US shields CEO Dimon in indictment of JPMorgan traders

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US prosecutors filed criminal charges Wednesday against two London-based JPMorgan Chase traders in connection with a $6.2 billion loss last year that the bank sought to hide from investors and regulators.

Neither JPMorgan CEO Jamie Dimon nor any other senior executive was charged, despite the fact that Dimon was implicated in misleading investors and regulators about the bank's losses in a Senate report released last March. While prosecutors did not rule out further indictments, criminal charges against Dimon or other top officials are considered unlikely.

The prosecutors charged Javier Martin-Artajo, the head trader who oversaw the portfolio that generated the losses, and Julien Grout, who mismarked the bank's trading positions to cover up its losses, with wire fraud, conspiracy to falsify books and records, and making false filings to the SEC.

Bruno Iksil, who implemented the trades and became known on Wall Street as the "London Whale," was not charged. He had struck an immunity deal in exchange for providing information to investigators. Iksil, Martin-Artajo's subordinate, oversaw Julien Grout.

The US attorney's complaint includes significant new evidence pointing to the complicity of top executives in facilitating the cover-up of JPMorgan's trading loss. It notes that Javier Martin-Artajo came under pressure "from the executives senior to him," and in turn "began pressuring CC-1 and CW-1 [Bruno Iksil], to mark the SCP's [Synthetic Credit Portfolio's] positions in such a way as to show smaller losses."

Who were these senior executives? Why were they not named, much less charged? The silence in the complaint points to a calculated effort by the Obama administration to protect Dimon and other executives who, according to Congress, knowingly lied to investors and regulators about the magnitude of the losses.

The events that led to JPMorgan's massive trading loss and the subsequent cover-up were extensively documented in a March 2013 report by the US Senate Permanent Subcommittee on Investigations. The report noted that in early 2012, JPMorgan's "Chief Investment Office (CIO), which is charged with managing $350 billion in excess deposits, placed a massive bet on a complex set of synthetic credit derivatives that, in 2012, lost at least $6.2 billion."

This was despite public attempts by the bank to present itself as complying with the so-called Volcker Rule, which proposed to ban banks from speculating on their own behalf with customer deposits protected by the Federal Deposit Insurance Corporation (FDIC).

This, however, is exactly what JPMorgan was doing—using bank deposits to place a speculative bet on obscure financial assets linked to US and European corporate debt that one commentator called a "derivative of a derivative."

When it became clear that the bank's Chief Investment Office had made the wrong bet, the London-based unit continued pouring in cash in an attempt to "double down" and recover its losses. The Senate report noted, "In the first quarter of 2012, the CIO traders went on a sustained trading spree, eventually increasing the net notional size of the SCP threefold from $51 billion to $157 billion."

The report added that, in January 2012, the portfolio breached the bank's internal risk limits, which "was reported to the bank's most senior management, including CEO Jamie Dimon."

On April 13, after media reports alluded to the magnitude of the losses, JPMorgan made a first-quarter 2012 filing with the Securities Exchange Committee (SEC) that fraudulently undervalued the losses. In a

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conference call with reporters and major investors, Dimon said the media reports were a "complete tempest in a teapot." The Senate report noted that at the time he made these statements, Dimon "was already in possession of information about…sustained losses for three straight months, the exponential increase in those losses during March, and the difficulty of exiting the…positions."

The report concluded that, "Given the information that bank executives possessed in advance of the bank's public communications on April 10, April 13 and May 10, the written and verbal representations made by the bank were incomplete, contained numerous inaccuracies, and misinformed investors, regulators, and the public."

The Senate report also pointed to collusion on the part of JPMorgan's federal regulator, the Office of the Comptroller of the Currency (OCC), faulting it for failing to follow clear signs of the bank's misconduct. The report stated: "Both the OCC and JPMorgan Chase bear fault for the OCC's lack of knowledge—at different points, the bank was not forthcoming and even provided incorrect information, and at other points the OCC failed to notice and follow up on red flags signaling increasing CIO risk."

The day after the subcommittee released its report, it held a hearing on JPMorgan's losses that included company executives and regulators. The Democratic-led committee, however, did not even ask Dimon to testify. Given the extensive evidence presented in the report implicating Dimon in fraud, this could only have been a calculated decision, likely taken in consultation with the Obama administration.

The US government is seeking to have Martin-Artajo and Grout take the fall for crimes reportedly sanctioned by the biggest US bank's top executives in order to create the appearance that it is cracking down on Wall Street criminality. The fact remains, however, that since the financial crash of September 2008, triggered by rampant illegality and fraud, not a single top US bank executive has been criminally prosecuted.

In April of 2011, Carl Levin, the chairman of the Senate Permanent Subcommittee on Investigations, said his committee's investigation into the causes of the 2008 crash had found "a financial snake pit rife with greed, conflicts of interest, and wrongdoing." More than two years later, it is clear that nothing has changed.

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