JPMorgan receives wrist slap fine for hiding derivatives loss

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JPMorgan Chase, the largest US bank, settled charges related to its multi-billion dollar 2012 trading loss Thursday with four regulators, paying a total of $920 million in fines. Separately, the bank paid $80 million to regulators in a settlement over fraudulent credit card fees.

The $920 million amounts to a slap on the wrist for a company that made $22.5 billion in profits last year. Even though the trading loss settlement involves the admission of wrongdoing by JPMorgan, the admissions are worded to make deliberate lying and fraud by top executives look like innocent management errors.

This approach was epitomized by the the remarks of George Canellos, co-director of the enforcement division at the Securities and Exchange Commission, who concluded that "JPMorgan failed to keep watch over its traders as they overvalued a very complex portfolio to hide massive losses."

Tellingly, two of the SECs five commissioners—Chairperson Mary Jo White and Republican commissioner Daniel Gallagher—had to recuse themselves from the investigation because they had previously represented JPMorgan.

The investigations originated in losses suffered by JPMorgan in 2012 of $6 billion from high-risk derivatives trading. The company sought to hide the losses from the SEC by using fraudulent accounting methods in its first-quarter filing. In April of that year, Dimon told investors and the public that the bank's derivatives losses were a "complete tempest in a teapot."

Last March, the Senate Permanent Subcommittee on Investigations released a 300-page report documenting fraud and law-breaking by JPMorgan in connection with the loss. The report concluded that the bank used false accounting "to hide hundreds of millions of dollars of losses," and "misinformed investors, regulators, and the public about the nature of its risky derivatives trading."

The Office of the Comptroller of the Currency (OCC), JPMorgan's principal regulator, received $300 million of the $920 million settlement, the Federal Reserve and Securities Exchange Commission each received $200 million and the British Financial Conduct Authority received £137.6 million.

Last month, US authorities brought criminal charges against two lower-level JPMorgan employees, Javier Martin-Artajo and Julien Grout, in relation to the trading loss, but notably refused to charge top executives.

The *Wall Street Journal* reported that the SEC is continuing its investigation of the incident following the settlement, but that CEO James Dimon is not a target. "Our counsel has had discussions with the SEC staff, and the staff has informed us that, based on the evidence now known to them, they do not anticipate recommending any actions against our CEO," a JPMorgan spokesman told the newspaper.

A government complaint related to the arrest of Martin-Artajo and Grout, notes that the former came under pressure "from the executives senior to him," and in turn pressured others "to mark the SCP's [Synthetic Credit Portfolio's] positions" in such a way as to show smaller losses.

But instead of delving in to who the executives putting pressure on traders were, the documents related to the settlement reverse the blame, seeking to present the traders as acting of their own volition, and top executives as failing to restrain the traders or communicate the losses to the bank's board of directors.

"While grappling with how to fix its internal control

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breakdowns, JPMorgan's senior management broke a cardinal rule of corporate governance and deprived its board of critical information it needed to fully assess the company's problems and determine whether accurate and reliable information was being disclosed to investors and regulators."

The other settlement announced Thursday, between JPMorgan and the OCC and the Consumer Financial Protection Bureau (CFPB), dealt with abuses by the bank in which "millions of consumers" were "unfairly billed for, and paid for, identity theft protection that they did not receive."

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Regulators said the bank charged fees between $7.99 to $11.99 per month for fraud prevention services, without written authorization from customers, and did not provide any actual services to customers who were billed. JPMorgan has refunded $309 million to 2.1 million people who received the fraudulent charges.

The *New York Times* reported, "JPMorgan faces inquiries from at least seven federal agencies and two European nations" on a slew of issues, including its role in the Bernie Madoff ponzi scheme, the selling of fraudulent mortgage-backed securities, fraudulent foreclosure practices, and energy market manipulation.

Last year, JPMorgan and four other major banks settled allegations of widespread fraud relating to the "robo-signing" of mortgage documents with regulators for $5.3 billion. JPMorgan also made settlements with regulators of $296.9 million and $154 million over mortgage-backed securities and collateralized debt obligations.

The bank is also currently under investigation by the Federal Housing Finance Agency, which alleges that JPMorgan sold US government-sponsored enterprises, including Fannie Mae and Freddie Mac, "billions" of dollars in toxic securities.

Federal prosecutors are continuing their investigation into JPMorgan's manipulation of the US energy market, following a settlement of more than $400 million between the bank and the Federal Energy Regulatory Commission.

The function of the financial regulators is not to prevent the fraud and criminality of the banks like JPMorgan, but rather to facilitate and cover up their crimes. Nothing expresses this so much as the deliberate protection of Dimon, who lied to investors and regulators about the state of JPMorgan's finances, but is deliberately shielded from any form of prosecution.

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