of 30 cents per share, up from 25 cents last year, and announced a $15 billion stock buyback, driving up its share price by 7 percent in a single day.

The total payout to bank shareholders and investors, based on the announcements from all 15 banks, comes to $32 billion over the next year.

Far from resolving the crisis of the US financial system, the bailout of Wall Street begun under George W. Bush and greatly accelerated under Barack Obama has resulted in a further centralization of financial assets in a handful of giant institutions that dominate American society. Five US banks—JP Morgan Chase, Bank of America, Citigroup, Wells Fargo and Goldman Sachs—held $8.5 trillion in assets at the end of 2011. The big five have increased their viselike grip on the US economy over the past five years: in 2006, their financial holdings amounted to 43 percent of US gross domestic product. By the end of 2011, that figure had risen to 56 percent.

Meanwhile, according to a study by Syracuse University, federal financial fraud prosecutions have fallen to 20-year lows under the Obama administration, and are down 39 percent from 2003, when the Bush administration was in charge. The number of financial fraud cases is one-third the level of the Clinton administration.

While the big banks operate with impunity, using taxpayer cash and guarantees to gamble recklessly in derivatives, oil futures and other forms of speculation, they proceed with complete ruthlessness towards homeowners and credit card debtors.

For example, the Florida Supreme Court heard arguments Thursday on a lawsuit challenging hundreds of thousands of foreclosures carried out by the big banks with the aid of so-called robo-signings, where clerical employees were enlisted to rubber-stamp foreclosure orders by the tens of thousands, in place of bank executives, without being able to verify the correctness of these actions.

The case, *Roman Pino v. Bank of New York Mellon*, which involves Bank of America as well, could lead to the dismissal of foreclosures against nearly 400,000 homeowners in Florida.

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