JPMorgan CEO uses Senate hearing to denounce bank regulations

Barry Grey
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At a Senate hearing ostensibly called to interrogate JPMorgan Chase CEO Jamie Dimon about billions of dollars in speculative losses revealed last month, Dimon was given free rein to reiterate his opposition to any increase in bank regulation.

American Banker, citing Dimon's opening statement to the Senate Banking Committee, which was released in advance of his Wednesday appearance, aptly summed up the event, headlining its posting, "Dimon to Apologize, Blame Underlings, Tell Senators to Stuff It."

Dimon knew he had nothing to fear from the senators of either party, who were no less eager than he to cover up the bank's reckless and very possibly illegal speculation with depositors' funds that has cost the bank an admitted $2 billion in losses. Since Dimon suddenly announced the losses in a May 10 conference call, reports in the financial press have estimated they could climb to $8 billion or more.

After Dimon's May 10 announcement, President Obama sprang to his defense, calling him "one of the smartest bankers we got." Obama's Republican opponent, Mitt Romney, said of JPMorgan's squandering of depositors' money, "That's the way America works."

As for the senators sitting across from him, Dimon was well aware that JPMorgan campaign cash has gone to all but six of the 22 Banking Committee members. (See, "JPMorgan's investment in the Senate Banking Committee")

Democrats on the committee for the most part engaged in desultory questioning, never raising the issue of criminal liability for JPMorgan, the biggest US bank, or Dimon personally, while Republicans sought to link the bank's losses to overregulation and invited Dimon to criticize the 2010 Dodd-Frank financial regulatory law and its so-called "Volcker Rule."

That provision nominally bars banks with government-insured deposits, such as JPMorgan, from carrying out proprietary trading, i.e., using depositors' money to invest for the banks' own profit. Regulators, under pressure from both Wall Street and the Obama administration, released a draft version of the rule last October that would allow banks to freely evade the ban on proprietary trading simply by calling their speculative bets "hedges" on their overall investment portfolios.

Even this is too much for Dimon, who has led the public campaign of Wall Street against Dodd-Frank and its token limits on derivatives and other forms of speculation.

The hearing began with police hustling protesters shouting "Stop foreclosures!" out of the chamber and leading them handcuffed to jail. Committee Chairman Tim Johnson, Democrat of South Dakota, began by asking the Capitol police to remove anyone who interrupted the proceedings.

In his opening remarks, Johnson made a point of reassuring the financial markets that they had nothing to fear from his committee. Defining the issue as merely "a breakdown in risk management," he assured one and all that "the firm's solvency and the stability of our financial system are not in jeopardy."

In his prepared statement, Dimon called the loss from a massive derivatives trade by the bank's Chief Investment Office (CIO) an "isolated event." He insisted that the CIO's mandate was to hedge the bank's overall risk and not speculate to increase the bank's profits. The CIO's portfolio, he said, somehow morphed beginning in January of this year into "something that… created new and potentially larger risks."

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Dimon placed the blame on his subordinates, admitted that oversight of the unit was too lax, and said he was “sorry for it.” He then proceeded to defend JPMorgan and suggest that no further government oversight was needed.

In his statement, Dimon explained that the bank at the end of the first quarter of this year held some $400 billion more in deposits than it had in outstanding loans. The job of the CIO was to invest this “excess cash.”

The very fact that JPMorgan has $400 billion in “excess cash” is an expression of the parasitic and socially destructive character of the capitalist financial system. The major banks accumulate vast sums through speculation and financial manipulation, while starving small businesses and consumers of credit and diverting resources from productive investment, thereby fueling mass unemployment, and then use the “excess” to seek higher profits through new and riskier forms of speculation.

In the course of the question-and-answer period, Dimon called the Volcker rule “confusing” and unnecessary, defended “portfolio hedging,” denounced the Dodd-Frank law as “complicated,” suggested that over-regulation was driving US banks abroad, and snapped, “We are entitled to tell you about the [regulations] that don’t make sense.”

Dimon’s version of the how the losses at JPMorgan’s CIO occurred was a self-serving fiction, as all those on the Senate committee were well aware. The day before, the *Wall Street Journal* published a front-page article detailing how warnings were raised within the bank about the activities of the London office of the unit as early as two years ago.

Bloomberg News published a long article Tuesday documenting the fact that Dimon personally created the CIO shortly after he became CEO in 2005 and gave it the mission of boosting the bank’s profits by engaging in speculative bets, not investing conservatively to offset the bank’s overall risk. The CIO recorded some $5 billion in profits over the three years through 2011, accounting for a substantial portion of the bank’s total profits.

By the time Dimon announced a $2 billion loss by the CIO last month, the unit had over $100 billion in asset-backed securities and so-called “structured vehicles,” plus another $100 billion in credit default swaps linked to an index of the credit-worthiness of investment grade corporations. These massive speculative bets were of precisely the same type that led to the financial crash of 2008.

Dimon, according to Bloomberg, virtually walled off the CIO from the rest of the bank and allowed it to employ looser risk standards so it could make more risky and potentially profitable bets. He also used his immense clout with the government to keep regulators away from the unit. The *New York Times* reported last month that government oversight bodies assigned no examiners to the CIO’s London or New York offices.

There are good reasons to believe that Dimon and JPMorgan violated securities laws by deliberately deceiving regulators, investors and the general public about the CIO’s losses. The *New York Times* reported Wednesday that the CIO’s holdings in derivatives linked to corporate credit lost $300 million on April 10. Yet three days later, in a conference call on JPMorgan’s first-quarter results, Dimon called press reports about trouble at the CIO “a complete tempest in a teapot.”

It has also emerged that in early January, the bank altered its risk model for the CIO, cutting its reported risk exposure in half.

These facts strongly suggest accounting manipulation designed to conceal the losses in the bank’s first-quarter financial report.

The incestuous and corrupt relationship between Wall Street and the government was personified at the hearing by the presence of Stephen Cutler, who sat directly behind Dimon. Cutler is JPMorgan’s general counsel. He graduated to that position after serving as the enforcement chief of the Securities and Exchange Commission, the major government bank regulatory agency.

Not a single senator mentioned this example of the revolving door between Washington and Wall Street, in which bank regulators build up their résumés for advancement to seven-figure-salary posts at financial firms by running interference for the banks.

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