JPMorgan could face $7 billion in losses

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The more the crisis from derivatives losses at America's biggest bank, JPMorgan Chase, expands the more the debacle exposes the criminality of the capitalist financial system and the corruption of its political facilitators.

Less than two weeks after JPMorgan CEO Jamie Dimon stated in a hastily assembled conference call that his bank had lost $2 billion in trades on credit default swaps by its London-based Chief Investment Office, financial analysts are warning that the total loss could rise to $7 billion.

With the bank's share price plummeting—JPMorgan has lost $30 billion in market value since its May 10 announcement—and a growing number of analysts downgrading the stock, Dimon on Monday announced he had cancelled plans for a $15 billion stock buyback.

The rapid escalation of the losses is in large part the result of aggressive bets by rival banks and hedge funds against the tens of billions in risky securities gone bad that JPMorgan is still holding. Like sharks smelling blood, a dozen banks, including Goldman Sachs and Bank of America, and major hedge funds are circling and striking the wounded giant for their own profit.

The *Wall Street Journal* on Tuesday reported that the banks have thus far scored profits by betting against JPMorgan that could total $500 million to $1 billion, while a number of hedge funds each expect to reap $50 million-plus from the operation.

There are more indications that securities and banking regulations were likely violated by JPMorgan and Dimon, once known as Obama's favorite banker, who has been the most vocal Wall Street opponent of tighter bank regulations. When the bank's losing bets on derivatives linked to the credit-worthiness of major corporations were first reported in early April, Dimon called the issue "a complete tempest in a teapot."

He has insisted that the bank's Chief Investment Office was not involved in speculation, but only in benign hedging moves designed to offset risk in the bank's overall portfolio.

The bank's quarterly financial report, released April 13, did not reflect the losses that were announced the following month. On Tuesday, Securities and Exchange Commission Chairman Mary Schapiro, told the Senate Banking Committee that the SEC was examining JPMorgan's earnings statements and first quarter financial report to determine if they were "accurate and truthful."

Gary Gensler, head of the Commodity Futures Trading Commission, told the committee that his agency was looking into the derivatives trades by the bank that went bad.

The pretense that JPMorgan's Chief Investment Office was merely engaged in hedging the bank's portfolio risk has been exposed. The *Financial Times* reported last week that the unit has built up positions of more than $100 billion in asset-backed securities and structured products—the type of exotic and highly speculative financial instruments that were at the center of the Wall Street crash of 2008. This is in addition to some $100 billion in credit default swaps linked to a synthetic index of the credit status of investment grade corporations—the risky bet that has gone bad and generated billions in losses.

Moreover, the *Wall Street Journal* reported Monday that sometime in the first quarter of this year, the bank's Chief Investment Office changed its model for measuring "value at risk (VAR)"—a gauge of a firm's maximum potential daily loss. As a result of the change in metrics, the unit reported a VAR for the first quarter of $67 million, instead of $129 million under the previous model. This effectively hid the fact that the unit's VAR had nearly doubled over previous quarters.

Dimon and company have nevertheless little to fear from the government. He is being treated with kid gloves, deigning to make an appearance before the

Senate Banking Committee, but only in the summer after he has released the bank's second quarter results. Meanwhile, JPMorgan refuses to release any details of the trades that have boomeranged.

A *Wall Street Journal* article published May 18 providing details of what went on inside the bank after the scale of the losses become known inadvertently exposes the utterly incestuous relationship between the big banks and their nominal regulators. The article states: "JPMorgan executives—*including General Counsel Steve Cutler, the former Securities and Exchange Commission enforcement chief*—weighed whether or not to disclose the losses immediately." [Emphasis added]

The fact that the former enforcement chief of the major government bank regulatory agency is now working as the general counsel of the nation's biggest bank is mentioned in passing, as though such a thing was entirely natural and routine. And, in fact, it is.

The revolving door between government and Wall Street, in which bank "regulators" compile their résumés for advancement to seven-figure-salary sinecures at financial firms by running interference for the banks, is an open secret on Wall Street and in Washington.

The complete subordination of the political system to Wall Street has been demonstrated by the shameless backing for Dimon from both President Obama and his Republican opponent Mitt Romney. Within days of the bank's revelation of massive losses, Obama praised Dimon as "one of the smartest bankers we got" and called JPMorgan "one of the best managed banks there is."

Romney spoke up to oppose even the toothless provisions of the administration's 2010 bank regulation law, saying of JPMorgan's gambling losses with depositors' money: "That's the way America works."

Michael Bloomberg, the billionaire mayor of New York, chimed in last week, vouching for Dimon and calling the bank's debacle a "hiccup."

In his weekly address last Saturday, Obama hailed the 2010 Dodd-Frank financial regulatory law, whose toothless provisions have not even been formulated as regulations, let alone implemented, because of opposition from the banks. Even as he postured, absurdly, as a tough taskmaster of Wall Street, he could not forego his standard panegyric to capitalism, affirming his belief in the "free market" as "one of the greatest forces for progress in human history" and demanding that the "risk-takers and innovators" (such as Dimon) should be "celebrated."