What is the “London Whale”?

The “London whale” is a trading scandal that occurred in 2012. It coupled with an accounting fraud, a massive market manipulation and a unique media manipulation. One name came under the spotlights: “Bruno Michel Iksil”. Who was he? What was he doing at Jp Morgan Bank? A clear answer never was given yet 5 years on…Was he just a “marionette” moved in the financial markets by the bank senior executives like a bait on the hook? Who could gobble such a gross bluff? The extracts below will show the ongoing confusion that has been entertained….

Once upon a time, on the surface of things?......

Ground data:

- Jamie Dimon is the CEO of Jp Morgan one of the biggest banks in the world since 2006
- The “Fed” or “Federal reserve” refers to the US central bank and specifically to the Federal Reserve of New York where Dimon was part of the economic council.
- The series of extracts below display a short script of the “London whale” event
- All was centered about a business unit of JP Morgan called the “CIO” where there was a “tranche book” that was known as a strategic protection for the firm. The book was using credit derivatives financial products in massive size to perform its function inside CIO for JP Morgan. The legend started on one name “Bruno Michel Iksil” on April 5th 2012….
- What is in bold or/and underlined are key sentences, statements or words….
- What is in red is a misleading or inaccurate statement contradicted by existing evidence and facts. Not all the mischaracterizations are flagged though. They are too many….
- Some useful comments (straight fonts) are added at times within the extract (italic fonts)

June 2011

8th June 2011---CNBC--- John Carney- *“ Here’s what Jamie Dimon is really worried about”*

“ ***Jamie Dimon’s confrontation with Ben Bernanke was notable*** *because we rarely see corporate chiefs so publicly confront their primary regulators…..In either case, it seems that what provoked Dimon were recent signals from a Fed Governor that the largest banks might face an additional capital surcharge…**Fed Governor Daniel Tarullo** said additional capital requirements are needed to prevent system-wide financial instability that could be caused by **the failure of one of the world’s biggest or most interconnected banks**….”*

December 2011

8th December 2011---WSJ---David Reilly---*“Jamie Dimon’s glass is half full”*

*“….Mr Dimon still thinks that investment banking “is a great business” and that “demand is going to grow” especially since investors “**are going to have twice as much money 10 years from now to invest**”….*

Comment: 5 years from then now in 2017, ie halfway through the projected 10 years, anyone can check that out on his/her deposit and savings account. See how that looks…..

*Mr Dimon's upbeat view also extended to capital levels; he thinks JP Morgan should be able to repurchase about $8 billion in stock even under harsh stress test conditions….At the moment , many banks are failing to do that, as evidenced by valuations **that put shares at a discount to book value**. Even JP Morgan, which posted a 9% return on equity in the third quarter, isn't immune. And the longer subpar returns persist for the industry, the more investors are likely to think that Wall Street's best days are behind it."*

April 2012

4th April 2012…The source of "excess liquidity" managed at CIO is disclosed in December 2011…The case Lehman Brothers is bothering….Wall Street Journal--- Market Watch—By David Weidner---"*Jamie Dimon's invicibility is eroding*"---

"*Across Wall Street, Washington and on the public at large, Dimon's clout is on the decline. The latest signal is that the **CFTC is penalizing Jp Morgan Chase and Co for actions that could have led to the collapse of Lehman Brothers**….the CFTC's action is just the latest in a series of damaging accusations against JP Morgan since the financial crisis...JP Morgan we've found created mortgage securities that some argue were doomed to fail just like Abacus…Then in December (*2011- to keep in mind) *there was a disclosure from the Federal Reserve that detailed what banks borrowed from an alphabet group of emergency lending programs (TALF, TSLF, TASF—to name a few) set up during the financial crisis. **JP Morgan borrowed $350 billion***

(Comment: These are as many "deposits" made by central banks and governments to Jp Morgan amounting to about the full size of CIO investments)

…and administered one of the program….He's been given the benefit of the doubt because of a narrative that accepts JP Morgan was well run and kept its nose clean in the run-up and aftermath of the financial crisis…."

5th April 2012….The keyword is out before the seminal articles went to press: the markets are "rattled"

Bloomberg News- *Joe Weisenthal- April 5th 2012- 9H44PM- "**Not really sure what's up with this**...Both Bloomberg and WSJ have stories this evening about a credit derivatives trader in London, who works for JPMorgan, **with a position so large he's apparently rattling the market.** According to WSJ**, the trader identified as Bruno Michel Iksil is so big, he's being referred to as the 'London Whale'. Mr. Iksil has taken large positions for the bank** in insurance-like products called credit-default swaps. Lately, partly in reaction to market movements possibly resulting from **Mr. Iksil's trades**, some hedge funds and others have made heavy opposing bets, according to people close to the matter."*

6th April 2012…Here is now the nickname to make all this "popular". The Wall Street Journal (Gregory Zuckerman) and Bloomberg (Stephanie Rhule- the wife of Andy Hubbard, head of index CDS trading at CSFB) kick start officially the "London Whale" event

WSJ…*'London Whale' Rattles Debt Market*…*By Gregory Zuckerman And Katy Burne --- **Updated** April 6, 2012 1:19 p.m. ET --- In recent weeks, hedge funds and other investors have been puzzled by unusual movements in some credit markets, and have been buzzing about the identity of a deep-pocketed trader dubbed "the London whale." **That trader**, according to people familiar with the* *matter, is a low-profile, French-born J.P. Morgan Chase & Co. employee named* ***Bruno Michel Iksil****…..*

Bloomberg News*…****JPMorgan Trader's Positions Said to Distort Credit Indexes,… By Stephanie Rhule…"*** *A JPMorgan Chase & Co. trader of derivatives linked to the financial health of corporations has amassed positions so large that he's driving price moves in the $10 trillion market, traders outside the firm said.* ***The trader is London-based Bruno Iksil****, according to five counterparts at hedge funds and rival banks who requested anonymity because they're not authorized to discuss the transactions. He specializes in credit-derivative indexes, a market that during the past decade has overtaken corporate bonds to become the biggest forum for investors betting on the likelihood of company defaults.* ***Investors complain that Iksil's trades <u>may be</u> distorting prices****, affecting bondholders who use the instruments to hedge* ***hundreds of billions of dollars*** *of fixed-income holdings. Analysts and economists also use the indexes to help gauge perceptions of risk in credit markets. Though Iksil reveals little to other traders about his own positions,…."*

April 12th …. Is Iksil a rogue trader? A bad guy?.....Bloomberg hammers the point with other suggestive nicknames…What do they know actually? Almost nothing about the trades ….Yet the bank JpMorgan has communicated many times already since April 6th 2012…."

JPMorgan's London Whale Could Use New Nickname **April 12, 2012 7:00 PM EDT April 13 (Bloomberg)** -- *Late last week,* ***a little-known trader at JPMorgan Chase*** *& Co. in London, Bruno Iksil, awoke to find his life changed forever. In an instant, Iksil had become famous as the guy who infuriated some of his bank's counterparts so much that they complained to Bloomberg News journalists he was skewing the credit-derivatives markets with his outsized bets, one of which they said may be as large as $100 billion. Worse yet, the world* ***learned Iksil had earned two unforgettable nicknames: (1) The London Whale, and (2) Voldemort, after the Harry Potter villain…….*** *The information available about Iksil's trades is limited.* ***So we really don't know exactly what he did, much less what he's doing at this moment****. We're not even sure how old Iksil is, only that the French-born trader, who works in JPMorgan's chief investment office, is said to be in his late 30s. The unknowns are what make Iksil's* ***<u>trades so intriguing, of course. Was he making speculative, proprietary bets?</u>*** *Was he hedging other investments? And is it even possible to define the difference between speculating and hedging? At a bank the size of JPMorgan, it would seem almost anything could be made to look like a hedge if this suited the bank's interests. "*

April 13th …. This is the earnings conference call run by Braunstein and Dimon….Dimon will say "I completely agree with you, it is a tempest in a teapot." But the bank is quite ambiguous as to who decides on the trades and as to whether this book is already dead actually….

What the 'London Whale' Is (Probably) Doing ---John Carney | @carney ---Friday, 13 Apr 2012 | 11:58 AM ET---" *In a conference call following this morning's earnings announcement, JPMorgan Chase Chief Financial Officer Doug Braunstein basically laughed off the idea that a London-based trader in the bank's chief investment office was engaging in large proprietary trades that were distorting the market in credit default swaps for investment grade corporate bonds.* ***"The CIO balances our risks,"*** *Braunstein said.* ***"They hedge against downside risk, that's the nature of protecting that balance sheet."*** *….. JPMorgan has insisted that Iksil's trades are not directional bets across the markets, but hedges against other risks on the company's balance sheet…Traders I spoke with say that Iksil is probably using the CDX trade as part of a strategy to hedge inflation rate risk. The clearest way to hedge inflation risk is to buy Treasury Inflation Protected Securities, or TIPS. But the yield on 10-year TIPS has been so low it has sometimes fallen into negative territory….****<u>JPMorgan hasn't been very clear about what Iksil is doing,</u>*** *but* ***this trade would explain why Iksil's bosses view his trading as hedging rather than prop trading.***"

April 17th, Bloomberg and Matt Levine plays with words…Yet he spots the fundamental ambiguity of JpMorgan statements that fuels anxiety unduly so…. "Whale-de-Mort.""*JP Morgan's Voldemort probably isn't that magical—Matt Levine—April 17th- 5:32 PM---John Carney has hilariously convinced a bunch of people that JPMorgan whale-wizard Bruno Iksil might be running a synthetic bank on top of JP Morgan's regular bank. The theory, propounded to him by a mysterious trader and sort of supported by an old PIMCO client note, is that Iksil was tasked with hedging JP Morgan's inflation risk…..Here is Doug Braunstein's theory about Iksil: "On a conference call with analysts**, Braunstein said the positions are meant to hedge investments the bank makes in very high grade securities with excess deposits**. (Jp Morgan has some $1.1 trillion in worldwide deposits). **Braunstein said the CIO positions <u>are meant</u> to offset the risk of "stress loss" in that credit portfolio**. He added the CIO position is made in line with the bank's overall risk strategy" What can that mean?......Whale-de-mort has received a lot of Volcker-related attention for reasons that are…….It makes lots of people kind of nervous because **when I say "portfolio hedging" you hear "just taking a bunch of crazy risks and pretending it's a hedge"**…."*

April 18th 2012… The bank has just all the details…Two weeks have gone, the bank still does not provide much explanation it seems….FT Alphaville Lisa Pollack documents in fact the "whale-de-mort" tale.

"Thar she blows!---April 18th 2 PM---Whale-watching in the credit default swap market has become something of a past-time for pundits and market participants alike. For the uninitiated, the short version of this story is that many believe that a trader (aka "The London Whale", or "Voldemort") in JP Morgan's Chief Investment Office (CIO) has been amassing such large positions in various credit indices that it is potentially:

- *Distorting the market.*
- *Lining JP Morgan up for a loss, and/or a large un-hedged exposure in the near future.*
- *In violation, and/or against the spirit of the Volcker rule.*
- ***A sign that banks are getting awfully creative with the correlation models they use for hedging purposes**.*

***Oh, and everyone and their mother wants to know the exact details of the trade and as JP Morgan isn't talking,** there's been a fair amount of guessing amongst the punditry.*
Given all of this, FT Alphaville would like to take you on a whale-watching tour. We have looked at far too much data for our own good, and we'd like to share it. We also, of course, have some ideas of our own about the possible characteristics of the trades, but first let's look at the biggest possible picture. There will be plenty of time to narrow down later on."

April 19th 2012: The Volcker Rule, prohibiting most discretionary trading, definitely pops up…. The ambiguity of JP Morgan statement finally operates its magic. The Fed leaves until July 2014 (rather than July 2012) to comply with the Volcker Rule. Is it Dimon….or Iksil the target?… Regulators are taken to task with little illusion among journalists ….Investors start freaking…

"*NY Times-Dealbook- The trade-Volcker rule gets murky treatment- By Jesse Eisinger- The path to gaming the Volcker Rule has always been clear: banks will shut down anything with the word "proprietary" on the door and simply move the activities down the hall….But the suspicious minded among us wonder whether it was all that simple. This is the specter raised by the news that a JP Morgan Chase trader in London made instantly notorious thanks to his colorful nicknames ("Voldemort" or the "London whale", take your pick)….**Apparently, it wasn't just one trader but more than a dozen according to a person at Jp Morgan, but the nicknames are too good to let***

go*….Bloomberg followed with a powerful article about how Jamie Dimon, the chief executive of JP Morgan, has transformed the sleepy Chief Investment Office, which takes care of the bank's treasury operation, into a unit that hires former hedge fund portfolio managers and slings around giant sums of money in what walks and quacks like prop trading.* ***The Chief investment Office seems not to just be risk-mitigating, but profit maximizing****"… So Congress tightened the language…But then Federal regulators got their hands on Volcker…and made it muddy and complicated…..It can be simultaneously true that hedge funds have gotten themselves into a bad trade and that JP Morgan is doing something more than hedging…..****So is this legitimate trading?...The hedge funds don't really know… Nor can the public from the bank's disclosures. The only ones who have a chance to get a true picture are the dozens of regulators who are sitting in the bank's office****. But given how bent the regulators are to subvert the will of Congress, it would take an act of extraordinary naivety to believe they will actually get to the bottom of it."*

An Issue arose on April 25th 2012…The former ambiguity was not enough any longer...

On April 25th 2012, the regulators receive a weekly routine report indicating a loss on the "CIO tranche book" of $1.6 billion, or $1 billion loss just for the 25 first days of April…The OCC chief examiner is off and the other 100 examiners just do nothing apparently...(see the US Senate report about ERM, MRM and other routine reports for more details. The reports in question exist but are not disclosed)

29th April 2012 the Financial times titles: "*Big Bank seek regulatory capital trades…* "*involves shifting some counterparty credit risk from the bank to its workers…"*

Comment: the employees of a bank would have to shoulder the demise of their employer's competitors in the future… Is there really no other solution?...Too big to fail….

30th April 2012, the debate intensifies behind closed doors between JPM chiefs and the Federal Reserve. It is all about stress tests, hedging, CIO and capital plans (dividends increase and share buybacks)... **The debate below is not new. It started in 2009 between Jp Morgan and regulators (see also the February 13th 2012 letter of Zubrow on the Volcker Rule in the US Senate report exhibits)…**Zubrow secures that the link between the CIO "tranche book", the Volcker Rule and instability in the markets looking forward is invading investors minds. The articles mentions "5 former executives". Was this really useful, accurate and relevant?

JP Morgan's Zubrow says Fed risk rule may hurt markets—By Cheyenne Hopkins and Dawn Kopecki on April 30 2012—Business week

"JP Morgan chase said a Federal Reserve proposal to cut risk by capping a bank's dealing with one lender, corporation or foreign government fails to strike the "correct balance" and may harm financial markets. ***The plan "could destabilize markets" Barry Zubrow,*** *executive vice president of corporate and regulatory affairs, said yesterday in a comment letter to the central bank. The Fed is reaching "well beyond" the Dodd-Frank reform legislation with "disruptive" standards that duplicate or conflict with other rules and directives, he wrote….****Fed Governor Daniel Tarullo will meet tomorrow with chief executive officers of the biggest banks including JP Morgan's Jamie Dimon*** *to discuss the limits and complaints about* ***this year's stress tests****….a firm deemed systematically*

important couldn't have more than 10 percent of its counterparty risk tied to one entity. The Dodd-Frank Act proposed a 25 percent cap while giving the Fed authority to ***tighten the standard to ensure stability in financial markets****….****The rule would restrict the ability to execute certain risk-management or hedging transactions, he (***Zubrow***) said. Zubrow foresees "additional pressure to unwind largely offsetting trades in a potentially disruptive manner—trades that an accurate measurement methodology would not show as producing meaningful risks" he wrote.*** *"These methodologies produce very large misstatements –and in most cases, overstatements—of the true counterparty exposure".* ***JP Morgan said the company's chief investment Office, with a $360 billion portfolio, is responsible for managing some of the firm's risks. The unit has made bets so large that the bank probably can't unwind them without losing money or roiling financial markets, five former executives said last month****. The Fed, in proposing the rule, said* ***the financial crisis revealed a failure of regulators to spot concentrations in credit risk*** *and the interconnectedness of financial firms "that contributed to a rapid escalation of the crisis".* ***Concentration of risk in over-the –counter derivatives*** *was blamed in part for the banking system's near collapse in 2008 by the* ***Financial crisis Inquiry Commission's January 2011 report****…."The US financial sector is now more concentrated than ever in the hands of a few very large systematically significant institutions"* ***the commission concluded. "This concentration places greater responsibility on regulators for effective oversight". As for the stress tests, Zubrow said the Fed gave bankers too little information to adequately run them*** *and disclosed too much to the public about the results. The central bank, which released the tests on* ***March 13****, required the nation's largest lenders to show that they have credible plans for maintaining capital and continue lending if there's another severe economic slump….****Banks were rushed to produce their capital plans and asked the Fed for more time as the regulator's demands overlapped with year-end financial reporting requirements and federal holidays, Zubrow said.*** *The firms had about 6 weeks to test their portfolios against various hypothetical scenarios and submit capital proposals with supporting documentation he said"….*

As Zubrow said it, "Something went wrong with the Fed stress tests at year end 2011". It was about "CIO", "concentration risks", "OTC derivatives"… It looked like Jp Morgan was short of capital on paper. Right or wrong? This incident occurred between the Fed and Jp Morgan in particular… The issue was left pending, unresolved yet as of March 13th 2012…And the CIO "macro tail hedge" on over the counter credit derivatives was not on the radar screen of the Fed at the time? Really? Of course it was on the radar screens of all the regulators in the end of 2011. The "tranche book" of CIO was on the NY federal Reserve radar screen at year end 2011. Some evidence in the US Senate report proves that the Fed was concerned as of 22nd December 2012, focusing on unwind costs for the CIO hedging book precisely so…. **Please notice that "IKSIL THE trader" is not recipient or CC-ed**

Senate report first batch of exhibits disclosed in March 2013, exhibit 46*: "---Original Message----From: Drew, Ina---****Sent: 22 December 2011 00:55****-----------To: Martin-Artajo, Javier X;* ***macris@ ••••••****----------Cc; Wilmot, John----------Subject: Rwa-----We are running an additional rwa reduction scenario. Can u send John and I a scenario whereby* ***the tranche book*** *and other trading assets are reduced by an incremental 15 billion the* ***first quarter? Not a stress scenario, so assuming normal*** *(whatever that is now - not year end liquidity. PIs list by trading strategy, ie: credit tranche, other trading positions, with cost estimate- (****background: trying to work with CCAR submission for firm that is acceptable for an increased buyback plan****), Need in early ny morning –"*

The CCAR submission is the request from the Fed of NY to obtain a 'Comprehensive Capital Analysis and Review' about JpMorgan capital. This CCAR program is a critical tool deployed by the Fed to prevent banking failures in the future. This requirement is overseen by Jamie Dimon who plans to buy shares of the bank back in mass since Q4 2010 (see the first articles on top of this section). Iksil is nowhere to be seen among the recipients…

<u>May 2012…The April 25th reported loss switches Jp Morgan towards a new drama. The bank Jp Morgan postpones the issue date of its legally binding 10-Q report about the first quarter 2012 (Q1 2012 in jargon). Time is running out…</u>

Things look further complicated between the bank and the Federal reserve… The CFTC is involved again (see the Lehman case above for recollection)…and so is ICE the central clearing house wanted by the authorities after the 2008 crisis. About 90% or more of the CIO new index trades of the hedging book went through ICE (including the IG9 trades), namely the one major global clearing house for CDS markets at the time…Collateral management is critical in the day to day valuation of derivative exposures as all the market watchdogs claim since 1992 at least (see the SEC annual report of 1992 and the "Group of 30" report of 1993 chaired by Paul Volcker and the then CEO of Jp Morgan Denis Weatherstone).

May 2nd 2012—BusinessWeek---"Global regulators nearing deal on margin rules, Gensler says"---By Silla Brush—"*Global regulators are nearing consensus on collateral standards in swap rules…Standards for collateral are the most important to set to reduce regulatory arbitrage possibilities, he (*CFTC chief Gary Gensler) *said. The CFTC is required under the 2010 Dodd-Frank Act to write rules for the swaps market after largely unregulated trades fueled the 2008 credit crisis.* ***<u>The law seeks to reduce risk and increase transparency by having most swaps guaranteed by clearinghouses</u>*** *and traded on exchanges or other platforms*

ICE is the major clearinghouse for credit index CDS. It was crafted after the 2008 crisis and was strongly advocated by regulators like the CFTC. What is its role? A clearinghouse steps in between two counterparties of a derivative trade day to day and imposes its price to both parties in processing the margin calls and other collateral requirements. De facto the clearinghouse sets the mark to market price for both counterparties, making the "clear" indeed of any lasting price difference between 2 market trading counterparties. ICE was the clearing house for the hedging book of CIO for 97% of the recent index trades of 2011 and 2012 to date. Almost no major price difference on credit indices exposures at CIO could escape the scrutiny of ICE. All the regulators focused on the matter since 2009 actually. So did Jp Morgan internally for its own sake.

In what follows, the article hint at a specific case that fully match with the situation of the CIO hedging book that was based in London while hedging a US Based company: "*.. the CFTC wouldn't allow substituted compliance, Gensler said. '****Can 2 US parties go to some jurisdiction that doesn't have an execution requirement to skirt around the law' then the answer would be 'no'—<u>until you find good lawyers to skirt around it.</u>****" He said"*

The NY Times got wind of what was actually going on….a "deal" was under way …—May 2nd 2012—NY Times--- By Ben Protess and Peter Eavis—"**Progress is seen in advancing a final Volcker Rule"—"***A major new rule that has drawn the ire of Wall Street is on track for completion sooner than some bankers had expected, dashing the hopes of financial industry lobbyists, who have pressed for a delay. Regulators are making significant progress…The Volcker rule aims to rein in risky trading on Wall Street…It would ban banks from placing bets with their own money, a practice known as proprietary trading….* ***The gathering, held at the Federal Reserve Bank of New York in Lower Manhattan,***

Comment: Dimon seats on the advisory council as an economic adviser- see the Jekyll Island story of 1912 and the law of 1913 that instituted the Federal reserve system in the US for more background

….was arranged by Mr Tarullo and Jp Morgan Chase's chief executive, Jamie Dimon, *who has criticized elements of the Volcker Rule….Dodd-Frank financial overhaul law, which created the Volcker Rule with* ***the notion that banks should not make risky wagers while enjoying government deposit insurance and other types of backing****…it could hurt liquidity…"*

Bloomberg on May 3rd comes back with Bradley Keoun who co-wrote the seminal article of Stephanie Rhule of April 6th 2012. Bloomberg raises the next key words: as Dimon states, it is "give and take"…Bloomberg—May 3rd 2012--- By Bradley Keoun—

"Dimon cites 'give and take' after Bank chiefs meet at fed"---*"JP Morgan Chase and Co CEO* ***Jamie Dimon*** *led Wall Street bosses in a closed-door meeting to* ***personally lobby the Federal reserve*** *about softening proposed reforms that might crimp their profit. The contingent…pressed the Fed on rules they said would overstate trading risks and harm financial markets…The meeting highlights the magnitude of Wall Street's campaign to blunt new regulations…..There* ***was 'give and take' Dimon told reporters*** *as he left the meeting at the Federal Reserve Bank of New York. He wouldn't elaborate….****Dimon 56 sought the meeting after the Fed completed its stress tests of the largest banks in March,*** *according to a person briefed on the matter who asked not to be identified because the discussions were private…****Concentration****… JP Morgan said the company's chief investment Office, with a $360 billion portfolio, is responsible for managing some of the firm's risks. The unit has made bets so large that* ***the bank probably can't unwind them without losing money or roiling financial markets,*** *five former executives said last month.* ***On his way into the meeting, Dimon told reporters that 'everything" was a potential topic….****"*

May 2nd, (see the US Senate Report exhibits), Dimon and Braunstein have been "weighing" their communication strategy on the follow **as Drew wrote to herself on the emailing system of Jp Morgan in CAPITAL letters…**One can usefully return first to "What is the purpose. PDF" file and remind what Bacon, O'Rehilly, Macris and Banit would be doing then with regards to Iksil…

Senate report first batch of exhibits disclosed in March 2013: exhibit 84*:* ***From: Drew, Ina*** *Ina.Drew@jpmorgan.com****---Sent: Wed, 02 May 2012 13:34:09 GMT---To: Drew, Ina Ina.Drew@jpmorgan.com--*** *Subject:* ***LEADING INTO THE CRISIS AND ECONOMIC DOWNTURN: IN DISCUSSION WITH JD. CIO DECIDES TO BUY CREDIT PROTECTION.*** *USING INSTRUMENTATION ON THE SYNTHETIC CREDIT DERIVATIVES MARKET, PRINCIPALLY IN THE HIGH YIELD SPACE WHICH LEFT US SHORT RISK OR LONG PROTECTION IN WHICH CASE THE POSITION WOULD PROFIT AS HIGH YIELD COMPANIES DEFAULTED. AS TIME PROGRESSED AND THE FILINGS OCCURRED, THIS POSITION WAS BALANCED TO A MODERATE EXTENT WITH INVESTMENT GRADE LONG RISK POSITIONS. OVER THE LAST 5 YEARS, THE POSITIONS MADE APPROXIMATELY 2.3 BILLION DOLLARS, WERE REASONABLY STABLE WITH PREDICTABLE PNL ALTHOUGH THERE WERE A* ***COUPLE OF PERIODS OF DISTORTIONS*** *MAINLY CENTERED AROUND SYSTEMATIC MARKET EVENTS INCLUDING LEHMAN AND AIG. IN* ***NOVEMBER OF 2011 THE POSITION WAS QUITE STABLE AND IN BOUNDS FROM ALL PERSPECTIVES.***

-*WHAT HAPPENED?*

FOUR THINGS HAPPENED AROUND THE MONTH OF DECEMBER TO CHANGE MY THINKING ON THE NEED FOR A PRO DEFAULT BIASED HEDGE.

1 . . THE COMPANY WAS STARTING TO DO THE MATH AROUND THE ***BASLE III RWA RULES****. THE SAME BOOK THAT WAS DRAWING 20 OF CAPITAL UNDER BASLE I (THE REGIME THAT WAS IN PLACE DURING THE ENTIRE TIME OF THE HEDGE CONSTRUCTION) WAS GOING TO NEED APPROXIMATELY 60 BIL OR* ***THREE TIMES THE CAPITAL*** *TO SUPPORT*

2. ***<u>WE HAD A BIG PAY DAY.</u>*** *AMERICAN AIRLINES FILED EARLY AND WE OWNED IN THE HIGH YIELD HEDGE, A SIGNIFICANT OPTION ON THAT OUTCOME. WE RECORDED $450 MILLION OF GAINS. ALTHOUGH THIS WAS A POSITIVE EVENT FOR THE BOOK,* ***THE HIGH YIELD MARKETS WERE ROILED AND DISLOCATED FOR THIS AND OTHER TECHNICAL REASONS.***

3. ***THE LTRO IN EUROPE WAS ANNOUNCED ON DECEMBER 8TH*** *PROVIDING STRONG SUPPORT FOR THE CREDIT UNIVERSE.*

4. THE ECONOMY, PARTICULARLY IN THE UNITED STATES WAS LOOKING MUCH BETTER FROM ALL MACROECONOMIC STATISTICS AND WAS FURTHER FUELED BY THE LARGE SCALE EUROPEAN LIQUIDITY INJECTION. WE HAVE A ***PRO RISK THEMATIC THROUGH THE INVESTMENT BOOKS****. –*

BOTTOM LINE: FOR ALL OF THE REASONS CITED, ***WE MADE A DECISION TO REDUCE THE SIZE OF THE HIGH YIELD SHORT. THE TRADERS WERE DETERMINING HOW BEST TO REDUCE THE SHORT*** *IN THE HIGH YIELD MARKET GIVEN THE DESCRIBED LACK OF LIQUIDITY IN THE HIGH YIELD MARKET.* *<u>**A DIRECT REDUCTION** OF THE EXPLICIT POSITION WAS DEEMED NOT POSSIBLE AND **ENORMOUSLY EXPENSIVE**</u>. THE DESK THEN TURNED TO THE* ***NEXT BEST PROXY WHICH IS CALLED THE IG9 INDEX****. IT IS AN OLD INDEX FROM 2007. COMPOSED OF 125 EQUALLLY WEIGHTED NAMES. WHICH MADE SENSE GIVEN THAT THE INDEX HAD 5 NAMES INCLUDING RADIAN, MBIA, ISTAR AND SPRINT OR COMMONALITY IN SINGLE NAMES THAT WOULD DIRECTLY OFFSET THE HIGH YIELD POSITION.* ***THIS CHOICE WAS VIEWED AS HAVING AMPLE LlQUIDITY*** *AND A GOOD PROXY TO REDUCE THE SHORT. LIMIT THE, CONSTRAINING OPERATING LIMIT IN PLACE WAS VAR AND THE* ***VAR HAD BEEN A GOOD PREDICTOR OF THE RISK. IN FACT****,* ***AS POSITIONS WERE ADDED THE VAR WAS COMING DOWN WHICH WAS ALSO A KEY DRIVER*** *OF THE INTENDED CAPITAL REDUCTION, THE DESK ADDED A VERY LARGE INVESTMENT GRADE POSITION TO TRY TO KEEP UP WITH THE REBALANCING THAT BELIEVED WAS NECESSARY AS THE HIGH YIELD MARKET WAS RISING IN PRICE.*

---*WHAT WENT WRONG?* **--**

THIS IS WHERE AND HOW THE MAJOR PROBLEMS STARTED. ***FIRST WE DID NOT HAVE LIMITS CONSTRAINING THE NOMINAL AMOUNTS*** *OF POSITIONS* ***THAT WOULD CLEARLY HAVE FLAGGED THE PURCHASES AS TOO LARGE AND CONCENTRATED FOR THE UNDERLYING LIQUIDITY OF THE MARKET*** *DESPITE THE FACT THAT THE RISK EQUIVALENT OF THE PURCHASES WERE WITHIN LIMIT. THE MODEL GOT IT WRONG.* ***<u>ALL THE THEORETICAL UNDERPINNINGS OF VALUATION HAVE BROKEN DOWN AND THE VOLATILITY HAS BROKEN ALL HISTORICAL AND WORSE CASE BANDS.</u> THERE WAS NO ELEVATION OF THE SIZE OF THE POSITION CHANGE OR A DISCUSSION AROUND THE MAGNITUDE OF NEW LONG RISK BEING ADDED TO EFFECTIVELY CLOSE DOWN OR BALANCE THE SHORT HIGH YIELD POSITION****.*

-------------- ------------------------------------*THE RESULT*-- ------------*THE RESULT IS* ***A VERY LARGE. CONCENTRATED POSITION*** *WHICH RETAINS ITS PRO DEFAULT PROPERTIES UNTIL THE END OF THE YEAR, IE STILL SHORT THE HIGH YIELD MARKET. HOWEVER THE OVERALL BOOK IS LONG AGGREGATE CREDIT PRINCIPALLY IN INVESTMENT GRADE IN EUROPE AND THE UNITED STATES* ***THE STRESS LOSS HAS FLIPPED FROM A POSITIVE RESULT TO A NEGATIVE RESULT*** *SHOULD THERE BE A SEVERE SHOCK OR DOWNTURN.*

---*WHAT ARE WE DOING?* -- -------------*THE FIRM WITH* ***SIGNIFICANT HELP FROM THE INVESTMENT BANK AND THE RISK MANAGEMENT ORGANIZATION*** *IS FRAMING A-RISK REDUCTION PLAN THAT IT HAS STARTED TO GENTLY IMPLEMENT. THIS WILL TAKE AT LEAST THREE MONTH. WE ARE UNABLE TO PREDICT THE SIGNIFICANT PNL VOLATILITY THAT MAY ARISE AS A CONSEQUENCE. I HAD STARTED. REDUCING THE ALLOCATION TO INVESTMENT GRADE CREDIT IN THE INVESTMENT PORTOLIO IN THE FIRST QUARTER AND AM* ***ACCELERATING THOSE SALES TO MONETIZE SOME OF THE 9 BIL OF GAINS*** *WE HAVE HARVESTED FROM THOSE CASH INVESTMENTS.* ***WE CONSIDER THOSE SALES TO BE BOTH GOOD ECONOMIC SALES AND ALSO THE RIGHT THING TO DO TO BRING DOWN THE FIRMS EXPOSURE TO CREDIT***, ***ALBEIT TOP OF THE CAPITAL STRUCTURE, WHILE THE RISK REDUCTION PLAN FOR THE EXCESS POSITION IN THE CREDIT DERIVATIVES BOOK IS BEING UNWOUD. WE ARE WORKING THROUGH THE 10Q DISCLOSURE AND DOUG AND JAMIE ARE WEIGHING THE RISK REWARD TO THE COMMUNICATION PLAN*** *AROUND A PRESS RELEASE AND ANALYST MEETING AND THE POTENTIAL IMPACT ON THE MARKET AND OUR* ***ABILITY TO REDUCE THIS POSITION***"……

Ina Drew is emailing all this for herself in capital letters about matters that she heard but would not decide on…..One will see now what the "option" taken was….beyond the tricks targeting Iksil as described in "what is the purpose. PDF"

May 3rd 2012 still, the Washington Post suggests that indeed the hedging book of CIO, the "London whale" event were "potentially" among the topics….and it was directly related to stress tests, CCAR, Volcker Rule and share buybacks for Jp Morgan in March 2012, before the 13th March 2012---Washington Post---

"Fed's Tarullo warns that banking reforms are losing steam"—By Zachary A. Goldfarb---" *Banks are complaining that the regular set of stress tests overseen by Tarullo is being done in a secretive and ambiguous manner that can create new risks. The criticism came after the Fed said this year that* ***stress tests revealed that 4 of the 19 largest banks did not hold enough financial reserves*** *to withstand a severe economic decline* (the word reserve means either excess capital or/and liquidity reserves). *The Fed required them to come up with plans to improve their buffers* (one should recall here the urgent CCAR related request of Drew as of December 22nd 2011---Jamie Dimon called a meeting in March. Was Jp Morgan among the 4?)….***Also discussed Wednesday were issues involving the Volcker Rule, credit ratings, risk retention and international regulation***.*"*

Dimon-Braunstein had weighed their communication options here right in the middle of this 'give and take' deal and Drew sent herself this email on the follow…And Iksil was targeted internally in a sneaky way…. By a coincidence Bloomberg keeps alleging that the CIO trades "moved the markets"…**—Bloomberg---May 7th 2012---By Lisa Abramoviscz—**

*-**"Billion dollar traders quit Wall Street for hedge funds"---"….London Whale—**Along with the competitors, Jp Morgan has shut groups in its investment bank that specialized in speculative bets with the Company's own money. At the same time,* ***the bank has kept some of the biggest risk takers in its Chief Investment Office, with a team that has amassed as much as $200 billion in investments, booking a profit of $5 billion in 2010*** *alone, a former senior executive, who asked not to be identified because he wasn't authorized to discuss the matter, said last month. Bruno Iksil, a London Based trader for the group dubbed by some in the market as the London Whale, gained attention this year* ***after moving credit derivatives with trades so large they distorted price relationships****, market participants who asked not to be identified said last month."*

A bit later that week, on Friday 11th May 2012. Dimon made statements of his own make on May 10th 2012. The bank had NOT processed price adjustments for CIO and for the IB despite Allistair Webster thorough control and conclusions on the matter. $307 Million of negative adjustment were missing for CIO because the chiefs above Webster had decided not to make this known adjustment in full awareness of the cause of this difference as per May 10th 2012. Iksil had complained in writing in an email on May 11th 2012 inside Jp Morgan: his role was completely misrepresented by the firm in the public. In the evening, Dimon convened his close lieutenants to a drinking party as the WSJ reported on the 18th May 2012. One can see that deliberately also the senior management discussed whether to disclose the loss in full even before with the General Counsel of the firm. It is worth moving a little forward with this article that covers this critical period of mid May 2012.

"WSJ May 18th 2012 article: "Inside JP Morgan's blunder": *"On April 30, associates who were gathered in a conference room handed Mr. Dimon summaries and analyses of the losses. But there were no details about the trades themselves. "I want to see the positions!" he barked, throwing down the papers, according to attendees. "**Now! I want to see everything!"**When Mr. Dimon saw the numbers, these people say, he couldn't breathe…..Among other things, Mr. Dimon initially resisted ousting the executive at the center of the mess, confided in his wife that he had "missed something bad," and expressed regrets with his colleagues one night over vodka about how they had all let the firm down. …**The stakes are high. Mr. Dimon personally approved the concept behind the disastrous trades, according to people familiar with the matter** …J.P. Morgan executives—including General Counsel Steve Cutler, the former Securities and Exchange Commission enforcement chief—**weighed whether or not to disclose the losses immediately**. ….In recent years, some of the group's trading morphed into what essentially amounted to big directional bets, and its profits and clout grew. Last year, Mr. Macris dropped risk-control caps that had required traders to exit positions when their losses exceeded $20 million. Ms. Drew and Mr. Macris declined to comment. ….At Monday morning operating committee meetings, where Mr. Dimon grilled business heads about their units' problems, he would rarely question Ms. Drew rigorously, according to attendees. When Mr. Dimon reviewed the profit-and-loss statements, the CIO group routinely showed a profit. …**He didn't sleep well for the next several nights, he told colleagues, and fought the anxiety** by getting up very early to exercise and head into the office. Mr. Dimon tried to keep a business-as-usual face for peers and clients. **On May 2, he attended a meeting at the Federal Reserve Bank of New York, where he is a director, and the next day an economic conference hosted by the University of Rochester, a big banking customer**….**Late that Friday (**11th May 2012**) night, several executives gathered in Mr. Dimon's office. Messrs. Dimon and Cavanagh drank vodka. Others had wine. They told their boss how they had let down the firm, attendees say. "We all did," Mr. Dimon replied, according to attendees.** "Put on your JPM jerseys and get ready. We are going to take a lot of hits. We'll draft our best team and get through this." Nearly all senior executives came into the office on Mother's Day to help Mr. Cavanagh set up a SWAT team. Since then, the team has been holed up in conference rooms "*

<u>Let's now rewind back to the 10-Q day on May 10th 2012. The shift induced by the "give and take" deal with the regulators was executed by Dimon on May 10th 2012: the senior executives would NOT make a necessary adjustment AND distort fully Iksil's role in such a way the CIO staff would be prosecuted in any event…</u>

On the eve of that Friday May 11th 2012, ie May 10th 2012, Jp Morgan had finally released its 10-Q report for the first quarter of 2012. Dimon had made statements…Iksil would email PR staff or/and HR staff to complain about their harmful and misleading nature… The shift in the communication that Drew had mentioned in CAPITAL letters was clearly done. Viewed from the inside by Iksil, the former ambiguity of the bank was now superseded by gross mischaracterizations of Iksil's role, actions and responsibilities. All options had being weighed carefully in advance as Ina Drew wrote to herself in capital letters on the email system of the bank. That email would not be missed for sure in the coming criminal investigations since **<u>a peculiar mismarking was being generated here out of the blue</u>**….The Wall Street Journal offers a new 'timeline' that is meant to print in the public minds anchoring by the way that the legend was born on April 5th 2012 at the WSJ while the articles actually printed on the 6th April 2012 only… Better was to put Bloomberg in the loop. Iksil is not "THE" trader any longer but "A" trader. The bank alleged to be surprised as of May 10th 2012. The CIO chiefs would now be exposed. The communication plan mentioned by Drew showed its multi-faceted head:

Wall Street Journal—May 10th 2012—David Benoit *"JP Morgan's London Whale: a timeline"* " ***April 5*** ***<u>The WSJ report Bruno Michel Iksil</u>***, (it was Joe Weisenthal from Bloomberg that day, not the WSJ on the surface of things: Not sure what this was indeed…) *a trader at JP Morgan known in the market as the "London Whale", made large bets on credit derivatives. Jp Morgan says its unit is meant to "hedge structural risks".* ***April 10*** *WSJ reports the JP Morgan trader has stopped making trades.* ***April 13*** *JP Morgan reports first quarter earnings. CFO Doug Braunstein says the bank is "very comfortable" with the unit's positions. CEO Jamie Dimon calls media coverage on the matter " a tempest in a teapot".* ***May 10*** *…JP Morgan says it has taken $2 billion in losses so far in the second quarter related to the trading.* ***Mr Dimon calls the strategy "flawed, complex, poorly executed and poorly monitored".*** *Among the things Dimon says he should've paid more attention to "newspapers""*…. As in "we were so surprised by the articles of April 6th 2012".

"flawed, complex, poorly executed and poorly monitored"…So says the CEO and board chairman of Jp Morgan allegedly "in a rare dose of honesty" for Alex Brummer (26th May 2012 "*In a rare dose of honesty from a leading banker, Dimon publicly admitted that the deals cast in London had been 'sloppy' and 'stupid', adding 'it put egg on our face and we deserve any criticism we get'.)*…In a "rare dose of honesty"…Sounds sincere, doesn't it?....**Not so fast….Wait a minute…. Let's move the clock backward a little more now again just to see how " very comfortable" Braunstein, Dimon and the other senior executives had been so far….**

See the US Senate report exhibits and read what follows: Ina Drew in person elevated the issues no later than March 23rd 2012 "all the way up"… see this phone call between Macris and Daniel Pinto (head of trading at the Investment Bank and CEO of JP Morgan UK—Hogan was then the firm Chief Risk Officer) in the US Senate report exhibits *OCC_Box_07\Disc 14\20120711_J PMClOA \NATIVE_ DATA \JPMCIOP51A 0000140*
…."*Mr. Macris:* ***Ina, Ina, Ina, Ina.*** *Mr. Pinto: About this issue? Mr. Macris: Mmm. Mr. Pinto:* ***Ok, well then, I need to talk to Hogan too.*** *Mr. Macris: You know, I don't know, listen, I mean, to me Mr. Pinto: So ah, this one. I, I,* ***we don't have any collateral, significant collateral disputes with anyone.*** *I will, I'm trying to get Jean Francois to really check on all of the valuations of the positions. So how,* ***how many millions of dollars are we talking about?*** *So I,* ***<u>I just don't understand</u>****, why, why could*

someone in March, strange as that might sound Mr. Macris: No, like you're not, listen. In a, the way that, you know Mr. Pinto: ***And how does it go to Ina? Because Ina is not the most stable person in the bank, so*** *Mr. Macris: Yeah, that's what I'm saying. You know it's gotten away from me here, this one. You know, because, you know, you know, the story is like, you know, that, you know, Javier has, like, you know, sort of, some, you know, feedback and, you know, issues, you know, with the dealers. Mr. Pinto: But Achilles, Achilles. Mr. Macris: Hmm? Mr. Pinto: I should say that it's a situation where* ***<u>I need to do a formal investigation</u>****. And, really,* ***if Javier is fantasizing about this****,* ***he's going to really, he will, he will have a bad, a hard time here. I mean, if he's right, I need to fire a lot of people.*** *50 Mr. Macris: Yeah, exactly, you know, I mean, I'm not on that page so much. Like, I don't disagree with you. You know, this elevation is not my style, right? But you know the story here has to do much more like, you know, the way that this was put, like, you know, forward, you know, today. All of this happened like, you know, kind of life, like in the last, you know, sort of two hours. You know,* ***<u>I've been told exactly how to do this.</u>*** *You know, so the issue that has been described is, you know, sort of in the morning call, you know, that's like, you know, two hours ago.* ***<u>So do you understand how rapidly this has developed?</u>*** *You know, Javier goes and mentions, you know, listen,* ***we are making a mockery of JP Morgan, you know, in the street****. Because, you know,* ***<u>we are long investment grade and the IB is like, you know, short investment grade,</u>*** *and* ***we are battling it in a visible way*** *that is, you know, creating, like, you know, a lot of question marks. And then, you know, what do you mean by that? And, you know, the issue goes like, you know, ok, what happened, like, you know, with the disclosure of the position, with the knowledge of the methodology; the capital Mr. Pinto: But what I understand, Mr. Macris: Mmm,mmm.* ***Mr. Pinto: From what I understand, how we got here, honestly, I don't care. What I see is that it is an accusation*** *that the investment bank, with someone* ***leaking the position of CIO****, is* ***acting against CIO on mismarking the books to damage CIO****. And the second thing is that….* ***Mr. Pinto: Achilles, you need to understand that this is a very, very, very, very serious accusation.****"*

A bit later in this very same call, as to whether the bank could ever be "surprised" by those price differences sitting between CIO and IB, Artajo will tell Pinto, the JP Morgan UK CEO, and Macris the full story in just few sentences. It is plain that Pinto at the IB is marking the "CIO tranche book" as of March 23rd 2012 and is aware that CIO claims a $250 million discrepancy on just "a large position". Artajo states that he will step through Ashley Bacon to communicate the details of the price differences. Artajo points to a file that has been built up at CIO for Compliance officers since March 19th 2012. So much for the alleged future "unawareness" of senior executives of Jp Morgan : "*Mr. Martin-Artajo: Ok, I'll send you,* ***I'll send you through, through Ashley****, the, the, you know, the, the, you know, some of the* ***<u>things that we observe on our side</u>*** *for you to be aware of-* ***<u>Mr. Pinto: But those are valuations or they are comments</u>****? Mr. Martin-Artajo: Well,* ***they are, they are comments. They are chats. They are marks****. They, they are quite a lot of things really. I mean, I, I don't think there's any,* ***<u>like Achilles said, I don't think this is a disciplinary thing</u>****. I, I'm just, I just don't want it to be, in the market. We're seeing as we're doing something here that is, that is, that we have a problem in our desk and at the end of the day* ***what we're trying to do here is actually try to optimize the book for RWA purposes****. And, and I'm going to, and since* ***<u>we are coordinating this with the investment bank</u>****,* ***I want to coordinate whatever we need to do in the book also with the investment bank and <u>not do it outside</u>.*** *Because I have a feeling that we have, you know, something to do here. And that's what I, I want to make sure that the traders know. That we cannot,* ***<u>I don't want to battle it outside when we have something at the end of the day</u>****. It, it should be done inside the company.* ***Mr. Pinto****: Yeah but that, that, Javier, I, I don't understand how that one, that, from either of two things.* ***<u>The, the externalization is something that we, we decide that we will do together</u>****. Mr. Martin-Artajo: Yeah. Mr. Pinto: And that is happening. The day to day trading, which it looks to be your concern. Mr.*

Martin-Artajo: Yeah. Mr. Pinto: That someone is trading against you, knowing your position, is something that I will be extremely surprised that is going on, but we'll take a look and see if that is coming up and that's it. Mr. Martin-Artajo: Ok, thank you. Thank you for that, Daniel. Thank you for that. Mr. Pinto: And if you could, so how much do you think is damage? ***Mr. Martin-Artajo: It's a few basis points, but it's in a large position so that's the issue. Mr. Pinto: So it's not many millions of dollars? Mr. Martin-Artajo: I don't know like, maybe 250? Mr. Pinto: Two hundred and fifty million dollars? Mr. Martin-Artajo: Yeah.*** *Mr. Pinto: Ok.* ***<u>And you think that the fact that we marked the book that way</u>****, so we are benefitting with that amount and you are having a loss of that amount? Mr. Martin-Artajo: Well, I, I just,* ***I'm just concerned that the bid/offer spread is wide, and I don't know where the, the, the prices are when we trade. That's basically what it is, really****. Mr. Pinto: Ok, so then, then, I think that we need to get Jean Francois to take a look of the marks and see if there is anything that is being done inappropriate. What I was telling Achilles is that we haven't, we haven't had recently, any substantial, how do you call, actually I forgot the name,* ***<u>discrepancies in the valuations with clients, or any market disputes</u>****. Mr. Martin-Artajo: Ok."*

Pinto, Macris and Artajo talk here about this "externalization" with the IB that shall happen anyway. They also talk about the prince uncertainty, being worth "$Two Hundred Fifty Million?-Yeah" for one large position. Here CIO is long risk and the IB is short risk. Pinto is stunned and has doubt himself about his own mark to market procedure even if he has NO collateral dispute. Pinto is going to review but no one at Jp Morgan will review the reserves for price uncertainty that still is listed in the firm's procedure and policies since 2007 at least. Maybe the firm was "surprised" at first by the seminal articles. Maybe…This is not what Macris or Artajo suggest in this call actually since Jp Morgan is "making a mockery" of itself in the markets already….As the call extracts above also shows, the whole firm is clearly set on red alert anyway with a clear awareness of the reputation risk in the public no later than the 23rd March 2012 if only because of these "***very, very, very, very serious accusations***", running inside Jp Morgan against the Investment Bank, itself weighing about 50% of the group. There is just NO valuation issue at the IB for "the book" of CIO. The issue is the "bid-offer" and that at CIO people "***don't know where the, the, the prices are when we trade. That's basically what it is, really*** ". This is a basic and salient liquidity reserve issue. This happens 2 weeks before the seminal articles. Those accusations are uttered by the CIO top managers which, with $360 billion of assets and liabilities to match under their management through the Treasury department of Mike Cavanagh, themselves "weigh" about 15% of the whole group. Thus about 65% of the "fortress balance sheet" of Dimon is at stake here in this conflict that is "***making a mockery of Jp Morgan you know in the street***", as Macris pictures it to Pinto the CEO of JP Morgan UK…. With a VaR risk of about $60 to $100 million since 2007, this "CIO tranche book" alone weighs as much as 40% of the total daily market exposure of the whole Jp Morgan… This elevation is concerning huge items inside Jp Morgan. And of course the reputation of the firm was at stake with an obvious risk that the rumor leaked out to the press. Nothing was left to chance then, either for valuation, risks, exposures, concentration, liquidity, capital strategies were intensively scrutinized as it will be shown further below… Therefore the latest trades ordered by bank executives had been ***"flawed, complex, poorly executed..."*** maybe but surely they were not ***"poorly monitored"*** after the 23rd March 2012 at least, whatever the rank in the hierarchy, be that at CIO or at the IB….That incident thus occurred more than 6 weeks before Dimon made his statements of May 10th 2012. And actually the bank took action after this elevation of "*Ina, Ina, Ina*" (reporting directly under Dimon) who was '*not the most stable person in the bank*' as per Pinto remark, the JP Morgan UK CEO….Regulators are not left aside despite their claims "in hindsight"….

As of March 28th 2012, 5 days later, both the FCA (see Macris vs FCA final Notice of February 2016) and the Federal Reserve have met the CIO top management (see the OIG report of October 2014). They discussed the issues…None of the regulators complained ultimately about missing critical information on this elevation. The FCA only blamed Macris for not being "fully cooperative and transparent" (see the final notice settlement between Macris and the FCA in February 2016)….As it turns out, despite all the media activity , none of them wished to see in April 2012 or before this man "Iksil" allegedly a "huge prop trader of Jp Morgan at the center of all this" at the time …The Volcker Rule was at stake but, be that for the firm or for any regulator, it was irrelevant to talk to the man that was to be put "at the center" of all this...

So maybe the positions were "flawed, complex, poorly executed" but were they at least valued improperly? The extract above suggests that there was just no issue other than a fully elevated price difference worth hundreds of $million already as of 23rd March 2012….Who did that elevation then? No less than Ina Drew (CIO), Achilles Macris (CIO), Javier Martin-Artajo (CIO). And to whom did they elevate so seriously this difference? Pinto (JPM UK CEO), Hogan (firmwide Chief Risk Officer) and who else? Can one assume here that Drew forgot to let her direct boss unaware in the person of the JPM CEO Jamie Dimon? Well it is a violent stretch of the imagination here.

Let's review the official valuation first then…Right after March 30th 2012 month end, as the firm policies and procedures command, the controllers ran their checks on the CIO hedging book valuation…As it appears in the coming extract the differences were known, reconciled and not surprising.. ***Senate report "Controller's Assessment. <u>The Controller's office began its work reviewing the CIO's marks in early April 2012.</u>*** *In a late April email responding to a bank colleague's inquiry into the CIO's valuation practices, an analyst described how the CIO had valued the SCP positions in March: "**<u>There were differences between the [CIO] desk and the independent marks at month end. The desk marked the book at the boundary of the bid/offer spread depending on whether the position was long or short. We then applied a tolerance to make sure the prices were within tolerance and the majority of positions were</u>**. We had a small number of positions where they fell outside these tolerances and hence the adjustment that was passed."809 In another email, the same analyst wrote: "At March month end the CIO FO [front office] marked their book at the most advantageous levels based on the positions they held in specific indices and tranches."810 These emails show that, **by late April, the Controller's office was fully aware that, in March 2012, the CIO had used the "most advantageous" prices "at the boundary"** of the relevant bid-ask spread to value its derivative positions, and that the CIO prices differed from the values being assigned to the same positions by "independent" pricing services."* The adjustment knowingly was NOT meant to target "consensus mid price" as far as CIO London staff was concerned. The analyst was Jason Hugues at VCG CIO and reported those differences by the 3rd April 2012 to his management, and subsequently to the controllers of the firm. Jason Hugues left knowingly many prices at the "most advantageous" bounds of the bid-offers as per his own language. This would be allegedly the root cause for the future restatement. Still Jason Hugues will not be fired in 2012 or in 2013. He acted as per the firm policy in full compliance with his own duties.

On April 3rd, the whole senior management was mobilized already with regards to the rest, namely , exposures, concentration, liquidity, capital strategies ….***"flawed, complex, poorly executed"…*****And the book would be externalized. That was a sure thing. It was dead already in March 2012 in simple terms. Thus was it just a relevant point for a book that was already in a "post mortem" mode to alleged flaws, complexity, or poor execution?** The extract from the US Senate report exhibits shows that none of those points raised by Jamie Dimon was of importance anyway already as of April 3rd 2012, 3 days before the first article since the book was dead or soon to be….The 3rd of

April is still about 6 weeks before Dimon would make his carefully weighed statements of May 10th 2012….And by the way, as of April 3rd 2012, the "flaws", the "complexity", the "poor execution conditions" were all known across ranks at Jp Morgan….

Senate report first batch of exhibits disclosed in March 2013, EXHIBIT 52: *"*
From: Wilmot, John JOHN.WILMOT@jpmorgan.com
Tue, 03 Apr 2012 11:45:24 GMT
To: Drew, Ina Ina.Drew@jpmorgan.com

Subject: RE:
*Here is my general reaction to this and to the **document circulated last night**:*

1. *I don't get the sense of clarity that we know what is driving the RWA (economic risk versus VaR, stress VaR, CRM and IRC) or the P&L or **more importantly that either will be manageable going forward***
2. *2. We are a **significant player in a market that is less liquid**, hence any attempt to manage p&1 or capital away from an "as is" approach will either result in **P&L dislocation** or RWA constraints (a la 4Q11/1Q12)*
3. *3. **We haven't made the case of how this book runs off** and whether risk can be managed effectively within a fixed maturity, is that we can derisk without creating continual tail risk further out past **tranche maturities. This plane will never land**.*
4. *4. **<u>We also haven't made the case of what it costs to significantly decrease the size of the book</u>** (in my mind the only certain way to reduce RWA)*

*__<u>I profess to probably being the least knowledgeable about this book amongst the senior team</u>__, so that **leads me to be skeptical** when we aren't directly answering questions. I think we have moved beyond the commercial utilization of this book in some jumptodefault capacity as it exhibits neither acceptable risk/return profiles nor **<u>market liquidity characteristics to justify capital</u>**.*

*Original Message**From: Drew, Ina***
Sent: Tuesday, April 03, 2012 6:52 AM
To: Wilmot, John
Subject: Fw:
Read before the meeting
Original Message From: Macris, Achilles 0
Sent: Tuesday, April 03, 2012 06:27 AM
<u>To: Drew, Ina</u>
Subject: RE:
*OK maybe to followup the "background" that I send to John when we asked him for Olivier's help? The situation is as follows: Javier and team believe that the book is currently balanced for risk and P+L. **<u>Clearly maintaining this "neutrality" will be resulting in higher RWA than we originally anticipated.</u>** Olivier is now in our office and he is 100% involved with the RWA projections of our book and ways to bringing it lower. Nevertheless, I don't believe that we will able to be precise in our RWA targeting as there are still **<u>several moving pieces in methodology</u>** etc. The best we can do for the next week(s) is to operate with RWA ranges as opposed to exact targets. Javier believes that retaining the existing book "as is" will generate no less than $750m in P+L until the end of the year and clearly much more if we experience defaults and the value reversal on IG forwards. Unfortunately, the above "as is" approach will likely result in a minimum of $45b RWA at the end of the year and likely in a $4652b range. **If we can't allocate these levels of RWA, and we must reduce it, then the pace of the reduction would be very relevant for the P+L**. In order to maintain, risk neutrality in the book, we will need to be reducing the liquid on the run IG, parallel to reducing the short HY. **<u>The lack of liquidity in HY</u>**, would likely delay the pace of IG liquidation and thus RWA reduction. Projecting a 50% reduction of the IG/HY by the end of the year, will be reducing RWA to the mid $30s. An orderly reduction will preserve over 60% of the P+L of the "as is" scenario above. Specifically, this approach would retain the jump to default but it will realize less carry than the over $2m daily, as of now. My recommendation is the gradual reduction to*

a $35b RWA target by yearend. I realize that this is higher than what we have all hoped for. ***I am very concerned by overacting in the market relative to our size and poor liquidity.*** *We really need to minimize our market involvement and focus our activity to certain RWA reduction plans (prepriced by Olivier) while utilizing liquidity in an orderly way.*
Best,Achilles

Original Message
From: Drew, Ina
Sent: 03 April 2012 00:39
To: Macris, Achilles 0
Subject:
After we finish our review tomorrow, ***I will need you to prepare a short summary for hogan and jamie****. We can talk about how to best present* ***the gameplan****.*

Thus the book was dead already. And the "gameplan" was to be presented to Dimon and Hogan in person by herself as Drew stated above. The book was in postmortem mode which commanded to plan either a "run-off" or a collapse of some form…Or both actually given the very poor liquidity of the positions, the "very, very, very, very serious" reputation risk in the making and "P&L dislocation" risks… The amounts at stake had been priced in late 2011 already. The Federal Reserve had expressed its own concerns and figures had been computed then. They were known to have increased further since early 2012. And on April 5th 2012, Drew again was ready to run through all the details with Dimon offering to "update" the whole Operating Committee of Jp Morgan. Thus ***"flawed, complex, poorly executed …" "very, very, very, very"*** likely so, but all the details were known to Drew who waited for Dimon decision on the matter since April 3rd 2012…Actually Dimon had in mind an internal unwind of "credit exotics book" as the email chain below shows it:

"Senate report exhibits published in November 2013:
Original Message From: Drew, Ina--Sent: ***Thursday, April 05, 2012 05:58 PM****--To: Dimon, Jamie; Zubrow, Barry L; Staley, Jes~ Cutler, Stephen M; Maclin. Todd; Braunstein, Douglas;* ***Erdoes, Mary· E****; Smith, Gordon; Peloo, Douglas B.; Bisignano, Frank 1; Hogan, John J; Cavanagh, Mike---Subject: CIO---I want to update the operating committee on what is going on with the credit derivatives book in CIO especially given a wsj article which will come out tomorrow. One of the activities in cio is a credit derivatives book which was built under Achilles in London at the* ***time of the merger****. The book has been extremely profitable for the company (circa 2.5 billion) over the last several years. Going into the crisis, we used the instrumentation to hedge mortgage risk and credit widening. Recently, in December, the book outperformed as it was positioned in for "jump" risk or default risk throughout the summer as a relatively inexpensive hedge for fallout from weak markets during the european crisis. The fourth quarter 400 million gain was the result of the unexpected american airlines default* ***Post December 2011 the macro scenario was upgraded and our investment activities tuned pro risk, the book was moved into a long position*** *The specific derivative index that was utilized has not performed for a number of reasons. In addition the position was not sized or managed very' well Hedge funds that have the other side are actively and aggressively battling and are using the situation as a forum to attack us on the basis of* ***violating the Volcker rule*** *Having said that, we made mistakes here which I run in the process of working through.* ***The drawdown thus far has been 500 mil dollars but nets to 350 mil*** *since there are other non derivative positions in the same credit book. The earnings of the company were not affected in the first quarter since* ***we realized gains out of the 8.5 billion of value built up in the securities book****. John Hogan and his team have been very helpful. I wanted* ***my partners*** *to be aware of the Situation and I will answer any specific questions at oc monday.* ***Have a good holiday****, "*

Original Message From: Dimon, Jamie--Sent: ***Thursday, April 05, 2012 06:00 PM*** *To: Drew, Ina*

Subject: Re: CIO Ok. Send me some info. ***Also how does it relate or not to our wind down credit exotics book?***“

From: Drew, Ina lnaDrew@jpmorgan.comSent: ***Thu, 05 Ap' 2012 22:08:57 GMT---****To: Dimon, Jamie jamie.dimon@ipmcnase.comSubjed: Re: CIO--****If you are referring to the wind down in the ib credit exotics book, it is separate.*** *Achilles and I targeted the CIO tranche and derivative activity as a reduction item (I specified in* ***last bus review****) due to the high rwa it draws under basle III. We have also had issues with QR that have made the rwa outcome less predictable.* ***However we are working with Ashley and Venkat to see IF both the ib and CIO positions could be moved out into the winters fund****.* ***I have been assessing the trade off between P&L and RWA*** *for the second quarter. I can go over all the technicals with you at any time.* ***I wanted to this week but understood you were on vacation.”***

And on April 6th 2012, It is “holiday time” for Dimon. Still Dimon and Braunstein (CFO) requested a “full diagnostic” of the dead book (more than one full month before the May 10th 2012 statements of Dimon):

“*From: macris@;Sent: Friday, April 06, 2012 04:04 PM****To; Drew, InaCc: Martin~Artajo, Javier X*** *(***Iksil not even CCed)***Subject: Re: CreditHi Ina,****We spoke with Javier at length following our conversation. We will be prepared for the call on Monday ..****Javier is convinced that our overall economic risk is limited. There is no default event to amplify our losses as the same critical names are part of our short in HY and our long in IG.* ***Any further drawdown****, will be the result of further distortions and marks between the series where we are holding large exposures. This clearly needs to be estimated with much more precision. I also have no doubt that both time and events are healing our position.* ***I am however unsure on the potential magnitude of a "one touch" drawdown for Q2 which is highly dependent on marks.*** *Both Javier and Bruno continue to be* ***extremely concerned about the confidentiality*** *around our* ***specific large exposures****. The press seems to be referring to* ***CIO position size which is different to the overall JPM size on the same instruments****. Additionally,* ***there were some specific HF's calling our team and trying to get information from both frontoffice and infrastructure personnel (!)****. As you know, I am not regularly giving much credence to such rhetoric. I have nevertheless asked for a summary of the specifics for your information. Best,Achilles****From: "Drew, Ina"*** *lna.Drew@jpmorgan.com****To: "Macris. Achilles*** *Oil <achilles.o macris@jpmorgan.com>;"macris@) •••••••••••••Sent: Friday, 6 April 2012,17:13Subject: Credit****Jamie and Doug want a full diagnostic Monday. I will need it Sunday night. More focused on p&1 than rwa at moment as I indicated. I'm not comfortable with the level of analysis so far****. I tried to reach you by phone and text.”*

April 10th 2012, the hedging book of CIO records a loss of $400 million that is NOT balanced by gains in other books at CIO. But this loss may have been balanced by other books that were valued at the IB as Macris suggested above. This $400 million loss was a huge event. Still none of the regulators involved or the bank executives outside CIO wished to meet the “huge prop trader at Jp Morgan being at the center of all this” alleged mess. Was it a flat P&L day for Jp Morgan on credit derivatives overall? This answer to that question would indicate “who” at Jp Morgan once told Artajo to report a meager $5 million loss for the book on April 10th 2012: indeed if the IB was making an equivalent gain against CIO loss, Pinto through clearing and collateral process or Dimon himself could instruct CIO to send such an unrealistic result that day. The motivation of Dimon would have been, as anyway the bank overall result was NOT impacted, that the CEO wanted to avoid signaling what is called a “VAR exception” in jargon

<u>towards the regulators at the time. That should be verified by the authorities as this is pretty simple…..</u>

On the 10th April 2012, some CIO London "traders" were told indeed to report a $5 million loss for the day while an earlier $700 million for the day had elevated by Iksil to Macris. Who could have sent such a direction to the CIO London "traders" at Jp Morgan? Macris? Drew? Dimon? Who else? April 13th 2012, Dimon makes his quite controversial statement of the "tempest in a teapot" which triggers a critical and tense meeting on April 16th 2012 with the US regulators. And thus as of April 17th, not only the whole top management is involved in every detail but BOTH the OCC AND the Federal Reserve are deeply involved too….Here is what the OCC and the Federal Reserve heard on the 16th April 2012 about the book being in "post mortem" mode already ….While all the journalists and other media search for a "picture" of Iksil, a meeting face to face with Iksil or just a phone call still are NOT on their agenda anyway….Surprisingly so the meeting was called "***<u>in view of recent press reporting"</u>***

Senate report exhibit 68: "*From: Crumlish, Fred*

TO: Fred Brosnan, Mike; Belshaw, Sally; Pfinsgraff, Martin; Waterhouse, Scott

Cc:. Wilhelm, Kurt: Banks, George; Fursa, Thomas: Hobl. James: Kamath, Jairam: Kirk. Mike: Monroe, 'Christopher; Swank. Todd: Wong, Elwyn

Subject: JPM CIO I IG9 "whale" trade

<u>Date: Tuesday, April 17, 20 12 4:33:00 PM</u>

<u>On Monday 4/16</u> ***<u>OCC and FRB</u>*** *examiners met with Ina Drew and several members of CIO staff and risk management to discuss the JPM synthetic credit book* ***<u>in view of recent press reporting</u>****. This message provides a summary of our discussion, followed by a more the detailed summary. It focuses specifically on recent changes to the synthetic credit book.*

Comment: and strictly none among all those participants had the fanciful idea of bringing Iksil to this meeting

• JPM's CIO has been using a synthetic credit (credit derivative) portfolio since 2007. ***It was initially set up to provide income to mitigate other significant credit losses that would surface under a broad credit stress scenario. Since it wasn't possible to tailor a specific hedge to the JPM balance sheet as a whole, this portfolio was constructed.***

Comment: the OCC refers straight back to the very origin of this tranche book of CIO. One can read right here that the initial project was to see whether it was possible to "***hedge to the JPM balance sheet as a whole".*** **But it was NOT possible, right? Hence this tranche book at CIO was created instead.**

As the investment portfolio grew in 2007-2009, the synthetic credit portfolio was used to hedge stress and jump to default exposures in that portfolio as well.

• ClO's credit derivative position was managed to provide around ***$1 billion to $1.5 billion income in credit stress scenarios against firm wide losses of $5 billion to $8 billion****.*

*• In late 2011, in view of a change in perception in the state of the economy, **CIO managers decided** to reduce high-yield (HY) credit protection however after the AMR bankruptcy and with Kodak expected to file for bankruptcy, the markets for **CIO's HY indices weren't liquid** enough to use them to unwind CIO's position.*

(Comment: at this date the CIO or the bank had not set a liquidity reserve for those huge High Yield index positions that was attributed to the "CIO tranche book")

*• **The IG 9 index, which is much more liquid than HY indices**, includes five "fallen angels" that allowed it to be used to reduce a "good part" of CIO's HY position, **so it was used to reduce the HY protection.***

*(*Comment: This characterization goes against all the reports made by Iksil since March 2011 to Ina Drew and all the senior managers of CIO. As they knew from Iksil, the IG9 index was not liquid enough looking forward, full stop.)

*• **The IG 9 market is not illiquid as it trades around $10 billion daily and spread changes for this index are in line with peer indices**. The IG 9 curve has steepened in a move of around 65 standard deviations, and there has been strong buying of deferred contracts, implying that the buyers are certain that there will be no defaults in the next 9 months and nearly certain that there will be defaults next year. **In view of events**, however, **JPM is conducting a "post mortem" of the IG 9 situation** and its impact and share results with OCC and when completed.*

*(*Comment: The "post mortem" was discussed daily as early as March 26th 2012, almost 2 weeks before the "London Whale/ IG9" situation actually. Iksil was NOT invited to participate in those meetings which otherwise gathered Macris, Artajo, risk management, CFO staff and business management. The "post mortem" thought process at CIO top management actually had started in late March 2011)

***The CIO began using credit derivatives around 2007 as part of its mandate to manage structural balance sheet positions.** CIO only uses credit derivatives on indices, not specific names. Initially CIO bought protection (shorted risk) on mortgages using ABX, and high yield indices to mitigate some of the firm's balance sheet credit exposure. **At this time CIO investments were highly concentrated in Agency pass~through mortgage securities, and the structural credit risk was in the lines of business**.*

*(*Comment: the "highly concentrated investments" constitute the bulk of the $360 billion being managed by Drew and not a $ dollar of reserve appears to have been set against this concentration risk. The "highly concentrated ….structured credit risk" was mostly constituted of CLO AAA tranches and UK long-term ABS. As to the CLO issues, CIO often times detained 90% or more of the CLO AAA tranche issued. The CIO had also bought about 70-80% of all the newly created UK mortgage ABS AAA tranches that appeared from 2010 onwards. As said before JP Morgan had borrowed $350 Billion of liquidity from the US government after the 2008 crisis)

Through the financial crisis deposit inflows combined with lower loan demand to leave the firm with significant excess funds. As part of its mandate to invest, when appropriate, in high credit quality, liquid investments, the CIO began purchasing low credit risk, top of the capital structure securities to use the excess funds. While high quality, these investment securities have more credit risk than the U.S. Agency passthroughs that continued to be held, so that structural credit risk in the investment portfolio increased along with portfolio growth.

(Comment: as the regulators know the "deposit inflows" after the crisis came from central banks themselves through the different quantitative easing policies)

Throughout this the CIO continued using index credit default swaps (CDSs) to mitigate some of the structural credit risk in the investment portfolio and the lines of business other than the investment bank, which manages its own credit risk exposure. ***While there are liquid markets for many credit derivative indices, the markets are not deep enough to fully hedge a multitrillion dollar balance sheet.*** ***CIO's credit derivative position was managed to provide around $1 billion to $1.5 billion income in credit stress scenarios against firm-wide losses of $5 billion to $8 billion****. CIO managers decided to reduce the high yield credit derivative protection around Thanksgiving last year. After the AMR bankruptcy filing on November 29, 2011, the firm profited from its credit derivative positions as anticipated, but* ***high yield index derivatives had limited liquidity*** *as demand increased. CIO managers thought that it wouldn't be possible to reduce the high yield credit derivative position by using the indices that created it; the* ***best available hedge product was the IG 9 index, which has good liquidity as an investment grade index*** *and a high yield component as five of the index companies are "fallen angels" i.e., companies that have fallen below investment grade since the index originated.* ***This was the reason that JPMCB began selling IG 9 CDSs; going long IG 9 credit risk (selling CDSs) would neutralize some of the short high yield credit risk position (long CDSs).***

(Comment: the IG9 was NOT the "best available hedge product" any longer starting in March 2011. The "CIO tranche book" was prepared to be placed in "run off" mode in June 2011 through the creation of a specific strategy showing as "Strategy 27" in the CIO daily "position and P&L" reports. The IG9 was almost not trading at all in September 2011. All this had been reported by Iksil to Drew, Artajo, Macris Wilmot, Kalimtgis, Stephan, Hugues and others in due time…Iksil made a trip to NY then and committed to unwind only stressing upon the lack of liquidity… The liquidity came back only for a small part in October and November 2011. And CIO management ordered to grow notional exposures again a few weeks later on the 9th December 2011 until early May 2012…)

JPM provided the CIO notional CDS exposures as requested, along with a summary of the synthetic credit portfolio maturity profile and results of a 10% credit spread widening (CSW). ***The CIO CDS· portfolio includes exposure to JPMC's IB along with third parties****. The third party counterparties are all major banks or broker/dealers. The stress results show that the CDS portfolio net exposure cannot be judged by looking at notional exposures alone. An example given is the ITraxx Main 20Jun13 position; the notional exposure is $28 billion long risk suggesting a loss if credit spreads widen, but the 10% CSW shows a profit of $68 million because of equity tranche protection that is part of the position ..*

(Comment: the regulators are here well aware that the CIO exposures are offset with the Investment Bank exposures and monitored in the granular details)

The synthetic credit portfolio's position now provides around $434 million income in the credit crisis stress scenario*. Very generally, the portfolio risk profile is short highyield risk against long investment grade risk and short shortduration (to year end 2012) investment grade risk against long longduration investment grade risk, i.e. a credit curve flattener. The portfolio VaR was $59.2 million on April 5th.* ***The portfolio is reported in CIO positions and subject to all of the JPMC market risk management systems.*** *Through the indices used, the portfolio provides credit protection on 588 names. 121 of them are from the IG 9 index, which currently gives an average $146 million jump to default at market recovery gain per name. This position is stable until December 20, 2012 when $32 billion of short dated protection rolls off along with $4 billion of protection on IG 9 equity tranches,* *and the average jump to default at market recovery becomes a loss of $572 million per name.* ***Before that happens, CIO managers feel they have time to adjust the portfolio to compensate without roiling the IG 9 market.***

In addition to inclusion in the firmwide stress scenarios, CIO managers routinely run other stress scenarios *to assess portfolio performance in a variety of circumstances.* ***The synthetic credit portfolio is seen to provide stress loss protection in an environment of significant credit deterioration with defaults or perception of imminent defaults****.* ***CIO managers have been surprised that the IG 9 market has been so willing to take on and sell so much protection, regardless of what JPMC did****.* ***The market is not illiquid as the IG 9 trades around $10 billion daily.' The spread changes for this index are in line with peer indices****. Many market participants have been strong buyers of deferred contracts, implying that they had complete certainty there would be no defaults in the next 9 months and near certainty that next year there will be defaults.* ***The IG 9 curve has steepened in a move of several standard deviations****. CIO managers said that the curve steepening move was around 6.5 standard deviations from the mean.* ***A review of the IG 9 situation is being done, and it will be shared with the OCC and Fed when completed.***

(Comment : The book is subject to all of JPMC's market risk management systems, which means that the valuation of the book, one key risk among others, is run and controlled by JPMC risk management systems too. "Valuation" is one of the most important risk of all as good common sense would suggest. This means that the CIO "tranche book" valuation is run independently of the business in any event (as insistently requested by US regulators since 1993 actually). More the hedging book exposure is fully integrated in the stress test scenarios monitored by the firm. Furthermore, the regulators are aware of alternative stress scenarios that CIO runs for its own purpose. All this suggests again additional liquidity reserves to cover for model risks uncertainties and concentration risks inside the firm…..These features are recommended as per the regulators' own policy standards and as per the firm's stated policy- One can find those policies through a search again on "Allistair Webster" in the US Senate report exhibits….Since Allistair Webster was the controller who checked the CIO valuation process for the Tranche Book and was the controller who finalized the valuation policy of the whole firm both as of May 10th 2012**)**

*Attendees:**JPM:** CIO attendees**: Ina Drew Chief Investment Officer**, John **Wilmot** CIO CFO, Achilles **Macris** CIO Managing Director EMEA (telephone), Javier **Artajo** CIO Managing Director EMEA (telephone),lrv **Goldman** Market Risk Management Managing Director, Pete Weiland Market Risk Management:Managing Director, **Keith Stephan** Market Risk Management Executive Director EMEA (telephone), **Greg Baer** Managing Director Associate General Counsel, **Joe Sabatini** Managing Director Head Supervisory Relationship **OCC** attendees: Fred Crumlish, James Hohl, Mike Kirk **Fed attendees: Anna Iacucci,** two others"*

And on the call itself on the 17th April 2012 between Drew and Artajo (see below) it appears that the regulators had apparently put the pressure on Hogan reviewing just all the details with the bank senior management, thus witness the following call of Ina Drew on April 17th 2012.

One can see one collateral effect of this pressure on Hogan, the Chief Risk Officer controlling all the JPMC risk management systems. Here Ina Drew from NY, sends instructions to Artajo that are very precise about the way the estimate P&L report must be produced in London…This call transcript by chance echoes the instruction that Artajo will convey on march 6th crucially to Grout first and Iksil next, so that Iksil repeats it to Grout from his vacation spot. See the call transcript that is available in the exhibits attached to the senate report: "*Senate report: "**Ms. Drew**: Excuse me. Just so you know,* ***I***

tried to call Achilles. *You might want to let him know.* ***Mr. MartinArtajo****: Yeah.* ***Ms. Drew****: I saw Hogan. I delivered the message on what we can and cannot deliver on limits this week or next. That we are doing an* ***appropriate review, that there is a divergence between the single name system that's [Indecipherable.] the number and the index system****,* ***<u>and he needs to take the pressure off in terms of penciling in a number quickly</u>****.* ***Mr. MartinArtajo:*** *Ok.* ***Ms. Drew:*** *I think he's fine with that. And what we can pencil in, we will, but* ***we don't have to do everything****. And then I just wanted to get a really* ***<u>brief update on, you know, what the P&L might look like.</u> It looked like the curve, the forward curve was flattening a little****.* ***Mr. MartinArtajo:*** *Yes. We are going to be showing a slight positive today. I just want to confirm that with Bruno…*

(Comment: Artajo and Drew have a target P&L in mind here BEFORE talking to "Bruno". Here Artajo "just wants to confirm that with Bruno". They are the ones controlling this process and what it prints everyday as what follows shows)

. I think we are going to be up like somewhere around $20 million today, ok? So this is the first, this is a big event for us, because we are starting to get money back. The guys are a little bit unsure, because we are not trading in the market. Maybe, maybe, maybe there's a little bit more money in the trade. I, I want them to just show me what they think is for sure, ok? So I think we are going to be up probably somewhere in the $20 million, ok? Somewhere around that. ***Ms. Drew*** *That, that's on the curve?* ***Mr. MartinArtajo****: That's on the curve. It's a little bit on the curve. And, you know, if we mark the full, the full, I think, I think, to be honest with you Ina,* ***<u>we don't know where the market is trading</u>,*** *so really* ***<u>Ms. Drew: I understand.</u> Mr. MartinArtajo:*** *Because the bid/offer spread is a little bit wide,* ***<u>it's getting better every day so we are within the bid offer spread.</u> Now, that means that probably the real P&L is probably like $50, but I'm going to show about half of that, ok?*** *I just want to make sure that we don't, because I, I, I really want to make sure what we put in the P&L what we know for sure. And, so we are, but it is very important, because this is the first day that we are If you forget about the idiosyncratic thing that happened yesterday in Rescap, I mean this is a,* ***this is a market that actually is starting to trade a little bit better for our position. It is slightly better****. I'm not saying that this is going to be a fast process, but it, it is important that we start getting positive numbers now, right?* ***<u>Ms. Drew</u>: The curve that I put on, Menashe put on the screen for me with Julien's help****, that it was starting to, point upwards slightly.* ***Mr. MartinArtajo****: Yeah. Yeah, it is starting to get a little better. The only thing is I don't know how much it's trading* ***<u>and I don't want to, I, I, I don't want to show the P&L until these guys confirm</u>****. I mean we are normally quite conservative in that. And, and I,* ***<u>you know, you know, if, if, if the price gets outside the, the bid-offer spread, then we mark that, ok?</u>*** *So,* ***<u>so 3 bps as you know is 150 bucks. Ms. Drew: Yeah….</u>***

(Comment: please rewind to the March 23rd 2012 call between Pinto, Macris and Artajo where Artajo mentioned a couple of basis points worth $250 million difference on one large position. Pinto ir aware. Macris is aware since then… And Drew would allege that she was not in her future testimonies under oath in late 2012 and early 2013 as the US Senate Report would describe)

Mr. MartinArtajo: <u>So the instruction to you that we have here is probably around $100 million, ok?</u> *So I don't want them to show $100 million today if they are not sure, ok? So, so just for you to know that, you know, it's about, you know, you know, if this is, you know, we need to have a real, sort of* ***<u>3bps move</u>*** *to, to, to recognize that. I hope it happens and, if it happens between now and the end of the day or, or, whenever it happens, I'll show you. I'll let you know, ok? I'll send you an email when, if, if things are improving.* ***<u>Ms. Drew: Here's my guidance. It's absolutely fine to stay conservative, but it would be helpful,</u>*** *if appropriate, to get, to* ***<u>start getting a little bit of that mark back.</u>*** *Mr. Martin Artajo: Exactly, I know.* ***Ms. Drew:*** *If appropriate, so you know,* ***<u>an extra basis point you can tweak</u>***

at whatever it is I'm trying to show, *you know,* ***with demonstrable data and if not, then the description is, you know, we have a conservative mark but the curve is starting to trend*** *[Indecipherable.]*

Comment: clearly the instruction to inflate the gain of the day comes from Drew. Clearly she states that if there is NO "demonstrable data" then she tells Artajo how to make the "description" supporting the gain that she orders to print that day. This really leads to minimizing the loss knowing that some marks might be out of "demonstrable data" ranges like bid-offers. And Drew tells Artajo to speak of a "trend" that is NOT yet in the quotes. Who is betrayed by whom right then "in hindsight" as Dimon would say likely si?

Mr. MartinArtajo: *Ok, I will write that. I will write that. It's just that I don't want to do it until I'm sure, ok? Because I, I,* ***I know that we need this. I know that we need the reversal, and it does help our case enormously, right?*** *It starts to give us a little bit of* ***credibility that I've lost by****, by explaining this in, in, in such a bad way, really.* ***Ms. Drew:*** *Ok. But are you ok?* ***Mr. MartinArtajo:*** *I'm ok. I'm ok. Thank you very much for I thought that today's meeting was very good, Ina. I, I really felt that, that we had a good meeting, today. I think that* ***Ms. Drew:*** *Get our arms around everything, and we will, you know, go forward, but sometimes you gotta, like, look back to go forward.* ***Mr. MartinArtajo:*** *Yeah. Yeah, I mean we've shown a lot of our mistakes today. I think that, I think that, you know, I think this post mortem is, is actually a, a realistic one. I, I, I, you know, I think that we've, we've made quite a lot of mistakes. I think that we communicated poorly internally. You know, I think we also forgotten how, how, how difficult it was, you know the positions that we've made given everything, right?* ***Given, given, you know, year end****. Given how fast things have happened in Europe. How, how, you know, I, I, I, I'd like to go to New York after, you know, in a week or two or three to, to, to just, you know, maybe, maybe we can sit down. Because I feel, you know,* ***we have cathartic things here that maybe heal some of the things that maybe were not as good in the past.*** *And, and, you know, things like this, it's like the twin towers falling down and suddenly we get, you know, we remember, how privileged this thing is and* ***Ms. Drew: Ok, I've got it****. I'm just reaching out to mostly tell you about the limits and get the P&L, and I'm going to L&C and I will look, look out for the email later.* ***Mr. MartinArtajo:*** *Thank you, Ina. Thank you.* ***Ms. Drew: Call if you need me****. Bye."*

Comment: All this is "Cathartic". Artajo said that CIO had had marks that sat at the bounds of the bid-offer on the most favorable side. CIO had even had marks being outside of the bid-offer very recently as per Drew guidance and actual "instructions". And Artajo explained that he wanted to take the mark "back" within the "bid-offer" instead. And Drew gets it: "it's absolutely fine to be conservative, but….". But here is her "guidance" right? "start getting a little bit of that mark back"…."an extra basis point you can tweak at whatever it is"…. to show a gain since this is what Drew and Artajo keep talking about all along the call. Ina Drew is clearly told by Artajo that they were recently outside of the bid-offer on the most favorable part, which made the reported loss lower than it could be otherwise…. Artajo mentions $150 million of potential underestimation of the loss on one single position that one can guess is the IG9 10yr. This amount is just made of "3Bps" and Artajo is not sure… Artajo speaks of "cathartic" things though with certainty that are now happening and "*may heal some of the things that maybe were not as good in the past"… "You know year end"*…. Drew "understands" all that: the "twin towers", "how privileged this thing is"… And she just wants Artajo to "get that mark back to the bid-offer boundaries", ie "tweak that mark" to show a gain. Doing so, she aims to alleviate the "pressure on Hogan" as she says at the start…

This occurred then about 3 weeks before Dimon made his characterizations of May 10th 2012 that came along with the 10-Q report for Q1 2012. This sounds like heavily monitored under daily "guidance" from Drew who reports straight to Dimon since 2006….

Here is how the Senate Commission reports what Ina Drew explained later in 2012, "*Four days later, **on April 17, 2012,** in a recorded telephone conversation, Ms. Drew told Mr. Martin-Artajo: "**[S]tart getting a little bit of that mark back … so, you know, an extra basis point you can tweak at whatever it is I'm trying to show."768** When asked about this telephone conversation, **Ms. Drew told the Subcommittee that the traders had told her they were being "conservative in the bid offer,"** and **she wanted them to be more aggressive**. "If the position is starting to mean revert," Ms. Drew said, she wanted them to "show it."769 Her recommendation that the CIO traders "tweak" the marks, as well as her explanation that **she wanted them to be less conservative in their analysis**, provide additional evidence of the **imprecise and subjective nature of the marks** assigned by the bank to its credit derivative holdings. On April 17, the SCP showed a gain of $10 million, after eight consecutive days of losses.770*"

As seen above, while the "London Whale" makes waves in the media, this April 17th day is the day when JP Morgan chiefs had met with the OCC and the Fed representatives. There was pressure…As mentioned before, Dimon would already call the Federal Reserve on the follow-up of March 13th 2012 stress test results and pending issues dating back from 2011 year end to organize a meeting. There would be 'give and take' as some articles described through Dimon's own words. Drew would work with Hogan knowing that the marks at CIO are so aggressive that they may well stand out of the bid-offers at times, out of "demonstrable data" at times. She instructs Artajo still to "tweak that mark" further, in order to show a gain that day of April 17th 2012…The "trend" for Drew supersedes the Bid-offer...This is her guidance and instruction right then. The senior management has already reviewed every single position, been told of the P&L differences with the Investment Bank internally since the 3rd April. The regulators are then fully aware and a line in the sand is drawn. The "full diagnostic" was requested as of April 6th 2012 and discussed by the 10th April 2012. This is not a "tempest in a teapot" at all. The pressure is growing especially on Hogan, the firm CRO. As Dimon will say, this is "give and take". They at the top of the bank agree with regulators, unbeknownst to Iksil, on a series of highly misleading statements like, the IG9 is still liquid (huge denial of Iksil's alerts that have come since March 2011), the bank did not know everything (complete mischaracterization as shown above), reserves for CIO are fine (absolutely wrong for IG9 and HY indices at least). Shall this be the fault of CIO and some of its traders ultimately?….

<u>And still, none of the regulators involved wanted to meet with the otherwise little known "huge prop trader being at the center of all this mess" …</u>

Thus Drew had just pushed Artajo out of "demonstrable data", showing a gain based on a tentative trend….That was to ease the pressure on Hogan as per Drew account. She was being "betrayed" here against all odds…. Unless she was untruthful in her future testimonies…By a strange coincidence a collateral dispute emerged on the follow, ie on April 19th 2012. This elevation of a collateral dispute was another decoy planted internally by Jp Morgan actually. It eased in few days as the US Senate report quite summarily shows it. Why not show that the difference had actually vanished between Friday 20th April and Tuesday 24th April 2012? Why not explain that both Morgan Stanley and Bank of America had dropped their claim by the end of the week ie before the end of April 30th 2012? This is right that day as per the article of 18th May that sparked all this development here that explains why Jamie Dimon felt really bad…. Why not explain also that this dispute should never have been elevated like this inside Jp Morgan for purely technical reasons? …The technical reason is simple: basically

CIO notoriously did NOT feed the tranche prices as the firm policy and standard market practices required it to process margin calls with counterparties- the IB collateral team had to do the job and adjust CIO prices automatically every day at least once for the mark to market procedure in force at Jp Morgan on index tranches-Why did the IB team stop doing its routine job for CIO around the 17th or 18th April 2012? The US Senate report provides few figures and one can really wonder why the data for April 23rd, April 24th, April 25th, April 26th, April 27th, April 30th, May 1st, May 2nd are eliminated since the issue was monitored everyday… One can retrieve a proof of that in the exhibits of the US Senate report looking for Paul Bates in email chains. The figures certainly were produced but the US Senate Report would not make them public. Was this because the Bank JP Morgan refused to provide the figures? Is this because the US Senate commission did NOT want to provide the figures to the public eye? As one can see below, the US Senate report only provided quite truncated records on this central matter of collateral disputes:

Date	*collateral difference*	*Biggest dispute**4***
***04/20/2012-78**4*	***$ 520 million***	*$ 115 million Morgan Stanley*
***05/02/2012-**785*	***$ 182 million***	*$ 55 million Morgan Stanley*
05/03/2012-786	*$ 194 million*	*$ 57 million Morgan Stanley*

For outsiders an amount like $182 million looks huge. But adjusted to the scale of the "tranche book" and considering the price uncertainty, this was absolutely normal to have this kind of difference with counterparties. This was resolved easily in the market conditions of the time. Through the missing dates period, the OCC will receive the quite problematic routine report of April 25th 2012 mentioned before that will spark a lot of new pressures leading to the future misstatements of Dimon on May 10th 2012 about Iksil's role.

The firm amended the valuation policy in place 'sometime in May' (US Senate report) for the hedging book of CIO. That occurred after May 10th 2012 actually. Who took the decision? What was it all about?....US GAAP standards as well as the firm policy required the mark to market process to use Totem or any other independent price source like MarkIT, something which CIO traders in London never did for the estimate P&L report that emanated from CIO London staff day to day. The reference to "mid" in the exhibit below can only be a consensus prices like Totem or MarkIT. ….

<u>Senare report footnote :801</u> *"Id. See also Subcommittee interview of Douglas Braunstein, JPMorgan Chase (9/12/2012) (Mr. Braunstein: "**<u>Ashley Bacon abandoned the traders marks in early May because we directed them to mark at the mid. The collateral disputes were noise in the markets that could be problematic</u>**.")"*

The fact remains -as the US Senate report truncated data show anyway- that the collateral dispute was solved already. Braunstein said it somehow "***<u>The collateral disputes were noise in the markets".</u>*** But they could be "problematic"…. Indeed….They revealed the true mismarking that was strongly suspected at the end of 2011 already…

Why was this change made then "sometimes in May"? The OCC examiners felt the figures did not "add up"…..

<u>Senate report: "</u>*On May 9, 2012, the OCC held a meeting with JPMorgan Chase about the CIO, which was attended by the bank's* ***Chief Risk Officer John Hogan****.1388* ***<u>At the meeting, an OCC</u>***

examiner asked Mr. Hogan when he realized the SCP books had been mismarked, *and according to the examiner,* ***Mr. Hogan responded that the books were not mismarked****.1389 The OCC told the Subcommittee that it was* ***not satisfied*** *that his response was accurate.1390 The bank later conceded that the SCP positions were mismarked.1391 The OCC told the Subcommittee that* ***Mr. Hogan's quick dismissal of the mismarking allegation was surprising at the time****. Criticisms of the* ***CIO's valuation practices had been reported by the bank's internal auditors1392 and OCC1393 since the beginning of the year****. In addition,* ***by the time of the meeting in May****,* ***the CIO was facing multiple collateral disputes with counterparties claiming the CIO*** *was overvaluing the SCP assets, disputes which, at their largest point, totaled $690 million.1394 As one OCC examiner said at the time,* ***"Does not add up."1395*** *Either the CIO's counterparties in the collateral dispute were wrong, or the CIO's pricing was wrong,1396* ***and its reserves were inadequate.1397 Not more than a week later, the CIO began to settle its collateral disputes by agreeing to the prices demanded by its counterparties,1398 but it took another two months for JPMorgan Chase to reveal to the OCC,*** *as well as to the public, that the CIO traders had, in fact, been mispricing the SCP assets.1399 The bank told the Subcommittee that it had believed the CIO was using good faith marks for the SCP book until it began reviewing telephone calls by CIO personnel in June and decided it had to restate the SCP values.1400"*

Comment: as it is written by the OCC staff here, "*Criticisms of the* ***CIO's valuation practices had been reported by the bank's internal auditors1392 and OCC1393 since the beginning of the year*"**, but the action plan undertaken by the CFO Doug Braunstein since January 2012 to address the criticisms of the internal auditors did NOT conduce CIO Front Office staff to use Totem, MarkIT or adopt a definite closing time until mid May 2012…. It did not even induce to have CIO change its marking process for index tranches despite the fact that it was neither complying with the firm's policy nor with industry standard practices on the matter. The reason is easy to infer from the footnote 801: CIO Front Office was simply NOT expected to adopt US GAAP standards or follow entirely firm policies or adopt strictly industry standard practices… The IB was doing the job on behalf of CIO since 2006. The regulators knew all that if only because it is part of their routine job to check on this. Still the figures did not "add up" for the OCC as of May 10th 2012….

Footnote 1388 *See, e.g.****, 5/10/2012*** *email from Michael Kirk, OCC, to Fred Crumlish and James Hohl, OCC, "My opinion on yesterday's meeting," OCC-00005302, at 303 ("****I wasn't satisfied with the comments made about the valuation process and thresholds*** *yesterday, so we have some follow up here. ... Valuation was one of the things Hogan said they are looking at."); Subcommittee interview of Michael Kirk, OCC (8/22/2012).*

Footnote 1389 *Subcommittee interview of Michael Kirk, OCC (8/22/2012); 5/9/2012 email from Michael Kirk, OCC, to Fred Crumlish, OCC, "today's meeting," OCC-00005509. See also 6/29/2012 email from Michael Kirk, OCC, to Elwyn Wong, Scott Waterhouse, and Fred Crumlish "2nd Wilmer Hale Call," OCC-SPI-00071386, at 386 ("On that very first daily call, Hogan discussed that earlier there had been a large collateral dispute with their counterparties. I questioned him on how it was resolved and he said* ***JPM eventually agreed to the counterparties marks…. I then followed with a question relating to what I described as mismarked books*** *to which Hogan forcefully stated JPM books were not mismarked; leaving both Elwyn and me ... puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect.").*

(Comment : It matters to stress that CIO did not alter much its own marks while JPM "*eventually agreed to the counterparties marks*". The uncertainty on prices is blatant. A reserve is missing as mandated by the firm policy when prices are uncertain. …)

The statements of Dimon on May 10th 2012 were thus not quite accurate characterizations. "Does not add up" says the OCC examiners…"puzzled"… The mismarking rumor at the OCC grows….The "Give and Take" deal takes a new dimension….The "london whale" saga now switches openly to a "prop trading" debate while the price differences are known and the reserves are seen missing….Ina Drew is retired officially on May 14th 2012. The bank starts its internal investigation right then while the FBI comes into play. Are they going to chase the missing reserves or the parochial traders or both? On the 15th May 2012, the change in the estimate P&L process is official, ordered by Doug Braunstein, the firm-wide CFO. Few articles print out as pieces are moved on by the firm and the regulators involved now….They convey a new series of misleading information….**The regulators involved still do not want to interview Iksil but the bank does run an interview of him then…Feels like it is going to be a "trader's hunt" that regulators would not want to hear about yet.**

First, as per the planned 'give and take', this is the great comeback of "The French trader"…..But now he is not expected to be alone in leaving…*15th May 2012- FORBES- Nathan Vardi- " London Whale harpooned: Iksil on his way out at Jp Morgan" "the London- based trader at the center of JP Morgan Chase's $2 billion trading loss will be leaving the bank, according to reporting by the New York Times, although he still remains employed there. Bruno Michel Iksil has been referred to "the London Whale" and "Voldemort" and has been the subject of intense scrutiny since early April…Now the man who pulled off many of those trades is on his way out. The departure has been widely anticipated. Iksil's boss,* ***Achilles Macris is also expected to leave****"*

Well Iksil was still in the London Office in the morning! And not a single regulator tried to meet with Iksil yet….

Second, as per the 'give and take' too, the regulators were not "fully aware"….*15th May 2012- reuters- Jonathan Spicer- "JP Morgan trade on regulators' radar in April-source"---"Regulators first raised concerns in April about trading positions… and they posed questions to senior management at the bank, a source familiar with the situation said on Tuesday. The US Federal Reserve-JP Morgan's primary regulator- as well as the Office of the Comptroller of the Currency and the UK Financial Services Authority were all involved in monitoring the bank's portfolio that suffered… the source said…has raised* ***questions over how aware regulators were of the risky trading*** *and how well they understood it, given that the* ***Fed and the OCC have supervisors physically embedded at Jp Morgan offices****….The Federal reserve Bank of New York has up to 40 supervisors embedded at Jp Morgan …. While the FSA does on-site supervision but not embedding….*

(Comment: the "FSA" changed names for "FCA" soon after. For the record, see the US Senate report page 218, the OCC had 65 people on site)

*"If Jp Morgan cannot understand the risks they were taking, how can you expect examiners to do it?" Last week Dimon said Jp Morgan kept regulators as informed as possible. "****You should assume that we keep our regulators up to date****" the CEO said in a conference call with analysts and reporters. "****Sometimes we don't give them great information because we didn't have great information****".*

The issues around VAR, especially the $5 million loss order on April 10th, suggest that Dimon was not truthful here.

This is it: The new tale version is in place on the media landscape. The top management of the firm may have been "misinformed", since they did not understand themselves, and it resulted in an "information gap" which would spread over to the regulators involved…. And the latter still do not think they should talk to Iksil….This is a bit too early. The deal is here to stay until 2017….Yet people are not fooled. David Olson who arrived at CIO just 2 months after Iksil, spoke up … Dimon was very "hands on". Maybe the CEO took toxic risks with his CIO and quite logically controlled the hedging book even more….

*May 15th 2012—The Independent---Stephen Foley---"***Whale of a problem for JP Morgan chief Jamie Dimon***"---"The chief executive has said that the trading strategy " was badly vetted, it was badly monitored, it should never have happened"- but there are questions now about how much he personally knew about the trades. A former executive from the CIO claimed in an interview that Mr Dimon had personally pushed for the division to take more aggressive positions and to turn big profits for the bank. David Olson, who used to be head of credit trading at CIO, told Bloomberg News, that the division's trading strategies had blown up before, notably when it invested in the debt of mortgage finance giants Fannie Mae and Freddie Mac, shortly before they had to be nationalized by the US.* ***The only reason I wasn't fired then , Mr Olson claimed, was because Mr Dimon was intimately familiar with those positions***"

This is not that simple anyway as a NY Times articles points out ….—NY Times—15th May 2012—By Azam Ahmed---"As one JP Morgan Trader sold risky contracts, another one bought them"---"*…it seem to be an opportunity to take on Jp Morgan and win. It was in fact such a sweet trade that even another part of the bank couldn't pass it up….a mutual fund elsewhere at the bank was taking the other side of the bet…a mutual fund run out of a completely different part of the bank*---

*(*Comment: in picture on the article features Mary Callahan Erdoes who runs the asset management unit- she was one of the 'partners' of Drew at the Operating Committee of JP Morgan*)…*

.If nothing else, it indicates that the asset management division, run by Mary Callahan Erdoes, acted independently from the bank as is required…The fund, which is run by William Eigen, began to buy the insurance contracts roughly a year ago. By last May (still in 2011), *the mutual fund had built a position.. which it doubled over the summer (* still of 2011)*… "It's like a hedge fund trade. This is kind of what the mandate is"…" Related link "FBI Inquiry adds to JP Morgan Woes"- By Jesica Silver-Greenberg and Ben Protess—NY Times--*

The FBI investigation looks like a routine one in the context but there is more than meets the eye….The DOJ steps in.—NY Times—15th May 2012--*"FBI Inquiry adds to JP Morgan Woes"- By Jesica Silver-Greenberg and Ben Protess*—"*The enquiry, which is being led by the FBI's New York Office, will in part* ***scrutinize JP Morgan's accounting practices and public disclosures about the trades****…JP Morgan also recently received questions from federal prosecutors in New York…Mr Dimon told investors the bank had made mistakes, which he called "self inflicted"…* ***Some seized on Mr Dimon's position on the board of the Federal Reserve Bank of New York*** *as further evidence of the executive's undue influence. That concern was initially raised by Elizabeth Warren… who called Monday for Mr Dimon to give up his seat on the board of the Fed…"*

"Does not add up" still. The "whale" bait is to big to be gobbled. Iksil is not enough by far. The computers of the London CIO offices were seized. Bacon uttered a nervous "It's ridiculous". And still, not one of any of those investigating bodies wished to talk to Bruno Michel Iksil…apart from the Jp Morgan internal Task force and Mike Cavanagh in particular.

…Journalist names now change at Bloomberg…The SEC comes into play on the front stage…The OCC defends the bank one last time before senator Corker talks to the OCC top chiefs during the week end (US senate report account and exhibits)…. A new layer of ambiguous statements surfaces…

May 16th 2012—Bloomberg—*"JP Morgan's specific trades weren't monitored"---By Jesse Hamilton---* *Jp Morgan's individual trades that led to the $2 billion loss weren't monitored by the OCC, which said it didn't expect to be notified about the positions..*

Comment:see the December 22nd CCAR Fed request, see the March 23rd 2012 elevations, see the March 28th 2012 meetings with the Fed and the FCA, see also the april 17th OCC memo, see the April 17th call of Ina Drew to Artajo, see the weekly EMR reports of 18th April, of 25th April, of May 2nd and so on

…"There is no requirement to notify regulators of specific trades and positions of the performance of those trades and positions, although we do expect to be apprised of significant developments afflicting the bank", Hubbard said yesterday. "It is possible that losses could be incurred even when all controls function properly"

Still, no authority wants to talk to Iksil…. The following day Zuckerman at the WSJ hammers again his version but with a slight slippage… "Iksil" who initially was Zuckerman's "trader at the center of all this" becomes "the trader who contributed to a $2 billion loss". Iksil "contributed" instead of being "THE ONE"… Iksil is out of the office now right? Zuckerman therefore reloads his gun of infamous nicknames and shoots: after "london whale", "voldemort", here is the "caveman"…Zuckerman still does NOT say an accurate word of what Iksil was actually doing be that at CIO or in the markets…Another try, another nickname….-WSJ---May 17th 2012---By Gregory Zuckerman---"From Caveman to 'Whale'"---*"Months before Bruno Iksil became famous as the "London whale" the trader who contributed to a loss of $2 billion at Jp Morgan Chase and Co, he earned a different nickname: the "caveman"….Mr Iksil's positions brought a windfall of about $450 million to Jp Morgan , saddling hedge funds and other rivals with similar size losses"…*

Zuckerman for the purpose of his brand new hunting pleasure conveys a brand new mischaracterization. See here the March 23rd call with Daniel Pinto and Macris where Pinto says **:"** ***Mr. Pinto****: There is no, I, I, I don't think so. So **the last big position that we have against you where we lost money is American Airlines. We hedged you at the end of last year.** We lost the money and we were wrong. So, I, I, I don't know. I don't know. It may be another one. I really don't know. You know who you are trading with. But-**Mr. Martin-Artajo:** Ok. So then, then what happens is that then **we need to settle this inside JP Morgan.** If you're right about what you're saying, I have, I have reasons to think that, that, that, you know, I think you need to do a little more work on that. But it doesn't, the issue is, is that we should keep it inside the company, whatever that is. And if there is a trade to be done, **we do it internally and we don't force it outside**."*

Pinto is Jp Morgan UK CEO right under Dimon who is JP morgan's "World" CEO. Pinto states "we lost money" and most likely he speaks as a UK JPM CEO about Jp Morgan as a whole here. The bank did not make money so much on this American Airlines "windfall gain at CIO" since the Investment bank lost more than what CIO was making likely so. But obviously too the bank did not lose much money either thanks to the "hedge" whichever side it was, CIO or the IB….Obviously this is an information that Jp Morgan did not share with Zuckerman then…He who was hunting for the "Caveman" was not hunting for reliable information. Because either way, be that with American Airlines or with the "tranche tail hedging book" as a whole in 2012, the bank was hedging itself….That was it and Zuckerman could very well have guessed. That was no such "one side loss" or " windfall gain" but instead a permanent balance whereby when CIO gained, the Jp Morgan lost more than this gain…And vice versa of course as 2012 will show….

The article goes on …Zuckerman finally suggests the source and cause of all his article here in the end: ”***The earlier bet attributed to Mr Iksil*** *that was focused on a derivative index tracking junk bonds suggests the CIO group, though it was charged with hedging the bank's overall risks, also had a history of big trades with both hefty upside and downside potential.* ***This previous trade and its huge winning also could explain why JP Morgan gave Mr Iksil and the CIO unit so much money to trade with and why senior executives , including CEO Jamie Dimon weren't concerned about the risks the faulty recent trades posed to the bank****…. Now Jp Morgan is examining whether the past successes of Mr Iksil and his group contributed to the recent losses, perhaps because the past trades made the bank overconfident about the CIO group, according to a person close to the matter”*

Comment: Zuckerman was fed here by JpMorgan insiders still. The journalist was blinded by the insiders to some extent. The CIO was on a crisis mode since the 23rd March 2012 through an alert elevated all the way up by Ina Drew herself about this book. This book was in "post mortem" since the 26th March 2012 onwards, the details were finalized on April 3rd by the Operating Committee of the bank where Mary Erdoes and Dimon sat among others in theory… Dimon had been "on vacation" then as Drew suggested in her April 5th 2012 email. But Erdoes was not on vacation, sitting at the Operating Committee. See page 14 of the US Senate report itself: this was not rogue trading at all anyway….

Then Zuckerman goes on TV to hammer the message to as large an audience as possible….A second misleading picture is making its way through the media: Jp Morgan struggles to unwind the exposures of CIO….**Yahoo Finance—May 17th 2012--- Aaron Task interviewing Greg Zuckerman---*""It's getting worse": Why Jp Morgan is struggling to 'move on' from its bad trade"*** **"** *When Jp Morgan announced a big trading loss last week, chairman and CEO Jamie Dimon said (among other things) "we'll admit it, we'll learn from it, we'll fix it and we'll move on". But Jp Morgan cannot move on because fixing the problem is proving extremely difficult—and* ***the losses are mounting, now reportedly approaching $ 3 billion. "Things are getting pretty worse for them" says Greg Zuckerman****, senior writer at the Wall Street Journal…."I think some of the success in the past did contribute to the problem" they are having today, he says.* ***"Jp Morgan and top executives got overconfident because Bruno and whole group did so well for so long".*** *At the same time Iksil's success "left all kinds of hedge funds on the other side frustrated and angry" he continues…." A lot of times when there is a trading fiasco the company, or the bank, owns up only after they're out of the position", he observes.* ***" In this case they are still stuck so it's hard to tell how bad things get."*** *But for the moment at least, it's fair to say things are getting 'worse' at Jp Morgan. Given the nature of the trade and the highly politicized atmosphere surrounding it,* ***Zuckerman declined to speculate on how various investigations—including by the SEC and FBI—will play out****. "The focus is going to be on how they missed it and* ***was there some attempt somewhere to hide the positions", he says****. "I'm sure they will be a lot of finger pointing. People will ask the question:* ***'what did Jamie know and when?'. To his credit, it appears Dimon disclosed the losses as soon as he realized the scope of the problem.*** *But doing the 'right' thing has only complicated JP Morgan's efforts to "fix it" and "move on"."*

It does not seem to be enough….Too gross may be for a "whale of a tale"….The WSJ and the Bank hammer the point once more the day after with more subtlety… This is the key article referring to the drinking party of "that Friday May 11th 2012"….

May 18th 2012 10 AM ET—WSJ— by Monica Langley--- "*Inside JP Morgan's Blunder…CEO Dimon blessed the concept behind the disastrous trades: 'Blood in the water'"---"* *On April 30, associates who were gathered in a conference room handed Mr Dimon summaries and analyses of the* *losses. But there were no details about the trades themselves. "I want to see the positions!" he barked, throwing down the papers, according to attendees. "**Now! I want to see everything!**"*

How truthful this account of the facts is? As shown before the positions were known already in every detail and heavily scrutinized routinely. The fake collateral dispute that had been manufactured after the April 17th call of Drew 'orienting' Artajo to step outside of "demonstrable data" had failed… Dimon had an unforeseen problem for him here. What Dimon needed to see here were NOT the positions or the prices. To say the least the fake collateral dispute had already done the job of elevating all the price differences issues and the size of the positions. That was done on the 20th April 2012. Here DImon was on the 30th April 2012 and the collateral dispute had dissolved itself, revealing the genuine mismarking in the reserves. "doesn't add up "indeed….Dimon had to see some emails, some slides some call transcripts of Iksil among other things….The many alerts of Iksil since March 2011 had left too many footprints….A boomerang effect was in the making and Iksil communications would be the trigger as of April 25th 2012. As will be seen below, Dimon did not "wake up" on the 30th April 2012 but around the 25th April 2012 right when the fake collateral dispute had failed to spark an accusation on CIO.

See first, the extract below from the Task Force Report- page 74- of Mike Cavanagh then CEO of treasury at Jp Morgan first. It simply shows that Dimon loudly woke up as of April 26th 2012 "in hindsight", not april 30th 2012 actually, "*This was followed by losses of approximately $82 million and $188 million on **April 24 and 25**, respectively (with a total loss of almost $800 million over the course of the six trading days ending on April 30). These losses were inconsistent with the earlier loss estimates and prediction from one of the traders that the market would "mean revert," and they caused Messrs. **Dimon, Braunstein and Hogan as well as Ms. Drew** to question whether **the Synthetic Credit Portfolio team** adequately understood the Synthetic Credit Portfolio or had the ability to properly manage it. Senior Firm management decided to commission **a thorough review** of the Synthetic Credit Portfolio, conducted by personnel outside of CIO, in order to better understand the losses it was experiencing and whether the Synthetic Credit Portfolio was being properly managed. **On April 26,** Mr. Hogan directed a senior member of Firm-wide Market Risk to commence a position-by-position review of the Synthetic Credit Portfolio."*

The ironic thing here is that the "Synthetic Credit Portfolio Team" was Dimon, Drew, Braunstein, Hogan, Macris mostly. Their "partner of choice" was the Operating Committee of Jp Morgan no less. This "thorough review" was not what people would imagine here. At the time there had already been the March 23rd 2012 elevation of Drew, which was a "very, very, very, very, very serious accusation" for Pinto. The "post mortem" would be discussed -but without Iksil- every day between Macris and Drew involving CFO, risk and business management starting on March 26th 2012. There had been the March 28th 2012 meeting with at least the FCA in the UK and the Federal reserve in NY USA. There had also been the price differences elevated to the controllers as per April 3rd 2012 and the operating committee meeting that same day finalizing the book post-mortem. There was next the "update" emails of Drew to the operating committee on April 5th and Dimon focused precisely upon "***how does it relate or not to our wind down credit exotics book?***". There would be the seminal articles next which would be followed by a "full diagnostic" as requested by Dimon to Drew who reports to him directly. There was likely a meeting gathering the whole operating Committee of Jp Morgan every day through the ensuing Easter week-End. Through the many queries that will flow down from the top of Jp Morgan through the chain "Drew-Macris-Artajo or Stephan" there will be explicit written mention to ignore abnormal market conditions like bad liquidity or forceful unwinds (Drew) for the "full diagnostic" purpose. There will also be explicit written mention to ignore one time "touch down" in P&L (Macris). There will be explicit erasing of flagged loss scenarios designed by Iksil where the "Tranche book" could lose several hundreds of $millions (Artajo and Stephan). There will be explicit order (Artajo) to only focus on average projections excluding exceptional scenarios whatever their nature. There will also be many talks about liquidity reserves where Iksil will be completely excluded. There will next be a peculiar incident on April 10th 2012 as mentioned before. Here Iksil will alert Macris about an estimated loss for the day of $700 million (Iksil had warned Artajo in writing that the loss would likely be $300 million or more the day before the 10th April).

Macris then erupted accusing Artajo of making him lose ‘all his credibility in the firm in one week-end’. Ultimately CIO will report a lower $400 million loss for that April 10th day. What was this credibility issue for Macris then? This likely was NOT about the ability to project this “one touch” loss that reflected “forceful unwind” speculation in illiquid markets. A clue is listed among the exhibits of the US Senate report on that matter. This is an email chain between Hogan (firm CRO) and Braunstein (Firm CFO) both members of the Operating Committee that commanded the ‘full diagnostic” during the Easter Week-end following the seminal articles:

From: Drew Ina
Sent: Tuesday April *10* 2012 07:08 PM
To: Dimon, Jamie; Braunstein, Douglas; Wilmot, John; Zubrow Barry L; Staley Jes
Subject: Credit
The mtm loss is 412 mil today, an 8 standard deviation event mostly from the steepening of the IG9 curve. SPECIFIC to our position. No other high grade or high yield index moved much **clearly anticipating our liquidation**.
I‘rn in the office further reviewing the p&l scenario with London and will send it on shortly "

From: Braunsteint Douglas
Sent: Tuesday April 10th 2012 07:14 PM
To: Hogan, John J.
Subject: Fw: Credit
A bit more than we thought

From: Hogan, John J. <JohnJ.Hogan@jpmorgan.com>
Sent: Tue, 10 Apr 201223:17:16 GMT
To: **Braunstein, Douglas** <Douglas.Braunstein@jpmorgan.com>
Subject: Re: Credit
Lovely

Yes “Lovely” as Hogan said. The Operating Committee did not need Iksil or CIO top chiefs to figure out since they simply did NOT rely on CIO for that. Thus this is not where Macris lost ‘all his credibility in the firm in one week-end’. One event would happen between the initial $700 million loss estimate and the ultimate $400 million estimate for the same day: someone at Jp morgan told Artajo to send a $5 million P&L loss only for that April 10th 2012 day despite the internal projections of the operating committee members that had been done through the Easter week-end (7th to 9th April) and which turned out to be accurate enough as Braunstein when hinted at “***a bit more than we thought***”. Yes they had thought of it among the operating Committee members even though they did not want to know what Iksil thought about it. It makes this “send $5 million” instruction to Artajo all the more suspicious. The only thing they were all missing, ie ***the Synthetic Credit Portfolio team*** , was the P&L impact at the IB of Jp Morgan…Who could have issued this order to the demoted and excommunicated Artajo? Macris? Well Macris was dead mad then! Drew then? Maybe… but she reported to Dimon straight at the time and she could not know the IB P&L. No-one heard Dimon complaining about Drew’s lack of integrity on this $5 million instructed loss. Quite the opposite in fact…So who could it be at Jp Morgan? From then on the “post mortem” daily meetings about this “tranche book” will include controllers and more NY based staff working out of CIO.

So there is as of May 18th 2012 all this picturesque description of Dimon who “in a rare dose of honesty” was willing “to see everything” and alleging later on that he sort of had lost confidence as to whether “***the Synthetic Credit Portfolio team***” “adequately understood” the risk at stakes. But the events of April 10th 2012 tell a very different story here. All the positions as it was said before were routinely scrutinized along with any sort of loss scenarios independently of CIO anyway. More the Operating Committee had taken over on April 6th 2012 commanding a “full diagnostic” were it deliberately sidelined Iksil about the reserves, the stress scenarios and “one touch” losses… Still the very top of Jp Morgan met on April 16th with regulators. The senior executives faced pressure, Hogan in Particular. But they would all agree that "markets were still liquid" right? And then, on April 17th 2012, Drew shall call Artajo "orienting" him to remain at the boundaries of quoted bid-offers or even out of the bid-offers, literally telling him to "take that mark back" and "tweak whatever", so that CIO shows a gain in its London base estimate P&L. Sounds very much like the insane other "guidance" given to Artajo to send a $5 million loss for the day of April 10th 2012…Feels very much like the March 6th order which is ALSO the day Drew had picked to report the CIO performance YTD to the Board led DRPC committee on March 20th 2012.On the 19th April 2012, ie 2 days after this "tweak that mark" eventually out of "demonstrable data", a collateral dispute that should never have seen the light of day was elevated inside Jp Morgan. It is done by an IB collateral management team that simply had stopped doing its routine job that day. This quite unusual dispute got settled by the Tuesday 24Th April 2012 since the allegedly disputing counterparties retracted. The data supporting this predictable outcome are NOT disclosed by the US Senate report strangely enough. And the day after, as shown above, Dimon moves his men physically. What the CEO really needed was a man on the spot as the jigsaw was incomplete still. This was here Ashley Bacon who was sent. Bacon was already very involved since the "start of the year" as the extract below now shows….The prices differences were known. The valuation process differences were known. The "one touch" risk was known. The lost credibility of Macris was a given. What it was all about was to move from a "mark to market" process to a "mark to model" process that involved taking much bigger reserves, eventually moving pieces to Level 3 buckets as Hogan suggested then? The firm senior executives were not anyway relying on CIO top chiefs on those matters since 2011. The issues were known indeed and flagged officially by the internal audit of the bank since late 2011 actually. It was indeed all about valuations and reserves, not risks for the firm as a whole. The issue was especially associated with liquidity reserves. Here see US Senate report page 241: "*Starting on April 27, 2012, the effort to understand and stop the SCP losses became, in the words of JPMorgan Chase's Deputy Chief Risk Officer* ***Ashley Bacon*** *"all consuming."1367.* See also US Senate report page 245*: "Criticisms of the CIO's valuation practices had been reported by the bank's internal auditors1392 and OCC1393* ***since the beginning of the year (2012)****. Footnote 1392 and 1393: 1392 See March 2012, 2012 Continuous Audit Quarterly Summary of Global Chief Investment Office, OCC-SPI-00004614, at 4168 (identifying as a problem "CIO VCG practices where risk & valuation models have not been reviewed by Model Review Group and included the*

*…****absence of a formally applied price sourcing hierarchy…***

*(*Totem or MarkIT are NOT systematically used),

…. ***insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserves for significant credit indices positions)….***

(The IG9 and HY indices are NOT liquid enough, so said the auditors of JP Morgan in late 2011)

…. and the lack of formally documented/consistently applied price testing thresholds."

(comment : the thresholds were known and were NOT documented well enough already*).*

The fact is also that regulators worked hard on those valuations issues and those reserves since 2010…

1393 Subcommittee interview of Jaymin Berg, OCC (8/31/2012); ***3/9/2012 Supervisory Letter JPM-2012-09 from Scott Waterhouse, OCC, to Ashley Bacon, JPMorgan Chase,*** *"Examination of FSI Stress Testing Framework," (****Citing a Matter Requiring Attention: "Methodology for valuation should be described****.") [Sealed Exhibit]*"

The MRA was issued in December 2010 as reported in the US Senate report: the OCC was concerned one year before the internal auditors…Once again this could not escape the scrutiny of the senior executives of the bank, especially Dimon to whom Drew reported to. But all that happened since January 2011 onwards, yes the year 2011. The "close and continuous" supervision letter of the FCA dated November 9th 2010 conveyed similar concerns and objective to scrutinize CIO….See the US Senate report about the "stern" reaction of Ina Drew in early 2011 in front of the OCC…The October 2014 OIG report states that the Federal Reserve too prepared to launch 2 investigations on CIO as well….There was no room for complacency no

later than January 2011, yes the beginning of the year 2011, on those valuation and concentration risk matters directly flagged at CIO.

But the article goes on with this new version of facts….anyway…
*"This behind the scenes account of the disaster –based on interviews with numerous JP Morgan executives and with officials on Wall Street and in Washington—provides new details about the drama inside the bank as executives sought to understand the scope of the losses and decide what to do about them…."**the big lesson I learned: don't get complacent despite a successful track record**" Mr Dimon said in an interview Wednesday. "No one or no unit can get a free pass"…The stakes are high. **Mr Dimon personally approved the concept behind the disastrous trades, according to people familiar with the matter**. But he didn't monitor how they were executed, triggering some resentment among other business chiefs who say the activities of their units are routinely and vigorously scrutinized. JP Morgan executives—including general counsel Steve Cutler, the former SEC enforcement chief—weighed whether or not to disclose the losses immediately….Mr Dimon directed the bank to delay a quarterly regulatory filing, scheduled for April 27th….CIO. The unit was responsible to taking charge of the bank's overall risks and for managing what is now $**360 billion of safe, highly liquid securities**…..At Monday operating committee meetings, where Mr Dimon grilled business heads about their units' problems, he would rarely question Ms Drew rigorously, according to attendees. When Mr Dimon reviewed the Profit and Loss statements, the CIO group routinely showed a profit. **All that changed on April 6th when Mr Dimon read a page one article in the Wall Street Journal** ….*

(Comment: See again the December 22nd 2011 CCAR request, the MRA of December 2010, the alert of Drew on March 23rd 2012, the April 3rd "run-off" "post-mortem" email chain, the April 5th email chain about "**our** exotic credit unwind")
*….As the losses piled up, Ms Drew and her group continued to provide summaries and analyses of the trading action (*trading was frozen since March 23rd 2012). *Finally Mr Dimon had had enough, **leading to his demand for the specific trading positions** on April 30.*

(Comment: the problem was in the former emails and slides of Iksil dating from March 2011 and onwards until mid May 2012 as explained above. They consistently flagged the growing lack of liquidity of the positions)….

*Mr Dimon drafted senior executive Mike Cavanagh a trusted colleague for 20 years to help figure out how to handle the debacle. Late that Friday night (11th May 2012), several senior executives gathered in Mr Dimon's office. Messrs Dimon and Cavanagh drank vodka. Others had wine…..Nearly all senior executives came into the office on Mother's day to help Mr Cavanagh set up a SWAT team. Since then the team has been holed up in conference rooms **gathering documents to respond to multiple investigations***

(Comment: but the firm did not bring any external law firm yet, running its internal investigation alone. All this stayed strictly inside the walls of JpMorgan still. No regulator though had turned overly intrusive asking for example to talk to Iksik. No, not yet…)…

*On Monday, Mr Dimon accompanied Ms Drew to the firm's trading floor to announce her departure, and then to the Operating Committee meeting, where Ms Drew apologized, attendees say. **Mr Dimon gave her a bear hug on the way out,** they say."*

May 18th 2012 8 PM ET (much later in the day)---WSJ again with Zuckerman and "the trader" tale comes back although "Iksil" does not show up. Another myth takes the front stage now. Iksil and CIO are dead looking forward…"give and take" Dimon would say…Now Jp Morgan could very well lose a lot of money… potentially….--- "JP Morgan Struggles to unwind huge bets"--- *"JP Morgan chase is struggling to extricate itself from disastrous wagers by traders such as the "London Whale", in a sign that the size of its bets could bog down the bank's unwinding the trades and deepen its losses by billions of dollars…The losses have put Mr Dimon, a vocal critic of the Volcker Rule limiting bank risk-taking, on the defensive in Washington. At the same time, the bank's* *giant bet on complex trading instruments is also raising questions about how a firm could have taken such huge risks without alerting regulators. The bank has said "this strategy was poorly designed and executed, and we caught the mistake late. We'll say it again—it was sloppy, stupid and shouldn't have happened". The losses raised broad questions on Wall Street and in Washington about whether any executive can properly oversee such a large financial institution, whether new regulatory rules will do anything to prevent another financial crisis.....**Traders at rival firms have had a hard time trying to figure out how JP Morgan lost so much money in a relatively short period and amid a modestly stable market**....**The OCC…says it has roughly 70 people monitoring the bank's trading activities. But the outsize bet failed to raise alarms at the regulator as of late April…regulatory examiners were likely monitoring risk models—typically the same models that the bank itself was using**...."*

And the OCC examiners missed the 330 limit breaches….Who may believe that?

See here the US Senate report page 7: "*The CIO used five metrics and limits to gauge and control the risks associated with its trading activities, including the Value-at-Risk (VaR) limit, Credit Spread Widening 01 (CS01) limit, Credit Spread Widening 10% (CSW10%) limit, stress loss limits, and stop loss advisories. During the first three months of 2012, as the CIO traders added billions of dollars in complex credit derivatives to the Synthetic Credit Portfolio, the SCP trades breached the limits on all five of the risk metrics. **In fact, from January 1 through April 30, 2012, CIO risk limits and advisories were breached more than 330 times**."*

Well the OCC missed much, much more than that. As the US Senate report itself suggests the question would rather be: "what did the OCC pick up in 2012?"

See also the US Senate report page 16*: "**Failed Regulatory Oversight.** The OCC failed to investigate CIO trading activity that triggered multiple, sustained risk limit breaches; tolerated bank reports that omitted portfolio-specific performance data from the CIO; failed to notice when some monthly CIO reports stopped arriving; failed to question a new VaR model that dramatically lowered the SCP's risk profile; and initially accepted blanket assurances by the bank that concerns about the SCP were unfounded."*

The US Senate report page 216: "*In January 2012, in its first quarterly meeting with the OCC after disclosing the existence of the SCP, the CIO downplayed the portfolio's importance by misinforming the OCC that it planned to reduce the SCP. Instead, over the course of the quarter, the CIO tripled the notional size of the SCP from $51 billion to $157 billion, buying a high risk mix of short and long credit derivatives with varying reference entities and maturities. The increase in the SCP's size and risk triggered a breach of the CIO's and bankwide VaR limits, which **the bank disclosed to the OCC in routine risk reports at the time**, but which did not trigger an inquiry by the agency…**In February and March**, the bank began to **omit key CIO performance data** from its standard reports to the OCC, while simultaneously failing to provide timely copies of a new CIO management report. **The OCC failed to notice the missing reports** or request the new CIO management report until after the April 6 press articles exposed the CIO's risky trades.."*

The US Senate report page 232 *: "During the first quarter of 2012, while JPMorgan Chase omitted critical CIO data from key reports sent to the OCC and failed to send some reports altogether, it did regularly report to the OCC another type of data – ongoing breaches of the CIO's risk limits – that warned of the escalating risk in the CIO's trading book. **The OCC has acknowledged internally that its examiners received that data from the bank, but inexplicably failed to take notice of it** or to investigate the causes of the ongoing breaches. In its October 2012 internal report* (undisclosed) *summarizing oversight failures and lessons learned from the JPMorgan Chase whale trades, **the OCC found that its examiners had received the bank's regular market risk reporting emails on a daily basis, which included reported breaches of risk limits and risk advisories**.1314*"

<u>21st May 2012…</u>The 'give and take' takes its ultimate face. Regulators find their interest in supporting the brand new tale for their own public agenda ---**NY Times—Ben Protess—21 May 2012---"Citing JP Morgan loss, Regulator pushes new oversight"---"***In the wake of JP Morgan Chase disclosing a multi-million dollar loss in the London unit, financial regulators are weighing new oversight of overseas trading….JP Morgan's trading blunder has provided a new round of ammunition for proponents of strict Wall Street oversight… Derivatives rules are also in the mix. The Dodd-Frank financial overhaul law mandated a crackdown on the derivatives business, a central player in the financial crisis….A congressional committee recently delayed a vote on the new bill, citing the JP Morgan losses…."It appears that the bank here in the US is absorbing losses" Mr Gensler (CFTC) said in a speech in Washington on Monday. "* ***And a US bank, it is an entity with direct access to the Federal Reserve's discount window and federal deposit insurance****."*

<u>26th May 2012</u>… Some highly confidential information leak out …. The "give and take" takes a more precise face in London now, UK. It is all about Iksil and Dimon. Artajo, Macris, Drew and others are extraordinarily absent…---**This is Money.Co.Uk---"London Whale that scuppered Dimon's reputation: how JP Morgan's perfect record was stained by a £4.4 Bln scandal"---26th May 2012—By Alex Brummer---**

*"A series of disastrous deals by a trader known as "Voldemort", based at the Bank's glass and steel City compound on London Wall (*CIO sat in 100 Wood Street not in London Wall), *have led to devastating losses for the bank of £4.4 Bln and rising…*

(Comment: "Rising"? For the bank as a whole? Really? This £4.4 Bln amounts to about $5-6 bln…The loss has then reached its apex or close…There is still no sign that the bank has unwound anything or transferred anything. How does the journalist know the losses are rising out of inside leak from the bank itself?)….

It is not just the financial fall-out that had been so wounding. Authoritative inside reports about the disaster have revealed a culture of strife and squabbling at the highest level, leading to a calamitous loss of prestige for the bank ….The irony is that the losses are entirely of its own making…. ***Why JpMorgan's gambles in these complex financial instruments went so badly wrong has not been revealed by the bank.*** *It has kept silence because of an ongoing internal investigation and the struggle to disentangle the dangerous positions. In a rare dose of honesty from a leading banker, Dimon publicly admitted that the deals cast in London had been 'sloppy' and 'stupid', adding 'it put egg on our face and we deserve any criticism we get'. So far three JP Morgan Chase officials have been blamed for the imbroglio….Ina Drew….who earned in excess of £10m a year….Achilles Macris… with whom she reportedly had a stormy relationship.* ***But it is the third figure who is the most intriguing. French trader Bruno Iksil…had earned himself the nickname "Voldemort" or the "London Whale" because of his extraordinary trades that single handedly moved markets…He was reported to have received more than £60 m a year in recent pay rounds****.* ***All the time that Iksil's trades were profitable, no one questioned them. Matters were made worse when Drew contracted Lyme disease- a debilitating illness caught from woodland ticks****…..One former trader said that as the in-fighting continued, Iksil and Macris 'could do what they wanted'- and the result was a colossal blackhole (* Artajo was reporting to Macris and Artajo was Iksil's boss, and Artajo was the official trader for Macris and Drew that they recruited in 2007). *The full extent of the losses have not yet been quantified and traders say JP Morgan is finding it difficult to unwind some of its huge bets because of their sheer size…."*

26th May 2012--- The message is also conveyed in the same fashion in the US….The article below resurrects here the aggressive trader postcard….hiding behind Weinstein this time and his own losses in the past…—NY Times—26th May 2012---"The Hunch, the pounce and the Kill"---Azam Ahmed---" ***Boaz Weinstein did not know it, but he had just hooked the London Whale.*** ***It was last November*** **(2011: a chat on Bloomberg had been setup by some dealers for big credit hedge funds. They wanted to know every single move of CIO in indices and tranches. The CIO was targeted in a systematic and organized way. Who were the participants of this chat?),** *and Mr Weinstein, a wunderkind of the New York hedge fund world, had spied something strange across the Atlantic….Given the secretive nature of the business, few on Wall Street, including Mr Weinstein, were willing to speak publicly about how the hedge funds harpooned the London Whale…Mr Iksil and his colleagues in the CIO at Jp Morgan may have lighted the fire, but Mr Weinstein and his cohorts fanned the flames. .Mr Weinstein is what is known as a "monster"—an aggressive trader with a preternatural appetite for risk and a take-no-prisoners style…He was banned from Bellagio for counting cards….Before starting Saba, he was responsible for a team that lost nearly $2 billion in the depths of the financial crisis, at Deutsche Bank. Others lost even more…Last November* (2011) , *however, he saw that a certain index seemed to be trading out of line with the market it was supposed to track* (this is direct reference to the IG9 skew here- but the IG9 was barely trading. What did he see exactly in market that was almost NOT trading? Then the CIO did not trade or only tiny volumes to reduce exposures). *He and his team pored through reams of data, trying to make sense of it.* ***Finally, as Mr Iksil, the London Whale kept selling, Mr Weinstein began buying***.

Comment: the record of the trades of CIO between November 2011 and January 2012 proves that it is Weinstein and others who started trading in November 2011 on small volumes first, pushing slightly the prices in their favor. That was just the result of an almost complete lack of liquidity and activity. CIO tried to unwind its own exposure then, ie was going the same way as Weinstein did. Weinstein and others kept trading, pressuring the IG9 prices further to more attractive levels for CIO but only after the second half of December 2011. CIO kept unwinding still until January 10th 2012. This sparked a loss that was explained in full up to Ina Drew then. CIO was already at a $30 million loss in performance year to date. Then Ina Drew ordered Artajo by email to stop that unwind and "maximize P&L" for the future. The email is among the exhibits of the US Senate report. Next Ina Drew would send orders that explain 100% of the coming increase in the book. Thus Weinstein and others started up the pressure and could only hear that CIO was going his way actually. It is only the reversal of Drew after the 10th January 2012 that changed the contents in this Bloomberg chat where market players spied on every move of CIO. All this is traced in a written form: trades, chats, emails… Why not check once for good? Weinstein and others were a profit, itself growing week after week since November 2011.

At the time traders in London had no real idea that Jp Morgan was behind the trades that were skewing the market in credit derivatives. In fact they weren't even sure it was a single bank or a trader….By January of this year, the trade against the London whale was not going well for the hedge funds. The price of the index was still falling and the losses were mounting for Mr Weinstein and the others ….It had to be Jp Morgan…*Last February* (2012), *at a conference organized by another hedge fund manager William A. Ackman, Mr Weinstein was hailed as on of the savviest credit traders in the business. The February Conference was held ironically in JP Morgan's offices on Madison Avenue…But what really got people's attention was his second to last slide. It was his pick for the "best" investment idea of the moment. Mr Weinstein recommended buying the Investment Grade Series 9 10 year index CDS- the same index that Mr Iksil was shorting. The crowd, 300 or so investment professionals, began buzzing….But the London Whale was so big that*, ***for months, the***

hedge funds betting against him simply got steamrolled. One of Mr Weinstein's fund at Saba was down 20 percent heading into May* (2012)**. ***Then the tables began to turn …By May, when fears over Europe's debt crisis again came to the fore, the trade reversed. The London Whale was losing. And Mr Weinstein began to make back all of his losses—and then some—in a matter of weeks. *Other hedge funds were also big winners. Blue Mountain Capital and Blue Crest Capital, both created by former JP Morgan traders, were among those winners. Lucidus Capital Partners, CQS and a fund call III came out ahead too. Inside the Hedge fund world , some joked that Mr Weinstein had been able to spot the London Whale because he himself had been a whale once too….He was a profit machine at the bank…At 27 he became one of the youngest Managing Directors of the bank's history. Before he blew up, Mr Weinstein was reportedly pulling down $40 million a year….piled leverage on his trades…The similarities between Mr Weinstein and Mr Iksil still resonate in the market. "It was one whale versus another whale" one hedge fund manager said. Those who have traded against Mr Weinstein describe him as an aggressive trader who bets big and moves fast….Traders tell tales of losing big money to him because of split-second price differences he picked up faster than they did"*

Tuesday June 5th 2012- "Doesn't add up" still….The OCC is grilled along with the Federal Reserve and the CFTC one week ahead of the planned testimony of Dimon before Congress. NY Times reports the "give and take" between the lines…. Rumors of accounting fraud and misrepresentations surface… **---5th June 2012—NY Times---" After loss, JP Morgan regulators in spotlight"--- By Ben Protess---** "*Jp Morgan Chase's regulators will be in the spotlight here on Wednesday, when they testify before Congress on the bank's multibillion dollar trading blunder and its implication for the future Wall Street regulation. One of the bank's primary regulators, the OCC, will face particular scrutiny for its oversight of the JP Morgan unit responsible for a trading loss of more than $2 billion…Just months earlier, top executives from the CIO had travelled to Washington to persuade the controller that new trading restrictions threatened the future of the bank. The executives argued that the so-called Volcker Rule could prevent the powerful unit from hedging risk throughout the bank. "This is important to maintaining the safety and soundness of JP Morgan", Ina R Drew, then the head of the CIO, told Comptroller officials, recalled one person who attended the meeting. Mrs Drew was joined by 5 other JP Morgan executives who echoed her concerns about the Volcker Rule, saying the regulatory crackdown "could restrict or cast in doubt strategies" that the bank "successfully employed during the financial crisis" according to a memo summarizing the meeting. ….*

(That was in early February 2012 and right then Ina Drew ordered to position the "hedge" to a market rally and to grow its notional amounts despite the many warnings and surrounding anxiety. The CIO was already in massive breach of its limits and advisory stop loss limits because of the book. As seen above, regulators were informed in due time of those breaches and losses…)….

*Federal authorities are examining, among other matters, JPMorgan's accounting practices and whether then bank's public disclosures played down the dire status of the trades…..**JPMorgan officials say the CIO initially hedged the bank's broad exposure to the markets, until the positions morphed into a proprietary bet**…When Mrs Drew met with the Comptroller's officials in February, they pointed to the unit's success during the crisis. The executives arrived at the Comptroller's Washington offices after eating lunch at a local Italian restaurant—**and attending another Volcker-related meeting at the Federal Reserve**. At the end of the trip, some JpMorgan officials remarked that the Comptroller officials were particularly familiar with the issues facing the investment unit. **"They get it"** one person remarked."*

7th June 2012- The new OCC chief Thomas Curry testified before Congress the day before. He made representations of what he knew then as per his testimony…. Curry landed at the OCC officially on April 1st 2012, ie 5 days before the first articles would be printed out… **June 7th 2012---Los Angeles Times---by Jim Puzzanghera---"Regulator unaware of JPMorgan loss until weeks before disclosure"---** " *"The OCC has a well-deserved reputation for being too cozy with the banks it regulates" Sen. Robert Menendez told Thomas J Curry…."Did the OCC screw up in allowing these JPMorgan trades to happen?"….The OCC is conducting a "critical self-review" Curry said…."When a bank with JPMorgan's solid reputation announces that it lost billions of dollars on a large trade reportedly designed to reduce the firm's risks, it reminds us that no financial institution is immune from bad judgment" said Banking Committee Chairman Tim Johnson….Sen Jeff Merkley asked Curry whether Bruno Iksil, the Jp Morgan trader known as the "London Whale" for the giant bets he placed as part of the portfolio strategy, was trying to mitigate risk.* ***"Not necessarily" Curry said. Merkley agreed saying Iksil "woke up each day… trying to make money for the bank"***.

Comment: They all speak about Iksil but who talked to him actually before making all those statements that would destroy his life predictably so? None of them! And still not a single of all those regulators tried to meet and ask question to Iksil yet! But they do make representations about what Iksil's job was. None of them ever offered a chance to Iksil to disprove their **statements. Was Iksil working to make money at Jp Morgan with this book?....Their suggestion was "yes". The truthful answer is "No"** and all the investigation teams could see it in the email chain below dated January 10th 2012. Please note that Iksil is not even CCed among the decision makers on the book….Iksil is known as "Bruno" and is not a decision maker…And he has been trading at a loss upon express explicit orders under direct supervision of Drew through Macris and Artajo. But then Ina Drew decides otherwise, instructs Artajo, not Iksil, and CCed Macris, not iksil anyway….Here is the exhibit #7 published in March 2013 and totally ignored by all authorities and congressmen….

From: Drew, Ina <Ina.Drew@jprnorgan.com>
Sent: To: Martin~Artajo, Javier X <javier.x.rnartin-artajo@jprnorgan.cQm>.
Tue, 10 Jan 201217:05:41 GMT
CC: Macris, Achilles 0 <achilles.o.rnacris@jprnorgan.com>
Subject: Re: International Credit Consolidated P&L 09-Jan-2012
Let's review the unwind plan to maximize p&I*. We may have a tad. more room on rwa. PIs schedule asap.*
From: Martin-Artajo, Javier X
To: Drew, Ina
Cc: Macris, Achilles 0
Sent: Tue Jan 1012:01:012012
Subject: RE: International Crerlit Consolidated P&L D9-Jan-2012
Total reserve is 30 MM. I do not think that we will have a release for·some time unless we get an opportunity.
Bruno has been unwinding some of these positions opportunistically *. The other side of the P/L is that it has been* ***somewhat costly to unwind too so net net we have actually lost a little bit of money to unwind****. (* **$30 million)**
From: Drew, Ina
Sent: 10 January 2012 16:17
To: Martin-Artajo, Javier X
Cc: Mactis, Achilles 0
Subject: RE: international Credit Consolidated P&L 09-Jan-2012
OK, thanks. Can you forward the schedule for releases, ie: what is the release planned given the ***budgeted reduction.***
From: Martin-Artajo, Javier' X
Sent: Tuesday, January 10, 2012 11:05 AM

To: Drew, Ina
Cc: Macris, Achilles 0
Subject: RE: International Credit Consolidated P&L 09-Jan-2012
Management line is the release of P /L that comes from unwinding off the run positions. This is an adjustment
that was made in 2009 for illiquidity of the credit derivatives book. In a way it is a reserve release for illiquid
indexes.

Comment: here Drew, Artajo, CCed Macris, talks about the IG9 index that IS ILLIQUID SINCE 2009

From: Drew, Ina
Sent: 09 January 2012 21:25
To: Martin-Artajo, Javier X
Cc: Macris, Achilles 0
Subject: FVII: International Credit Consolidated P&L 09-Jan-2012
The management line is? Thanks

Further evidence support the email chain above as to who decided what and whether Iksil came to the bank to "make money every day"….

US Senate report footnote 359 on page 56: "*359 See "CIO Compensation – Revenue to Compensation Historical Look-back," JPM-CIO-PSI-H 0002749. Ms.Drew told the Subcommittee that JPMorgan Chase did not establish any specific goals on the amount of return expected from the SCP book. Subcommittee interview of Ina Drew, CIO (9/7/2012).".*
See now the US Senate report on page 57, as to what the consensus is about "coming every day to make money": "*SCP compensation records from its early years also provide evidence about whether the SCP functioned as a hedge or a proprietary trading operation. As the JPMorgan Task Force Report noted: "Incentive-based compensation systems are premised on the basic assumption that one of the factors that influence individuals' performance and conduct is financial reward."361 Compensation that rewarded effective risk management would suggest that the SCP functioned as a hedge, while compensation that rewarded profit-making would suggest that the SCP functioned more as a proprietary trading operation.*"

Here is the actual reality check that the senators did quite accurately as disclosed on page 59: "*The compensation data for both Mr. Macris and Mr. Martin-Artajo, which shows them receiving incentive pay worth millions of dollars each year, indicates that their compensation moved in tandem with and reflected SCP profits, which peaked in 2009 with $1 billion in revenues, and then diminished in 2010 and 2011.362* ***Mr. Iksil's pay did not follow the same pattern**, **however, peaking instead in 2010**. All three employees also received positive performance reviews in those years.363"*

To make good measure and give credibility to the myth around Iksil, the US Senate report will next distort the reference of Iksil about being "hauled over the coals" associated with the $500 million loss….The context of this comment of Iksil is completely distorted and twisted….Iksil then spoke of his alerts and the infightings among the managers of CIO and the IB that would end badly, Iksil being the one who had raised the alarm bells. Iksil anticipated that he was becoming the man that had to be discredited by CIO management to excuse its own faults. The loss as such was not an issue. Iksil then believed that the firm had clearly decided to slaughter the book in favor of the Investment Bank P&L. He had been led to believe that CIO chiefs had fought that all the way and were losing their internal battle obviously so. There had been stormy meetings about collapsing CIO positions with IB offsetting positions already and Iksil had never been invited in those meetings. Artajo could tell more about those meetings. The CIO top chiefs shall have to negotiate with the IB while they had refused so far. They were then looking for a fuse. And Iksil would mechanically be "hauled over the coals" by his own management here to play as a fuse for them, while not being in the meetings anyway… The exhibits present in the US Senate report shows the twist …..The most obvious part of this twist is that the US Senate report truncated the statement of Iksil (see below the extract that follows).

The exhibit #21 (see also the exhibit #20 for further information) published in March 2013 shows the actual context as of 23rd March 2012, 2 good weeks before the articles, 1 week before month end. (5:45 timestamp is US NY while the chats occurs in London with 5-6 hours offset): Iksil talks to Grout at around noon London time): "***Iksil****: it's dead now…they are going to trash us…****Grout:*** *There is a lot to say. I do not want to add to your cart which is already very loaded…****Iksil****: Tonight you will have at least 600m….****Grout:*** *Did you see Josephine's run* (Josephine Richardson , Jp Morgan Investment bank index trader on Itraxx, formerly worked at Credit Hybrids). *Attack full force….****Iksil: We are dead I tell you. But now it is out of my hands. I did what I had to do****…****Grout:*** *will you give me the color please? If there is some.* ***Iksil: Nothing for now…It will be negotiated with the IB*** **(Investment Bank of JP Morgan internally)** ***at the top and I will be hauled over the coals.*** ***Grout:*** *Ah? And it was confirmed to you?..****Iksil:*** *It's not necessary. You do not lose $500 million without consequences….Common sense tells me so….Try to retrieve the chats from JP where they are sniffing on us..* ***Grout:*** *do you remember the story with Sylvain*
*(*Sylvain Lebre index market maker on indices working at Morgan Stanley a main competitor to JP Morgan Investment Bank)
at the start of the year on the S9 (Itraxx Main) *5yr roll?...I had checked Sylvain and done already a big size of the S9 5 yr roll. A sort while later he tells me that JP was coming to lift him on that one roll…* **Iksil:** *you must retrieve that one…Achilles (Macris) understands French very well…****Grout: Can you tell what Ade came to tell you this morning?...Iksil: 3 guys from the IB came to ask him my exposure on the IG9****….****Grout:*** *tell me when you have the chats from david Goldenberg*
*(*CSFB- worked for Andy Hubbard the husband of Stephanie Rhule the Bloomberg journalist who wrote the seminal article e of April 6th 2012*)…*
*.****Iksil:*** *Please go and speak to Javier. I do not know what to send now…****Grout:*** *If we must do much more IG9 vs IG18*
Comment: Grout speaks here of IG9 10yr roll, a trade that grew further the notional amounts but allowed to keep the loss under close monitoring. Iksil was not told and hears it for the first time from Grout
we need to do a simulation on RWA via Pat (Hagan). ***Grout:*** ***Ok I do the P&L now****…****Iksil:*** ***Ah no! We will never do that! I have enough of that!*** ***Grout:*** ***please note that he (*****ie Javier Martin-Artajo who has just ordered Grout and Hagan to run the simulations)** ***wants to make the simulations first before trading****…*"
Clearly so Artajo was the boss of Grout. Iksil learnt from Grout here that Artajo thought still to increase further the IG9 10yr. Iksil notoriously would disagree with that idea, had he been asked. But Iksil was not involved. Grout received this instruction straight from his boss, Javier Martin-Artajo and knew Iksil would fiercely oppose this idea of Artajo to keep growing the IG9 10yr position. Grout and Iksil will have a phone call where Iksil states that the CIO managers are mad considering adding to the IG9 10yr positions again. Next Iksil will call Artajo to explain why this is simply not possible to do that. This is this context that fully described the 'you don't lose $500 million without consequences'….The CIO chiefs keep fighting because they know the blame will fall upon them first and on Iksil next mechanically so. This will be unfair but typical in such a situation of management failure…

To have an accurate facts check, it is worth reading the email that Iksil sent to his supervisor Javier Martin-Artajo on January 30th 2012 (see US Senate report exhibit #12 and exhibit #14). This was 7 weeks before the extract that was shown above on 'hauled over the coals'….In the extract below, Iksil is warning and advising a run-off with a coming large drawdown asking for directions, which again contradicts plainly Curry and Merkley above by the way. Iksil wrote to Artajo then: "*We have to report a loss in the widening today, much less because the book has along risk bias. Comes month end and we cannot really prevent the forward spreads from moving up. We get closer but each day* ***the dealers report unreliable runs, wider bid-ask quotes and this cost us. To trade them is costly and***

leads to increase in notionals. *We have some evidence that our counterparties need to frame the prices to our disadvantage but here the book is really balanced, ie there is this forward spread exposure that has nice features but* ***this is not a profile where we can control the P&L unless we just let it roll off.*** *'*
We need to discuss at this stage I guess the book is now set to carry positively and get some extra gains depending on where defaults show up. A no default scenario is now also a good outcome. ***Yet; the final result is unknown. All I see is that liquidity is so poor that we just add notionals with the street. So that improves the outright final P&L number but this increases the issues with the risks and the size, as well as our sensitivity to price moves and trading costs.*** *Because the views in the book are much more benign than in the past, the mean reverting pattern of the P&L is stronger (ie we face an ever lower risk to be wronged). Yet, to avoid this accumulation* ***we need to let go on one way: the only one I see is to stay as we are and let the book simply die****. That we should take some hits because the markets might create noise in the P&L is a certain reality. Yet,* ***the control of the drawdown now is generating issues that make the book only bigger in notionals.***
As a paradoxical result, I have to take directional views on the market direction, in order to pre-empt the moves that the dealers will do against us. And I see that the trading I run is closer and close to dealers' with a directional bias. This is a problem we had many times but only when we had views going counter the consensus. At the current stage, we still have the long risk in forward spreads but ***the notionals become scary and upside is limited*** *unless we have really unexpected scenarios .*
In the meantime, we face larger and larger drawdown pressure versus the risk due to notional increases.
Please let me know the course of action I should take here.
Best regards
Bruno IKSIL"

So why were the congressmen and Curry ready to suggest that Iksil was coming to CIO offices "to make money for the bank"? What was maybe their sole supporting evidence? It can be found in the exhibits of the US Senate Report Exhibit #20 disclosed in March 2013. This is one sentence taken out of its context in full: "***For the first time, Achilles started thinking I could be of use other than to make money."***. Surprisingly so, taken out its own context like this, this sentence is very telling but it has never been disclosed either in articles or public investigation reports. Why is that since this is all about Volcker rule, rogue trading and illicit losses?! This sentence popped right at the time of the 'hauled over the coals' phrasing. It was written by Iksil himself to Ade Adetayo on the 23rd March 2012 too, but in a very specific and clear context again. Ade Adetayo used to be a trader at the Investment Bank for years and had moved to CIO sometime in 2008. Ade then worked at risk management at CIO London. Ade had just been called by Investment Bank former colleagues, some of whom worked then at Blue Mountain. These former colleagues asked him what the exact position of IG9 was and when CIO expected to get rid of them. Iksil wanted Ade to report the event to Javier Martin-Artajo. The context is in complete contradiction with the legend and one can see below why they would not use this sentence: they feared that that they would later have to disclose its context as is shows here, now: "***Iksil:*** *Did you get Javier on the phone? Btw we take a big hit today, across the board, right where we have a position…****Ade Adetayo****: Yes I called spoke to him quickly, he said he will call me back* ***Iksil****: Ok-cool- Thanks for that-* ***Ade Adetayo:*** *It seems the market know the position* ***Iksil: They do- and they have a chief commander. Ade Adetayo: Not good. Iksil: No…But like you, I did not fail. This is not what will be told. Unlike you, "I picked the trades"… Ade Adetayo****: Hope it turns out well for you. I really hope so.* ***Iksil:*** *No, well it's not the end of the world, but the end of what I have done so far. For sure.* ***I cannot fight. I cannot wait. I cannot argue. I may not come back on Monday. …This is a big setup I think…But it comes from the top and there is little I can do. If they let the book roll that will be good again in the end but the drawdown is huge****….If they just freeze the book that will be a gain but the damage to me is irreversible and that was the aim I think. It is flattering to see all these guys devoting so much energy to that aim… to distance myself from that kept* *me alive so many years and to keep a positive memory of this, ie not giving too much importance to today's events…It had to happen. It started back in 2008 you see. I survived pretty well until I was alone to be the target* ***Ade Adetayo:*** *You have the backing of London right?* ***Iksil: Yes I mean the guys know my position because I am too big for the market..*** *Yes… Because I made a lot of money. There was no other reason.* ***This year, for the first time, Achilles started thinking I could be of use other than to make money- Just to protect the whole group- but here is the loss and it becomes too large and this is it****…**We realize I am too visible…but here this is too big an issue**. It is out of my hands already."*

The full sentence in the exhibits coming with the US Senate report was actually "***Achilles started thinking I could be of use other than to make money- Just to protect the whole group-***" and this is what caused an issue. Iksil commented on Macris' job that was to make money at CIO for the bank and Iksil was at CIO to protect the whole group. This would support further the conclusion of the US Senate Report about the compensation. This exhibit would actually further uncover the twist that was engineered with 'hauled over the coals'. Better was to leave this exhibit in the shadow… Iksil added on top "***they have a chief commander- this is a big setup- But it comes from the top***". They would not want to try to ever question Iksil about what he meant here. Although this is crystal clear: the chief commander is Dimon organizing a big setup where Iksil is meant to fall ultimately in lieu of his own CIO managers.

As of June 7th 2012, "*Sen Jeff Merkley asked Curry whether Bruno Iksil, the Jp Morgan trader known as the "London Whale" for the giant bets he placed as part of the portfolio strategy, was trying to mitigate risk.* ***"Not necessarily" Curry said. Merkley agreed saying Iksil "woke up each day… trying to make money for the bank".*** That was not a question in fact or even an investigation…

June 12th 2012- Dimon goes to Congress to testify under oath, repeating in his own words his former statements (in red)….June 12th 2012---The Street--- by Antoine Gara---"JP Morgan's Dimon says he couldn't spot 'London Whale'---"…*While Dimon will testify that he was not appraised of the risks some of his traders were taking, he will also make the point that the unit's own traders didn't understand those same risks which eventually lead to the birth to the "London Whale". In spite of losses that JP Morgan previously said could grow by a billion, Dimon will make the point that the unit's losses won't eliminate second quarter profits at the nation's largest bank. After previously reporting loss in a 10-Q filing in May, Dimon will testify to the Senate that a change to the investing style of the bank's CIO office… went unknown to him and other top executives. "The strategy was not carefully analyzed or subjected to rigorous stress testing within CIO and was not reviewed outside CIO" said Dimon in prepared remarks to the Senate released on Tuesday afternoon…In his statement, Dimon says that the* ***CIO units traders did not have the "requisite understanding of the risks they took" causing them to conclude that losses starting in March and through early April were a result of anomalous market movements and would later reverse****….The bank also reported that a change to methodologies to calculate the Unit's risk- known as Value At Risk or VaR- were done with poor monitoring…Dimon will also testify that changing personel added to bad judgment and poor risk monitoring of the CIO's traders. "*Risk committee structures and processes in CIO were *not as formal or robust as they should have been" Dimon will testify.* ***In his statement, Dimon didn't say whether he was aware of the CIO's losses prior to an April 13 call where he called*** *…"tempest in a teapot"…"CIO, particularly the synthetic credit portfolio, should have gotten more scrutiny from both senior management and the firmwide risk control function" Dimon will say…"The portfolio morphed into something that, rather than protect the firm, created new and potentially larger risks. As a result, we have let a lot of people down and we are sorry for it." Dimon will testify. …."* ***While there***

are still 2 weeks left in our second quarter, we expect our quarter to be solidly profitable" *Dimon will testify."*

June 13th 2012--- Observers, taking a broader view, are not fooled …The following article provides the likely reason why the bank never admitted that CIO books were illiquid: it would have faced endless lawsuits from shareholders, depositors and investors altogether…Regulators would have to take radical action on the follow. The article pictures quite well the thinking process at CIO and at the top of JP Morgan since 2007 actually…

June 13th 2012--- CNN Money---"Dimon under fire: what caused JPMOrgan's whale-sized trading losses"--- By Stephen Gandel---" *From the beginning, Dimon has maintained that the trades, which were made in the bank's CIO, were meant to mitigate losses elsewhere at the bank. Dimon has said the hedges didn't work, and that they weren't properly monitored, but that's all he's been willing to concede.* ***Indeed, for years, JP Morgan has repeatedly stated in financial statements filed with the SEC that the sole purpose of its CIO, which is the source of JP Morgan's current woes, is to hedge the bank's risks. So saying otherwise would probably open JPMorgan up to shareholder lawsuits, and potential actions from regulators****. But one look at the Unit's numbers and you get the sense that there was a lot more going on besides hedging. Back in 2008, for instance, JPMorgan's CIO office had a portfolio of $113 billion. At the same time, the bank had $744 billion in loans outstanding. During the next two years, the bank cut its lending portfolio by $50 billion to $693 billion.§ As a result, you would expect the firm's CIO to cut its portfolio as well. With fewer loans, there is less of a need for hedges. But that's not what happened.* ***Instead the CIO's portfolio nearly tripled to $324 billion from 2008 to 2010.*** *You could argue that after the financial crisis markets got riskier, so upping your hedging would make sense. But if that's the case then you would also expect the unit's portfolio to drop in the past year or so, as the US economy has recovered, the financial crisis has eased and mortgage loans defaults have slowed. Instead the CIO portfolio has continued to grow, reaching $360 billion at the end of the first quarter.* ***In part what is going on is not on Dimon's fault****…..In the past 4 years, JP morgan's deposits have grown nearly $400 billion to $1.1 trillion. At the same time,* ***regulators are pushing it and other banks to boost their capital****. One way to do that is to lend less. The result is that Jp Morgan ends up with a lot of extra cash. The question is "what do you do with it?". Well, you could lend more and raise capital another way, say by selling shares. But that generally causes your stock price to drop. So banks are reluctant to do that. Or you could do nothing with it, leave it in cash, and your return on equity, a closely watched bank metric, will fall. Cash generates no return. That is also likely to make your stock drop.* ***The third choice is to put your cash into riskier investments and try to boost your bottom line. This is the route it appears Dimon took and got burnt****….* ***As a result, the average bank portfolio now yields 2% more than if it was fully invested in treasury bonds.*** *That compares to a rate premium of 1.4% a decade ago and just 0.5% in the 1990s. Before that, the average bank portfolio tended to have a lower yield than treasury bonds. Mike Mayo estimate if banks went back to investing their excess cash like they did do decades ago, bank earnings would drop by a collective $25 billion a year.* ***"No question in my mind that this risk is not all prudent" says Mayo****….* ***What's more, while the Volcker rule could help to lower the risks banks can take, it's not going to make the issue go away.*** *Even if every bank closes its trading desk, they will have to figure out what to do with their excess cash from deposits….The Jp Morgan losses should serve as a warning to other banks. But it probably won't. And that's why* ***the London Whale's losses, despite the fact they are relatively small compared to JPMorgan as a whole and don't really threaten the bank****, are important. To steal a phrase from Citigroup's former CEO, banks are still dancing, they are just doing it to a different tune."*

<u>14th June 2012</u>--- The political mood is getting bad. This takes a clear legal stance with many charges pending for Dimon and market watchdogs. The regulators are grilled and as a result they will further line up altogether against a couple of "traders" that they still need to "harpoon"….this is a man's hunt no matter how unfair it may be…. This is what "the Fiscal times" echoes…**14th June 2012--- Merril Goozner---" 100 regulators missed JPMorgan's London Whale"---** "*More than 100 bank regulators from the OCC, the FDIC, the Federal Reserve, who are permanently embedded at the bank to monitor its activities for safety and soundness, also weren't aware of the size of the risk being taken on by "the London whale".....**Sen. Richard Shelby "As we learned from the most recent financial crisis and this particular incident, regulators do not always meet our expectations**"…."We will not make light of theses losses, but they should put into perspective" Dimon said…."Isn't that really gambling?" asked Robert Menendez. "I don't think so, no" responded **Dimon." I would call it hedging."** Earlier he had explained that **"this particular portfolio was designed to make a lot of money if there was a crisis. The hedge was to improve our safety and soundness, not make it worse.".***"

<u>June 19th 2012</u>---Dimon comes to testify again. The bank and the regulators both have to find really some "*misconduct done by some trader at CIO*" in order to explain how they could have all missed the issue. This is what the WSJ and Zuckerman endeavor to post that day one more time…Artajo is extraordinarily absent from the picture drawn by Zuckerman who nevertheless gets here "inside" information. The article below is also fueling some doubt in preparation for the earnings show of July 2012.- **19th June 2012---by Gregory Zuckerman and Dan Fitspatrick--- "Whale swam in choppy waters"---*" Jp Morgan Chase and Co Bruno Michel Iksil at times resisted sharing some details of his positions with superiors,* *while Achilles Macris had a history of clashing with Co-workers, according to current and former colleagues…***Mr Iksil once confided to the colleague that when he wanted to avoid questions from supervisors about his trades, he sometimes would start discussing a mathematical term, equation or other technical jargon, to confuse and end the conversation. "***He wasn't trying to evade, he sometimes just didn't have patience if it was his trading idea*" the colleague said. The bank doesn't believe Mr Iksil hid any positions from superiors at JP Morgan or that he entered into any trade that weren't approved, according to someone close to the matter….***But as early as last year, Mr Iksil told the colleague that his positions had become so large they sometimes were hard to reduce.*** When trying to sell, he felt brokers moved the markets lower to hurt him. IN response, he sometimes bought at those lower prices to "punish" the broker, thereby adding to his positions, he told the colleague….*<u>**By last year Mr Macris and Ina Drew, the head of CIO group, were battling over trading issues (** **all along 2011-related to the US treasury bonds and the hedging book).** ***The tension caused something of an internal distraction.,***</u> *even as Mr Iksil's positions were growing, according to a former member of the group."*

Comment: remember why David Olson said he had not been fired in the past…" ***<u>The only reason I wasn't fired then , Mr Olson claimed, was because Mr Dimon was intimately familiar with those positions"…..</u>***This new distorted account of Zuckerman make is done on purpose here….

<u>June 19th 2012</u>: Why is that only JpMorgan originally had this big hedge in its CIO? Who let Dimon do that since 2007? The buzz is made around the Volcker rule. **19th June 2012- NY Times- "Lawmakers clash on regulation at JP Morgan hearing"---By Ben Protess---***"….Michael Capuano, Democrat hurled blame at republicans for introducing legislation to weaken new rules for Wall Street. In a tirade against Republican lawmakers, **he argued that JpMorgan's trading blowup raises broader questions about the safety of Wall Street. " I'm not outraged by this particular loss" he said, pushing regulators to say whether other big banks could take on similarly risky bets**….But the Comptroller of the currency, Thomas J Curry and the general counsel of the Federal Reserve,* *Scott Alvarez, faced the toughest inquiries. The regulators are under fire for failing to catch the risky trades****…."I'm wondering how this was missed"*** *said Representative Shelley Moore Capito, Republican of West Virginia. "Even with the matrix of communication, no one was catching it. Is the communication really working?"* ***In reply Mr Curry explained that "we were initially relying on the information available to the bank".*** *Mr Alvarez concurred, "We have to rely on information we get from the organization itself he said. "****If that's flawed"*** *he added, then regulators will have a problem."*

June 19th 2012 still : No the information was not "flawed", but it was not "good enough"…**19th June 2012- Bloomberg BusinessWeek--- by Karen Weiss--- "Regulators still trying to understand JPMorgan's trading flub"---**"*…****We didn't get good info from the bank****…."In hindsight, if the reporting were more robust or granular, we believe we may have had an inkling of the size and potential complexity and risk of the position" Scott Alvarez…said….****We're looking into it****. Curry…says the OCC is working now to examine* ***what actually happened with the soured trade and is monitoring the "derisking"****….We won't miss it next time…..For example Gensler says that the* ***CFTC*** *will be able to shrink what he called the* ***"London whale loophole" in its interpretation of the 722(d) provision****…."*

Comment: But still none of them would talk to Iksil to simply check that what they say is merely accurate. No need to, right?

Summer 2012

25th June 2012: The CIO trades were NOT unwound in the markets. Then Weinstein had let known that he himself had unwound his side in the markets. **25th June 2012---Daily Finance—By John Grgurich, the Motley fool--- "** ***Jamie Dimon quickly filets the London Whale's costly trades*****"---** "*…****Financial times is reporting that JPMorgan has already exited 70%*** *of the "london whale" derivatives positions that had gotten the bank into such hot water. Such a quick exit is not what anyone had expected, including maybe Dimon himself, making a case for the superbank being far more nimble that its critics give it credit for….****But at the very least, the speed at which the bank has turned this nagging London situation is breathtaking….this past Tuesday—a record. There were also 238 trades that day, versus a normal daily average of less than 50****….*

Comment: 50 trades on a credit index per day for the whole planet is the clear sign that this market is very, very illiquid

Tuesday was his big move to put his bank out of trouble….We have yet to find out what sort of losses, if any, the bank may have incurred with this big exit. And the bank isn't extricated 100% yet."

28th June 2012: The focus now switches to the earnings figures for Q2 2012: the positions are collapsed, hedge funds have unwound, thus the ultimate loss for the firm will show soon for sure right?! **28th June 2012--- Seeking Alpha--- By Colin Lokey--- "** ***A message to JP Morgan shareholders: the whale trade has probably not been unwound*****"---**"*In the unscheduled conference call held to disclose the massive trading loss at its CIO desk in London, a noticeably perturbed Jamie Dimon said the following about the firm's plans to manage the position responsible for the loss: "****The firm is currently repositioning CIO's synthetic credit portfolio, which it is doing in conjunction with its assessment of the firm's overall credit exposure. As this repositioning is being effected in a manner designed to maximize economic value, CIO may hold certain of its current synthetic credit positions for the longer term****." Now either the public did not understand exactly what that statement was meant to convey or investors simply chose not to believe that Mr Dimon could possibly be* *considering holding onto parts of the position, because just a little over a month later, almost no one questioned the validity of a CNBC* ***report which claimed JP Morgan had unwound 2 thirds of the losing position****. The report (released on June 20) cited no source but had the following to say in support of the contention that the firm was indeed getting out from under the whale: "the market is very talkative about this morning. Part of it is that the DTCC released some data within the past day or so showing that there has been a lot of activity around this—I believe it is 31 billion in notional value…..*

Comment: The figures above corroborate de ones present in the former article. 31 billion of notional dispatched through say 238 trades. That makes an average volume per trade of \$131 million. This is dwarfish for an index that trade 50 times a day only in 2012. It is NOT liquid at all. Indeed, if one computes the average traded volume on gets to \$6.5 billion. While the bank claimed that the sole IG9 10 year had a average traded volume of \$10 billion, ie at best 75 trades a day. Notwithstanding the fact that the bank did overestimate knowingly so the actual liquidity by 35%, it overestimated the liquidity even more massively about this market in absolute terms. Indeed, if one considers that the IG9 market was at least open from 12h00 till 21h00 London time, ie 9 hours, that means that at best there was one trade of \$130 million every 5 minutes. For information, back in 2007 when the IG9 started and was liquid indeed; it treaded \$1 billion every 2 minutes at least, thus \$2.5 billion in volume every 5 minutes. In early 2011, the IG9 10 yr only traded by lots of \$500 million every 5 minutes at best, thus 5 times less. And in 2012, it traded 3 times less than the beginning of 2011, or at least 15 times less than when it was liquid.

In other words the hedge funds on the other side of the trade (***the funds who bought all the protection JP Morgan was selling presumably as part of a skew trade wherein cheap protection on the IG9 was bought and expensive protection on the index's individual components was sold) all closed out their positions as the skew hit zero causing the spike in activity which the media attributed to JP Morgan's efforts to unwind its trade****. Indeed this was partially confirmed by a report that* ***Boaz Weinstein and Saba Capital had recently exited their position.*** *The drop in IG9 index net notionals then, can quite plausibly be attributed to hedge funds taking profits before the IMM date.* ***Perhaps the most disconcerting and relevant consideration for JP Morgan shareholders is the fact that 'tranched IG9 net notionals are little changed this month.*** *Recall that JP Morgan's CIO desk began selling protection on the IG9 "to offset the firm's purchase of CDS senior tranche.* ***The tranche purchase was the firm's way of protecting itself against rapidly rising systemic risk****…"…* ***The fact that tranche IG9 notionals are little changed seems to indicate that JP Morgan is still holding its original hedge.*** *One way to look at this is that it is a good thing as it theoretically protects the firm from a spike in systemic risk (a so called fat tail event)…."*

29th June 2012--- NY Times--- BY Peter Eavis--- "Will the Whale swallow JP Morgan's 2nd quarter earnings?"--- " ***JP Morgan CEO Jamie Dimon has given many assurances that, despite suffering big losses on botched derivatives trades, the bank will report solid second quarter profits****….he expected the quarter to be "solidly profitable", adding at one point that it was going to be* ***"very profitable"****…. A close look at analysts' numbers suggests that an outright loss in the second quarter is not completely out of the question…..Several reports put the current loss at \$5 billion, with the potential total rising to \$6 billion to \$7 billion….For instance, Jason Goldberg expects the bank to make \$3.3 billion. In that projection he is including a \$3 billion loss on the soured derivatives. What might happen if the red ink amounts to \$5 billion, or \$2 billion more than \$3 billion?...For instance, Mike Mayo of Credit Agricole Securities thinks Jp Morgan will make only \$727 million in the second quarter. In that forecast, he is including \$4 billion of losses in the unit that made the bungled* *bets…..One method investors frown on has to do with reserves, the cushions Banks maintain to absorb losses…**The opacity of the loss-making trades could also prompt skepticism about second-quarter results. Many of the losing positions have been sold, which means the second-quarter hit on those will be concrete.**"*

10th July 2012--- There will be no loss but a well disguised massive gain instead (see for those who wonder whether JP Morgan.PDF"). New smoking mirrors emerge in the following article. The rumor now is out: clawback, traders fired, earnings good still, serious wrongdoing done…The WSJ speaks based on Jp Morgan leaks as usual...The bank has only one option: play with reserves, release some, take others as analysts speculate…It is logical in front of such an abrupt trading loss...**10th July 2012---WSJ--- By David Reilly---"How JP Morgan might tame the whale"---"*It isn't just the earnings number that JP Morgan Chase reports that matters. It is how the bank gets there….***One option: **Sell some securities** from the roughly $360 billion portfolio managed by the unit that caused the trading problem. The portfolio was sitting on **$8 billion of gains at the end of the first quarter**. And CEO Jamie Dimon, when first announcing the trading loss in May, said that the bank also had generated a $1 billion in gains from the sale of securities in the portfolio. **Harvesting such gains raises issues however. It may be a cause of robbing Peter to pay Paul**…That could drag on the portfolio's average 2.6% yield and the bank's net. Another potential point of relief could be some releases **of loan-loss reserves**, although Mr Dimon frequently has referred to gains from such moves as **"paper profits**". Then there is the murky area of **litigation expenses.** This is a complex and poorly disclosed area that ostensibly offers earnings flexibility; companies don't have to show the amount sitting in this reserve. In the second quarter of 2011, for example, JP Morgan added $1.9 billion to its litigation reserve, **according to filing with bank regulators**. So if the bank didn't need to take a similar charge this year or decided to push some of it off by a quarter or two, it would boost profits by that amount versus the previous year."*

12th July 2012--- …Zuckerman makes a zealous effort to include Iksil one last time but one has to notice the change in Zuckerman's wording. On April 6th 2012 he had started with "*credit markets, and have been buzzing about the identity of a deep-pocketed trader dubbed "the London whale." **That trader…Bruno Michel Iksil".*** **Now on the 12th July 2012, Zuckerman has to concede, despite his fashionable nicknames like "Voldemort", or "Caveman" and his loads of bad-mouthing, "***Three London-based employees at the center of Jp Morgan and Co's multibillion dollar trading blunder, including one known as the "London whale"…"* Artajo is at last put in the front stage. And at last the hierarchy is respected in the trading responsibilities although none of this is said explicitly. Zuckerman calls the traders now 'latest casualties'….Zuckerman can only try to bad mouth on Iksil.

--WSJ---By Dan Fitzpatrick and Gregory Zuckerman---" At JP Morgan Whale and Co , Go"--- "*Three London-based employees at the center of Jp Morgan and Co's multibillion dollar trading blunder, including one known as the "London whale" have left the bank, according to people familiar with the matter. Achilles Macris, Javier Martin-Artajo, and Bruno Iksil are the latest casualties of an episode that has already cost the bank $25 billion in market value and tarred the reputation of CEO Jamie Dimon….**Their outsized bet** on certain corporate credit indexes led to **just over $5 billion in the second quarter**…**Ina Drew..oversaw** the trading that led to the losses…**Mssrs Macris, Artajo and Iksil were stripped of trading duties after the company became aware of the ballooning losses**…The company has exited 80 to 90 % of the positions…On Friday, the bank also is expected to explain how the losses happened, **blaming complacency on the part of senior executives, risk officers, and traders as well as poor controls within the CIO. The company is also expected to report that its internal investigation found that the risk failures were isolated to the CIO unit**…**It was Mr Iksil, nicknamed the London Whale for his market moving trades, who began building a complicated, bearish***

position in an index known as the IG9, which tracks the health of a group of investment-grade companies. His bets expanded and morphed into a bullish and illiquid stance on corporate credit that led to the losses. As he built the IG9 bet, Mr Iksil visited JP Morgan's New York Office, sometimes wearing wrinkled shirts. Other times he would wear the same clothing several days in a row, an ex-colleague recalls….."

13th July 2012---Jp Morgan delivers the final loss figure, $5.8 billion in whole, or $5 billion in the second quarter, which was the figure that was being circulated already on May 26th 2012 through this "*£4.4 billion and growing*". Since then the bank removed about 70%-80%-90% of the positions by the 20th June (who knows right?), sparking a flurry of activity of hedge funds away from Jp Morgan to get out of the "skew". That triggered simply no further loss at CIO…. By the end of the month the bank had chosen to keep 10-20% ad vitam aeternam despite this $5.8 billion loss… Surely the CIO loss was a "hit", right? Thus all this will be carved in stone in the earnings that would be published…JP Morgan now brings up its latest layer of "representations" on the case: "**maybe traders had lied—Ina Drew displayed great integrity**"….Some sentences are quite interesting though…

---13th July 2012—Daily Mail online---"Jp Morgan admits London Whale blunder cost $5.8 billion- Triple the original estimate- as fired executives are forced to give back pay for past two years"---"*JP Morgan Chase said Friday that a bad trade cost the bank $5.8 billion this year, almost triple its original estimate, and raised the prospect that traders lied to cover up the multi-billion blunder….The company accepted the early retirement of Ina Drew…**She was the one to report that the bank lost an additional $1.4 billion in the first 3 months of the year*** (May be she did but when did she do that? She left as per May 14th 2012, and the 10-Q and the Q1 loss was still stated then by Dimon to be around $800 million)…***CEO Jamie Dimon spoke highly of Drew's talents and integrity****…'I got several letters from former chairmen…One even said she saved the company. She has acted with integrity and tried to do what was right for the company, even though she was part of this mistake.'…Dimon said the bank had closed the division of the bank responsible for the bad trade and moved the remainder of the trading position under the investment banking division….'This has shaken our company to the core' CEO Jamie Dimon said. As part of the long scandal,* ***the bank organized an internal investigation****. Since looking over employees' emails and voice messages, they announced Friday that they believe some traders may have lied while setting the values for certain bets in order to mark losses elsewhere…**The bank said that it was reducing its net income for the first quarter by $549 million because it had discovered information that 'raises questions about the integrity' of values placed on certain trades. Adding to the perception problems facing JpMorgan, the bank said it earned $5 billion, or $1.21 per share, for the second quarter**…Dimon said the bank was in discussion with the Federal Reserve and would submit a plan in hopes of buying back stock starting late this year. **The company suspended an earlier plan to buy back $15 billion of its stock after reporting the trading loss**….Under close questioning from lawmakers in June about his own role in setting up the investment division responsible for the mess, **Dimon declared: 'We made a mistake. I'm absolutely responsible. The buck stops with me.'**…."*

Final comment: well JP Morgan reduced its net income by $549 million for the first quarter but was also NOT reporting $545 million of gain coming from "Maiden Lane" investment that was recorded for the first quarter and were reported for the second quarter. Why was Jp Morgan postponing a Q1 gain into Q2 right then that matched the amount restated? As explained, if one adds this strange behavior to the even stranger "tax deferred benefit" that turned out to be an inflated "deferred tax expense", the fact is that JP Morgan beat its initial earnings forecast for Q1 and Q2 2012 through the London Whale scandal no later than July 12th 2012.