United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
John McCain, Ranking Minority Member

E X H I B I T S

Hearing On

JPMorgan Chase Whale Trades: A Case History of Derivatives Risks & Abuses

March 15, 2013

199 Russell Senate Office Building, Washington, D.C. 20510

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EXHIBIT LIST

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1. a. *Growth of Synthetic Credit Portfolio*, chart prepared by the Permanent Subcommittee on Investigations.
   b. *Synthetic Credit Portfolio Daily Profits and Losses*, chart prepared by the Permanent Subcommittee on Investigations.
   c. *Synthetic Credit Portfolio Aggregate Profits and Losses*, chart prepared by the Permanent Subcommittee on Investigations.
   d. *Synthetic Credit Portfolio Risk Limit Breaches*, chart prepared by the Permanent Subcommittee on Investigations.
   e. *Value-at-Risk for the CIO (10Q VaR)*, chart prepared by the Permanent Subcommittee on Investigations.
   f. *Inaccurate Public Statements on April 13, 2012*, chart prepared by the Permanent Subcommittee on Investigations.
   g. *Synthetic Credit Portfolio Internal Profits and Loss Reports, January-May 2012*, chart prepared by the Permanent Subcommittee on Investigations.
   h. *2011 CIO Compensation vs. Investment Bank Comparables*, chart prepared by the Permanent Subcommittee on Investigations.
   i. *Timeline: Key Events in JPMorgan Chase Whale Trades*, chart prepared by the Permanent Subcommittee on Investigations.

2. JPMorgan Chase presentation slides, *Chief Investment Office - Organization, April 2012*. [JPM-CIO-PSI 0001875-876, 879-880, 885]

Documents Related to Increasing Risk:

3. Testimony of Jamie Dimon, Chairman & CEO of JPMorgan Chase & Co., before the Senate Committee on Banking, Housing and Urban Affairs, June 13, 2012 *(This strategy, however, ended up creating a portfolio that was large and ultimately resulted in even more complex and hard-to-manage risks. This portfolio morphed into something that, rather than protect the Firm, created new and potentially larger risks.)*.

4. JPMorgan Chase/OCC internal email, dated July 2012, re: *CIO: Response to Regulator Requests on NBIA, Risk Tolerance and Follow-up VaR model questions,* attaching *Chief Investment Office New Business Initiative Approval Executive Summary.* [OCC-SPI-00081611 and Excerpt of OCC-SPI-00081631]

5. JPMorgan Chase *Audit Department Report, CIO Global Credit Trading (Chief Investment Office (CIO) credit trading activities commenced in 2006 and are proprietary position strategies executed on credit and asset backed indices.)*. [JPM-CIO-PSI-H 0006022-023]

6. JPMorgan Chase Summary of Positions (02/2011 - $4 billion; 01/2012 - $51 billion; 03/30/2012 - $157 billion). [JPM-CIO-PSI 0037609]

7. JPMorgan Chase internal email, dated January 2012, re: *International Credit consolidated P&L 09 Jan-2012 (Let's review the unwind plan to maximize p l. We may have a tad more room on rwa. Pls schedule asap.)*. [JPM-CIO-PSI 0000075-078]

8. JPMorgan Chase internal email, dated January 2012, re: *Meeting materials for 11am meeting* attaching *J.P.Morgan Core Credit Book Highlights, January 2012. (As of COB 16th January 2012 the CIO calculated Core Credit Book RWA was USD20.9bln; This compares to average USD40.3bln RWA for December 2011 provided by QR)*. [JPM-CIO-PSI 0000098-101]

9. JPMorgan Chase internal email, dated January 2012, re: *Credit book Decision Table - Scenario clarification (The fourth scenario is our Target scenario and the one we are hoping to implement again by midyear.)*. [JPM-CIO-PSI 0000105-106]

10. JPMorgan Chase internal email, dated January 2012, re: *Credit book last version*, attaching *J.P.Morgan Core Credit Book Highlights, January 2012. (The trade that makes sense.)*. [JPM-CIO-PSI 0000159-173]

11. JPMorgan Chase internal email, dated January 2012, re: *update on core credit book (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 than notional.)*. [JPM-CIO-PSI 0001223]

12. JPMorgan Chase internal email, dated January 2012, re: *update on core credit book (...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.)*. [JPM-CIO-PSI 0001766]

13. JPMorgan Chase internal email, dated January 2012, re: *hello, quick update in core credit... (...we can show that we are not at mids but on realistic level. ... I went I to ISMG and advised that we set the book for long risk carry the time for us to see whether we really need to fight in mars.)*. [JPM-CIO-PSI 0001229]

14. JPMorgan Chase internal email, dated January 2012, re: *Core book p&l drawdown and main exposures (The current strategy doesn't seem to work-out. ...the book doesn't behave as intended.)*. [JPM-CIO-PSI 0000221-223]

15. JPMorgan Chase internal email, dated March 2012, re: *priorities (If we [a]ctually reduce the book, we will not be able to defend our positions.... We need to win on the methodology and then the diversification.)*. [JPM-CIO-PSI 0001219]

16. a. JPMorgan Chase internal email, dated March 2012 re: *CIO Core Credit P&L Predict [20 Mar]: -$39,686k (dly) -$275,424k (ytd). (...the lag in P&L is material ($600-800M).)*. [JPM-CIO-PSI 0016487-489]
    b. JPMorgan Chase internal email, dated March 2012 re: *International Credit Consolidated P&L Predict 20-Mar-2012 (...the lag in P&L is material ($600-800M).)*. [JPM-CIO-PSI 0019474-486]

17. JPMorgan Chase Transcript of Call, March 2012, between Martin-Artajo and Iksil, *(...that's why I tried sending this P&L I sent also the comments it came from Julien but I wrote it, where I said okay you know we take this loss, we are maintaining long risk where we have to be, the rally is on IG but guess what you know it's lagging so much that actually we have to show loss, and I explained that his is a lag that keeps going, that amounts to a potential of 800 bucks....)*. [JPM-CIO-PSI-H 0006392-400]

18. JPMorgan Chase internal email, dated March 2012 re: *CIO Core Credit P&L Predict [22 Mar]: +$82k (dly) -$276,990k (ytd). (Today to sold protection....)*. [JPM-CIO-PSI 0016499-501]

19. JPMorgan Chase internal email, dated March 2012 re: *CI would like to understand the increase in positions in credit (Ina is freaking - really! Call me)*. [JPM-CIO-PSI 0000410-412]

20. JPMorgan Chase transcript of instant message dated March 23, 2012 *(Bruno Iksil: 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 become too large and this is it....)*. [JPM-CIO-PSI 0001240-246]

21. JPMorgan Chase transcript of instant message dated March 23, 2012 (*Bruno Iksil: ...I am going to be hauled over the coals *** you don't lose 500M without consequences...)*. [JPM-CIO-PSI-H 0006438, 450-464]

22. JPMorgan Chase internal email, dated March 2012 re: *Tranche Plan (Now that we have the new RWA increase, Ina would like to <u>discuss</u> the forward plan for reduction. She <u>does not want any trades executed</u> until we all discuss it.)*. [JPM-CIO-PSI 0001267]

23. JPMorgan Chase internal email, dated March 2012, re: *synthetic credit – crisis action plan (Clearly, we are in a crisis mode on this.)*. [JPM-CIO-PSI 0001220-222]

24. a. *'London Whale' Rattles Debt Market*, April 6, 2012, *Wall Street Journal.*
    b. *JPMorgan Trader's Positions Said to Distort Credit Indexes*, April 6, 2012, *Bloomberg.*

25. JPMorgan Chase internal email, dated April 2012, re: *Credit (A bit more than we thought)*. [JPM-CIO-PSI-H 0002276]

26. JPMorgan Chase internal email, dated April 2012, re: *Net positions vs. average trading volumes (The below table shows that CDX.IG.9 net position for CIO is $82.2bio, which is approximately 10-15 days of 100% of trading volume based on the 1m avg volume published by JPMorgan Research. ITX.9 net position for CIO is $35bio, which is approximately 8-12 days of 100% trading volume based on the 1m avg volume.).* [JPM-CIO-PSI 0001026-027]

27. OCC internal email, dated May 2012, re: *CIO call with Mike Brosnan (They took up a strategy to reduce their make believe voodoo magic "Composite Hedge"....).* [OCC-SPI-00021602-04]

<u>Documents Related to Hiding Losses</u>:

28. Grout Spreadsheet, March 12-16, 2012. [JPM-CIO-PSI-H 00002812]

29. JPMorgan Chase internal email, dated March 2012, re: *update on Core PNL (The divergence has increased to 300 now)*. [JPM-CIO 0003475]

30. JPMorgan Chase internal email, dated March 2012, re: *Synthetic Book - URGENT (Option B: we settle with the IB ... and will have an impact on P/L that could be as large as - 350MM.)*. [JPM-CIO-PSI 0000416]

31. JPMorgan Chase internal email, dated April 2012, re: *update (...if we exclude very adverse marks to our book the potential loss due to market moves or any economic scenario ... would not exceed ... - 200 MM USD....)*. [JPM-CIO-PSI 0001429]

32. a. JPMorgan Chase transcript of call between Julien Grout and Bruno Iksil, dated March 16, 2012 (*I can't keep this going, we do a one-off at the end of the month to remain calm. * * * I don't know where he wants to stop, but it's getting idiotic.)*. [JPM-CIO-PSI-H 0003820-822]
    b. JPMorgan Chase transcript of instant message dated March 16, 2012 *(it is now 1000 for month end? ouch well that is the pace)*. [JPM-CIO-PSI-H 0003815]

c. Transcript of Audio Recording Produced to the Permanent Subcommittee on Investigations, call between Javier Martin-Artajo, Ina Drew, and Gina Serpico. undated (likely April 2012) (Ms. Drew: *It's absolutely fine to stay conservative, but it would be helpful, if appropriate, to get, to start getting a little bit of that mark back.)*. [JPM-CIO-PSI-A 0000076.wav]

d. JPMorgan Chase transcript of call between Javier Martin-Artajo and Alistair Webster, dated May 8, 2012 *(So then when, if we roll forward to March, if the front office marks had migrated ... to the aggressive side, most of them, not all of them, to the aggressive side, but they've also migrated from either mid to somewhere close to being at the, you know, the bounds of the bid or offer.)*. [JPM-CIO 0003631-636]

33. JPMorgan Chase internal email, dated April 2012, re: *CIO Core Credit P&L (10 Apr]: -$5,711k (dly) -$626,834k (ytd) (Daily P&L: -$5,710,991 *** (Daily P&L: -$394,735,120)*. [JPM-CIO 0003570-576]

34. a. JPMorgan Chase internal email, dated April 2012, re: *Credit Index and Tranche Book (...CIO FO marked their book at the most advantageous levels....)*. [JPM-CIO-PSI-H 0006636-639]

b. JPMorgan Chase internal email, dated April 2012, re: *URGENT ::: Huge Difference for Itraxx & CDX (The desk marked the book at the boundary of the bid/offer spread....)*. [JPM-CIO 0003582-3587]

35. JPMorgan Chase internal email, dated April 2012, re: *Collateral Disputes (This isn't a good sign on our valuation process.... I am going to dig further.)*. [JPM-CIO-PSI-H 0000108-109]

36. JPMorgan Chase internal memorandum, dated May 2012, re: *Firm's review of the valuation of its CIO EMEA credit portfolio in light of the current market conditions and dislocation that occurred in April 2012.* [JPM-CIO-PSI-H 0006730-747]

Documents Related to Disregarding Limits:

Overview and Organization:

37. J.P. Morgan slide presentation, *Market Risk Limits, March 2012. (Business Unit must take immediate steps toward reducing its exposure to be within the limit, unless a One-off Approval is granted by all Grantors and Grantees of limits.)* [OCC-SPI-00117682]

38. Document prepared by Bruno Iksil, including excerpts of JPMorgan Chase internal emails December 2011 - March 2012. [JPM-CIO-PSI 0021879-917]

39. JPMorgan Chase internal email, dated May 2012, re: *information needed (...please find the CIO excessions attached.)*. [JPM-CIO-PSI-H 0000627-636]

<u>*VaR Models and Limits*</u>:

40. JPMorgan Chase internal email, dated January 2012, re: *JPMC Firmwide VaR - Daily Update - COB 01/09/2012 (Pat's model is in line with the 70 VAR and has a much better explanation for these changes. Hopefully we get this approved as we speak.).* [JPM-CIO-PSI 0000093-097]

41. JPMorgan Chase internal email, dated January 2012, re: *Breach of firm var (Below please find details of the VaR limit breach. The VaR increase is driven by Core Credit (tranche) in EMEA. The VaR has increased steadily since the end of December as positions in CDX.HY on-the-run indices have been added to the portfolio to balance the book, which has been taken longer risk....).* [JPM-CIO-PSI 0000141-145]

42. JPMorgan Chase internal email, dated January 2012, re:*CIO var (FYI. Dual plan ..... as discussed keep the pressure no our friends in Model Validation and QR.).* [JPM-CIO-PSI 0000151]

43. JPMorgan Chase internal email, dated January 2012, re: *CIO VaR heads up and update (Importantly, for the same COB 26 January, the "new/full revaluation methodology* shows VaR decreased ($1.3MM) from 70.8mm to 69.5mm. I estimate that this would make CIO global VAR closer to $76MM vs. the currently reported number >$115. We anticipate final approval on Monday and that the *new methodology should become the official firm submission from Monday, for 27 Jan COB.* Limit issues should therefore cease beginning from Monday.).* [JPM-CIO-PSI 0000177-178]

44. JPMorgan Chase internal email, dated January 2012, re: *draft of the MRG review of the HVAR methodology for the CIO core credit books (Operational Risk - The VaR computation is currently done off spreadsheets using a manual process. Thus it is error prone, and not easily scalable. *** ACTION PLAN: CIO should re-examine the data quality and explore alternative data sources. For days with large discrepancies between dealer marks and IB marks, the integrity of the data used for HVAR calculation should be verified. *** Please go ahead with the implementation of the new HVaR methodology for the CIO credit books.).* [JPM-CIO-PSI 0000187-191]

45. JPMorgan Chase internal email, dated April 2012, re: *CIO VaR (FYI - we discovered an issue related to the VAR market data used in the calculation which we need to discuss. This means our reported standalone var for the five business days in the period 10-16th April was understated by apprx $10mm.).* [JPM-CIO-PSI 0001205]

<u>*RWA, CRM and Optimization*</u>:

46. JPMorgan Chase internal email, dated December 2011, re: RWA - Tranche Book *(The estimates of reductions will be: Model reduction QR CRM (ackno*[w]*ledged already) 5* [billion] *Pat estimate); Model reduction QR VAR 0.5* [billion] *(Pat estimate); Model Reduction QR Stress 1.5* [billion] *(Pat estimate)).* [JPM-CIO-PSI 0000032-034]

47. JPMorgan Chase internal email, dated March 2012, re: *CIO CRM results (We got some CRM numbers and they look like garbage as far as I can tell, 2-3x what we saw before.).* [JPM-CIO-PSI 0000338-339]

48. JPMorgan Chase internal email, dated March 2012, re: *New CRM numbers ... (With their new model, QR is reporting that we have a stand alone CRM of roughly 6bn. This is radically higher than the worst loss we see at the same confidence level; the loss we see is far below 2bn.).* [JPM-CIO-PSI 0036342-344]

49. JPMorgan Chase internal email, dated March 2012, re: *CIO CRM results (Based on our models, though, we believe that the $3bn increase in RWA is entirely explained by a $33bn notional increase in short protection (long risk) in your portfolio between Jan and Feb. *** The change in notional is not correct and the CRM is therefore too high.).* [JPM-CIO-PSI 0000371-372]

50. JPMorgan Chase internal email, dated March 2012, re: *Optimizing regulatory capital (To optimize the firm-wide capital charge, I believe we should optimize the split between the tranche and index books. *** I don't think we should treat this as regulatory arbitrage. Instead we should treat the regulatory capital calculation as an exercise of automatically finding the best results f an immensely arbitrary and complicated formula.).* [JPM-CIO-PSI 0011025-026]

51. a. Excerpt from transcript of audio recording produced to the Permanent Subcommittee on Investigations, call between Anil Bangia and Patrick Hagan, dated March 21, 2012. [JPM-CIO-PSI-A 0000089]
    b. Excerpt from transcript of audio recording produced to the Permanent Subcommittee on Investigations, call between Anil Bangia and Patrick Hagan, dated March 21, 2012. [JPM-CIO-PSI-A 0000090]
    c. Excerpt from transcript of audio recording produced to the Permanent Subcommittee on Investigations, call between Peter Weiland and Patrick Hagan, dated March 21, 2012. [JPM-CIO-PSI-A 0000091]

52. JPMorgan Chase internal email, dated April 2012 *(We haven't made the case of how this book runs off and whether risk can be managed effectively ....).* [JPM-CIO-PSI 0000497]

Credit Spread Risk Metrics and Limits:

53. JPMorgan Chase internal email, dated January 2012, re: *there is more loss coming in core credit book (I reckon we have another 50M coming from CDX exposure. The guys have a huge skew trade on and they will defend it as much as we do.).* [JPM-CIO-PSI 0001225]

54. JPMorgan Chase internal email, dated February 2012, re: *Csbpv limit - please read (We have a global credit csbpv limit. It was set up at the initiation of the credit book. Unfortunately we have been breaching for most of the year. *** I have no memory of this limit. In any case it need to be recast with other limits.).* [JPM-CIO-PSI-H 0002936]

55. JPMorgan Chase internal email, dated February 2012, re: *CIO Global Credit spread BPV limit breach-COB 02/09/2012 (Since mid-January CIO has been in breach of its global csbpv limits, driven primarily by position changes in the tranche book.)*. [JPM-CIO-PSI 0001823-825, 832]

56. JPMorgan Chase internal email, dated April 2012, re: *CIO DAY 1 (CIO's 10% CSW by my group's model estimate is long 245mm of risk; their own models (run by Weiland) quote $145mm. I don't understand the difference in the models and don't know how good a measure of risk 10% CSW is for their book. But I spoke to Ashley and we agree that 10% CSW has been trending up for CIO, by either their model or ours.)*. [JPM-CIO-PSI 0000449]

57. JPMorgan Chase internal email, dated May 2012, re: *CSBPV History (Early in 1012 net CSBPV increased dramatically as IG positions were added and offset between HY and IG grew.)*. [JPM-CIO-PSI-H 0000810-811]

Documents Related to OCC Oversight:

58. OCC internal email, dated January 2012, re: *CIO Quarterly Meeting (The MTM Book is decreasing in size in 2012.)*. [OCC-SPI-00004695]

59. OCC internal email, dated April 2012, re: *CIO deck (*[H]*ave you still been getting the CIO deck? I don't recall seeing it lately.)*. [OCC-00004720]

60. JPMorgan Chase/OCC email, dated April 2012, re: *materials for Fed/OCC/FDIC call at noon today*, attaching *Synthetic Credit Book Review* for Briefing by CIO to OCC. [OCC-SPI-00009712-724]

61. JPMorgan Chase/OCC email, dated April 2012, re: *CIO January 2012 valuation memo and metrics (Apologies for not distributing the February valuation work. I just sent the February and March reports.)*. [OCC-00004735-736]

62. JPMorgan Chase/OCC email, dated April 2012, re: *Quick questions pp 4 and 5 of yesterday's presentation (I believe there is modest long credit risk sensitivity to the portfolio now.)*. [OCC-SPI-00023815]

63. OCC internal email, dated April 2012, re: *JPM CIO / IG9 "whale" trade (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.)*. [OCC-000012521-523]

64. JPMorgan Chase/OCC email, dated April 2012, re: *CIO EMR? (Does the CIO still produce an EMR? It wasn't included in the January Treasury EMR, which is where I used to see it. I'm looking for the balance sheet information that was in it.)*. [OCC-00004723]

65. JPMorgan Chase/OCC email, dated April 2012, re: *Info on VaR, CSBPV, and stress status and limits (We are working on a new set of limits for synthetic credit and the current CS01 will be replaced by something more sensible and granular.)*. [OCC-SPI-00022340-341]

66. OCC internal email, dated April 2012, re: *Weekly Market Summary period ending 4/13 (The Whale issue is considered closed-email went out to Senior Management yesterday.)*. [OCC-SPI-00023057-060]

67. OCC internal email, dated April 2012, re: *Weekly Market Summary period ending 4/20 (For the second consecutive week, CIO is breaching its $1.0bn stress limit....)*. [OCC-SPI-00023753-755]

68. OCC internal email, dated May 2012, re: *CIO Synthetic Position (Doug Braunstein and John Hogan called to provide an update on the CIO position. *** Current losses are approximately $1.6 billion.)*. [OCC-SPI-00021853]

69. OCC internal email, dated May 2012, re: *CIO information for Wednesday (However, I asked James to first, put in a request for more granular daily P&L on the synthetic credit.... Bank will likely object to this....)*. [OCC-SPI-00013737]

70. OCC internal email, dated May 2012, re: *My opinion on yesterday's meeting (I wasn't satisfied with the comments made about valuation process and the thresholds yesterday, and so we have some followup here. *** In addition to reserve, there were likely problems with the thresholds themselves. *** Valuation was one of the things Hogan said they are looking at.)*. [OCC-00005302-304]

71. OCC internal email, dated May 2012, re: *J.P. Morgan Chase (We received a lot of pushback from the bank, Ina Drew in particular, regarding our comments. In fact, Ina called Crumlish when he was in London and "sternly" discussed our conclusions with him for 45 minutes. Basically she said that investment decisions are made with the full understanding of executive management including Jamie Dimon.)*. [OCC-00001746]

72. Morgan Chase/OCC email, dated May 2012, re: *CIO P&L reporting (We'd like to get the synthetic credit P&L for the past five weeks broken out on a least a weekly basis.)*. [OCC-00004759]

73. OCC internal email, dated May 2012, (*Does not add up. Collateral dispute of $700 mil. versus a double digit reserves amount?)*. [OCC-SPI-00009335]

74. OCC internal email, dated May 2012, re: *Not Getting CIO daily P&L after only one day (I got one CIO daily P&L distribution and then didn't yesterday.)*. [OCC-00004540]

75. OCC handwritten notes, dated May 2012, re: *SBC Staff Briefing (JPMC transactions at issue involved an effort to hedge the bank's credit risk. Hedging credit risk is not uncommon, and if done properly, reflects sound management risk.)*. [PSI-OCC-10-000001]

76. OCC internal email, dated May 2012, re: *CIO call with Mike Brosnan (I told Mike B that the Joe Sabatini emails with selected position information were sent by the bank after initial OCC and FRB enquiries. We concluded the information was pretty much useless, as it did not tell us what was happening risk wise.)*. [OCC-SPI-00021628-631]

77. OCC internal email, dated May 2012, re: *cio var change (Here are a few comments from the days preceding the synthetic credit VaR model change that became effective 1/27/12. Note the reduction of CIO VaR by 44% TO $57mm.)*. [OCC-SPI-00021932]

78. OCC internal email, dated June 2012, re: *2nd Wilmer Call (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 left puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect.)*. [OCC-SPI-00071386]

Documents Related to Misinformation Investors, Regulators and the Public:

79. a. JPMorgan Chase internal email, dated January 2012, re: *JPMC - COB 01/19/2012 (The impact of the new VaR model based on Jan. 18 will be a reduction of CIO VaR by 44% to $57mm.)*. [JPM-CIO-PSI 0002457]
    b. JPMorgan Chase internal email, dated January 2012, re: *JPMC 95% 10Q VaR - Limit Excession Notification (COB 1/19/12) (...reduction of CIO VaR by 44% to $57mm.)*. [JPM-CIO-PSI 0001890]
    c. JPMorgan Chase internal email, dated January 2012, re: *APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval (...reduction of CIO VaR by 44% to $57mm.)*. [JPM-CIO-PSI 0004660-661]
    d. JPMorgan Chase internal email, dated January 2012, re: *APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval (*Jamie Dimon: *I approve.)* [JPM-CIO-PSI 0001337-338]
    e. JPMorgan Chase internal email, dated January 2012, re: : *JPMC Firmwide VaR - Daily Update - COB 01/26/2012 (...reduction of CIO VaR by 44% to $57mm.)*. [JPM-CIO-PSI 0003346]
    f. JPMorgan Chase internal email, dated January 2012, re: : *JPMC Firmwide VaR - Daily Update - COB 01/26/2012 (...reduction of CIO VaR by 44% to $57mm.)*. [JPM-CIO-PSI 0003715]
    g. JPMorgan Chase internal email, dated January 2012, re: : *JPMC Firmwide VaR - Daily Update - COB 01/26/2012 (A CIO model change is planed to go in this week-end. New VaR methodology approved (and now the same methodology as IB) reduces standalone Credit VaR by approx $30 mio.)*. [JPM-CIO-PSI-H 0001675]
    h. JPMorgan Chase internal email, dated January 2012, re: *JPMC - COB 01/27/2012 (The Firm's 95% 10Q VaR as of cob 01/27/2012 is $108mm of the $125MM limit, a decrease of $53mm from the prior day's revised VaR, driven by CIO (implementation of newly approved VaR model for synthetic credit).)*. [JPM-CIO-PSI 0001339]

80. JPMorgan Chase internal email, dated February 2012, re: *CIO Business Review Materials*. [JPM-CIO-PSI 0001940-942, 1949–951, 1958-961, 1963]

81. *J.P.Morgan Directors Risk Policy Committee - CIO 2012 Opportunities and Challenges, March 2012*. [JPM-CIO-PSI 0015015-018, 023]

82. JPMorgan Chase *Audit Department Report*, dated March 2012, *Audit Rating: Needs Improvement*. [JPM-CIO-PSI 0009289-296]

83. JPMorgan Chase internal email, dated April 2012, re: *Jamie's fine with this (Here are some revised points based on your comments.)*. [JPM-CIO-PSI 0000543-544]

84. a. JPMorgan Chase internal email, dated April 2012, re: *CIO (Post December as the macro scenario was upgraded and our investment activities turned pro risk, the book was moved into a long position.)*. [JPM-CIO-PSI 0000539]
    b. JPMorgan Chase internal email, dated May 2012, *(WHAT HAPPENED?)*. [JPM-CIO-PSI 0001212-214]

85. JPMorgan Chase internal email, dated April 2012, re: *Synthetic Credit Summary (In Q4, we decided to neutralize the risk profile of this book.)*. [JPM-CIO-PSI 0001588-589]

86. JPMorgan Chase internal email, dated April 2012, re: *Deliverable for meeting tomorrow (Doug had the question of why we just didn't reduce the HY position to reduce our risk rather than going long the IG 9 (we discussed carry (ie associated p&l)....).* [JPM-CIO-PSI 0001646-647]

87. JPMorgan Chase internal email, dated April 2011, re: *Credit risk limits (This is the governance used in the IB control what is currently going on in CIO. We (obviously) need to implement this in CIO as soon as possible.)*. [JPM-CIO-PSI 0001086]

88. JPMorgan Chase internal email, dated April 2012, re: *Single names CDS basis relative to IG 9 CDS - URGENT update (the market is quiet today. To[o] early to tell but so far about flat P/L. The tension has stopped now. The bank's communications yesterday are starting to work.)*. [JPM-CIO-PSI-H 0002340, 342]

89. JPMorgan Chase internal email, dated April 2012, re: April 2012, re: *updated (We are working on Jamie's request for Correlation of the credit book against the portfolio....)*. [JPM-CIO-PSI 0001077078]

90. JPMorgan Chase internal email, dated April 2012, re: *synthetic credit information* for April 13 earnings call, including SCP P&L scenarios. [JPM-CIO-PSI 0001701-709]

91. JPMorgan Chase internal email, dated April 2012, re: *Synthetic Credit Materials (The way that we at CIO have book-run the Core Book to balance the negative carry cost of High yield Book overtime has been using Investment Grade strategies that gave us some carry or buying optionality (or both)....)*. [JPM-CIO-PSI 0001100-106]

92. JPMorgan Chase internal email, dated April 2012, re: *If asked about London / CIO and Volcker (We do not believe that our activity in any way goes against the law as passed by Congress, nor the spirit or proposed rule as written.*). [JPM-CIO-PSI-H 0002418]

93. JPMorgan Chase internal email, dated April 2012, re: *CIO (Doug and I asked that the first day. Answer was it most "efficient" way to do it. I would say they just wanted to improve the carry on the book by selling protection and taking in some premium.)*. [JPM-CIO-PSI 0001753-757]

94. Excerpt from April 13, 2012, *JPM - Q12012 JPMorgan Chase & Co. Earnings Conference Call* [JPM-CIO-PSI 0001151-160]

95. JPMorgan Chase internal email, dated May 2012, re: *10-Q call - Buyside and sellside comments (2) (Have a lot of contacts in Washington who said this is going to be a big deal for Volcker; need to manage this in DC because the hit there is going to be a lot bigger than the hit on earnings)*. [JPM-CIO-PSI 0017754-758]

96. *JPMorgan Chase & Co. Business Update Call, 10-May-2012*.

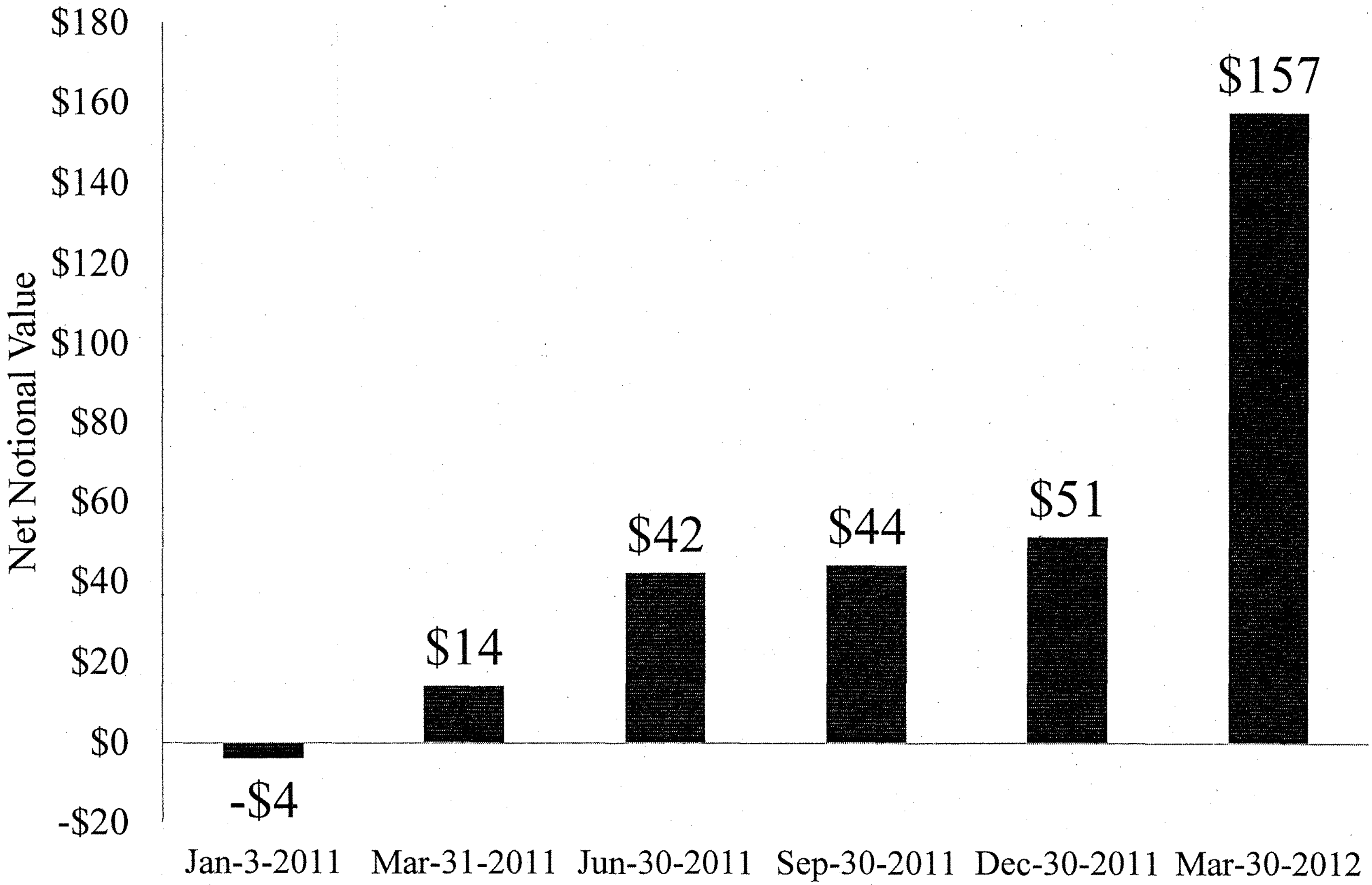
97. Correspondence from Douglas L. Braunstein, Vice Chairman, JPMorgan Chase & Co. to the Permanent Subcommittee on Investigations, dated February 4, 2013 (*...my statements on April 13 regarding those hedging characteristics were references to the portfolio's design and historical performance as a hedge. I was not commenting on the hedging effectiveness of the portfolio as of April 13.)*. [PSI-JPMC-35-000001]

98. *Report of JPMorgan Chase & Co. Management Task Force Regarding 2012 CIO Losses*, January 16, 2013.

✧ ✧ ✧

Growth of Synthetic Credit Portfolio

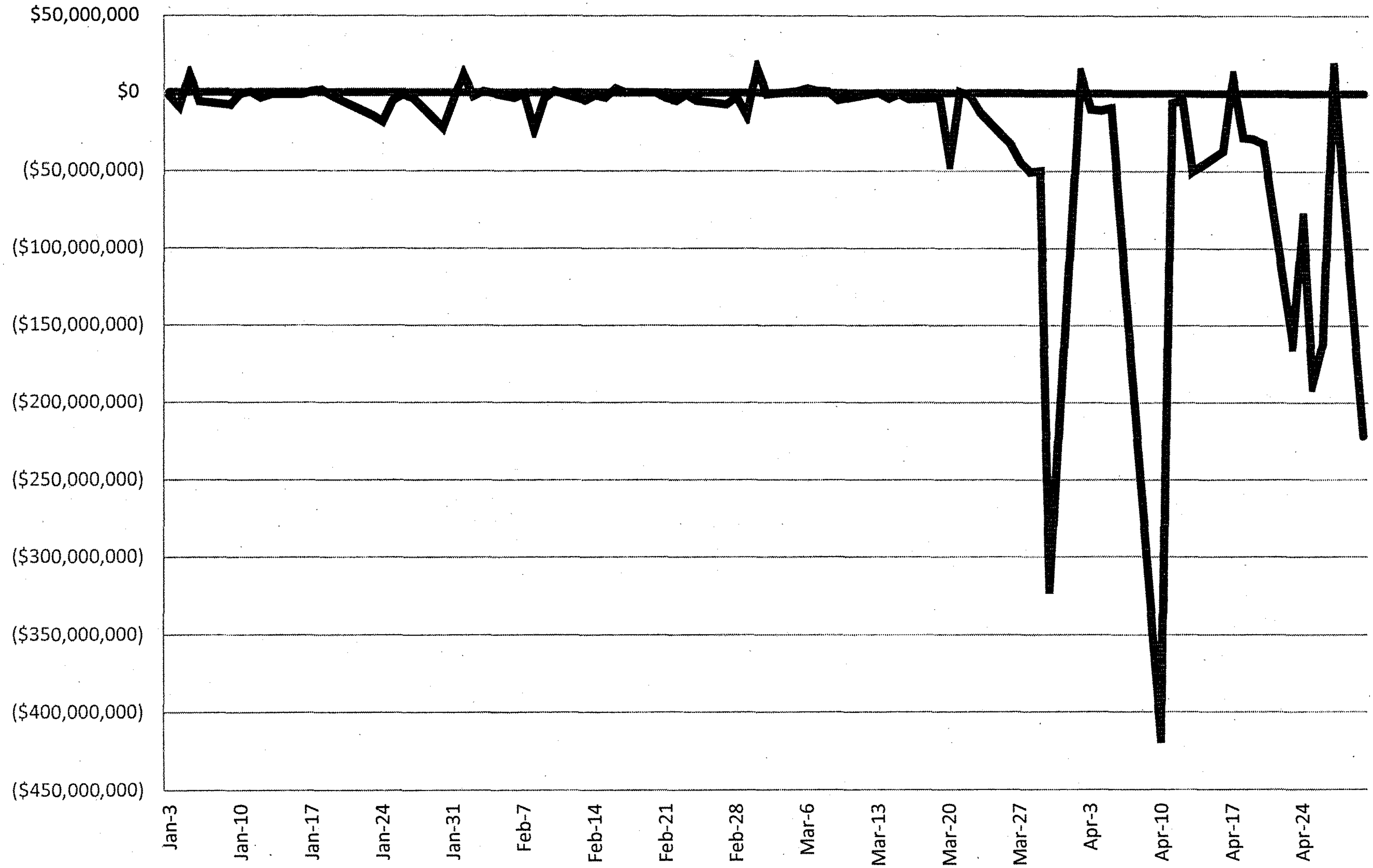
(In Billions)



Permanent Subcommittee on Investigations
EXHIBIT #1a

Source: Subcommittee chart created from data provided by JPMorgan Chase, JPM-CIO-PSI 0037609.

Synthetic Credit Portfolio Daily Profits and Losses

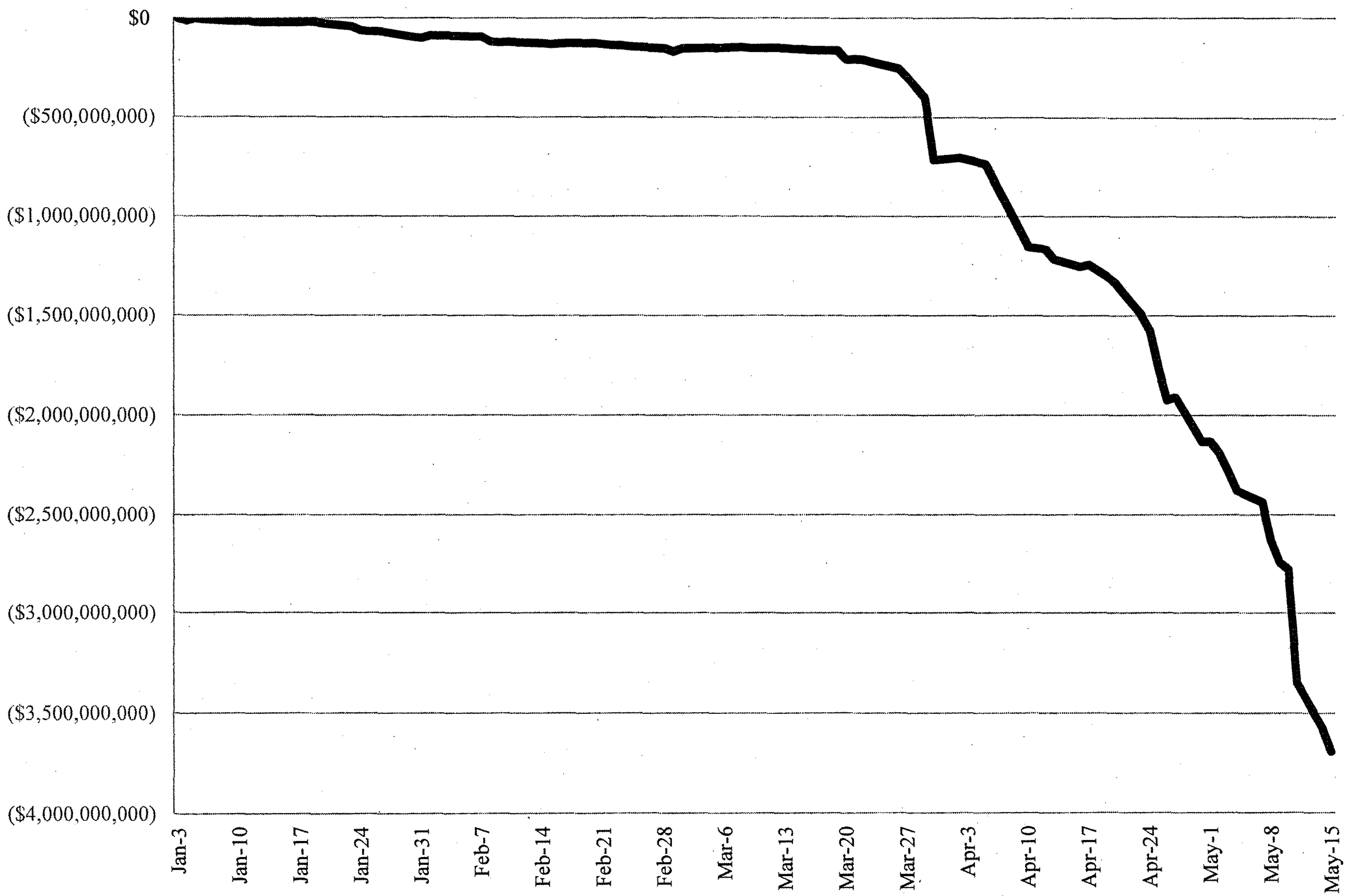


Permanent Subcommittee on Investigations
EXHIBIT #1b

Source: Subcommittee chart created from data provided by OCC spreadsheet, OCC-SPI-00000298; "Position Limit and Loss Advisory Summary Report," OCC-SPI-00134902. Numbers do not reflect restated P&L figures.

Synthetic Credit Portfolio Aggregate Profits and Losses

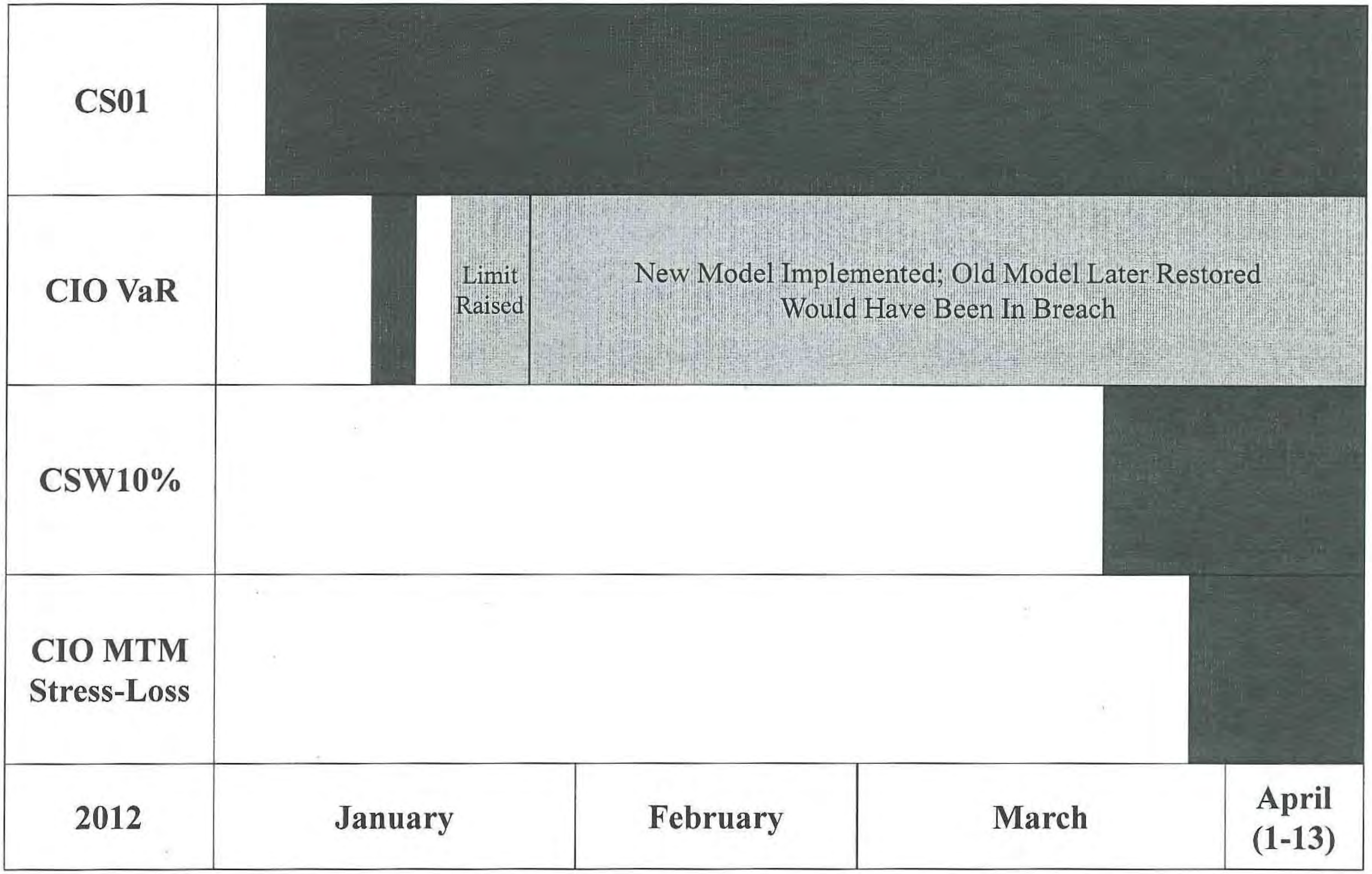
Permanent Subcommittee on Investigations
EXHIBIT #1c



Source: Subcommittee chart created from data provided by OCC spreadsheet, OCC-SPI-00000298. Numbers do not reflect restated P&L figures.

Permanent Subcommittee on Investigations
EXHIBIT #1d

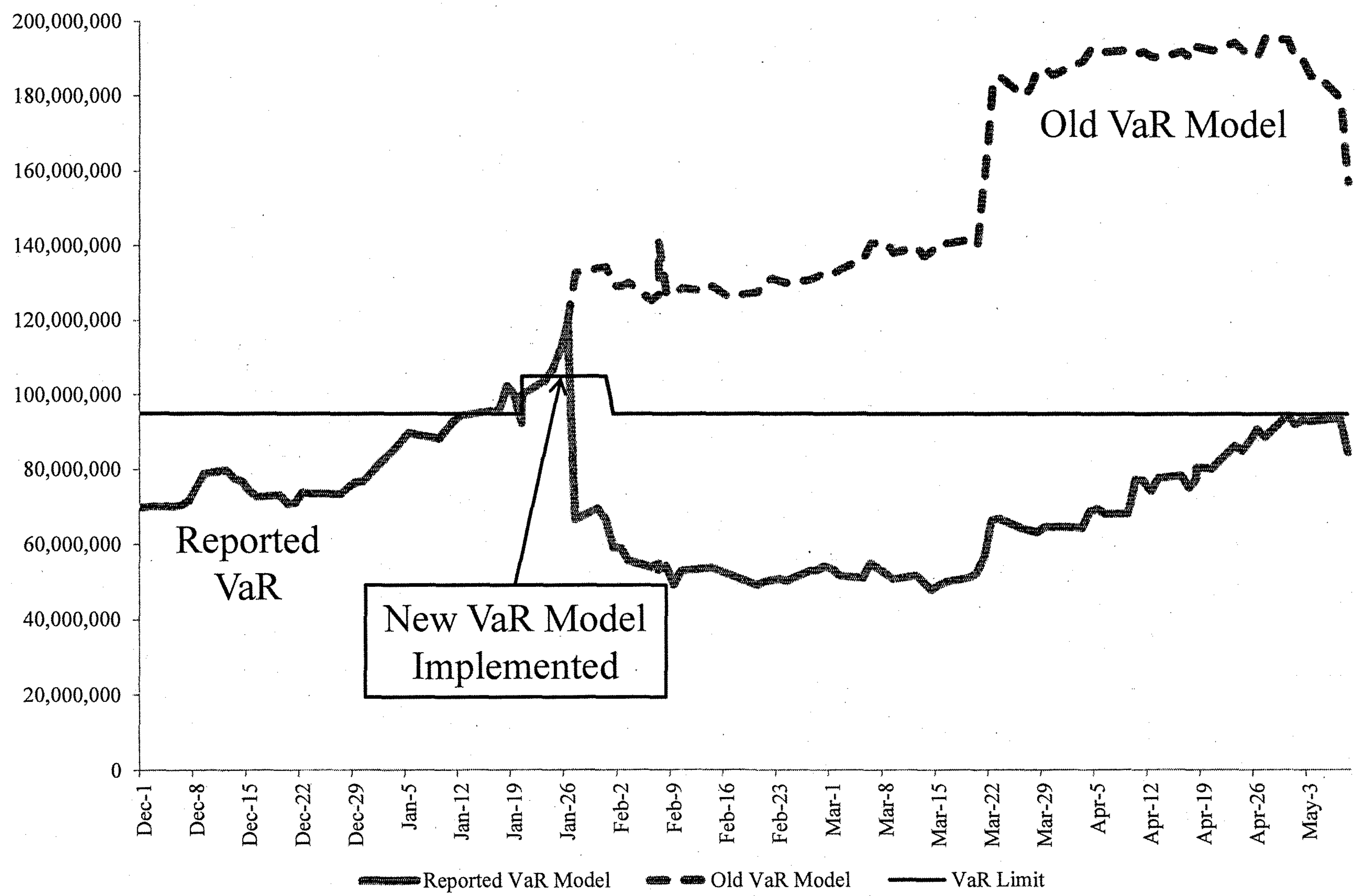
Synthetic Credit Portfolio Risk Limit Breaches



* Tested Weekly. See 5/13/2012 "Discussion Materials," OCC-SPI-00000023, at 030.

Source: Subcommittee chart created from data provided by JPMorgan Chase, JPM-CIO-PSI 0000628.

Value-at-Risk for the CIO (10Q VaR)



Source: Subcommittee chart created from data provided by JPMorgan Chase, JPMC-Senate/Levin 000155-6.

Permanent Subcommittee on Investigations
EXHIBIT #1e

Inaccurate Public Statements on April 13, 2012

Permanent Subcommittee on Investigations
EXHIBIT #1f

- **Risk Managers:** "All of those positions are put on pursuant to the risk management at the firm-wide level."
- **Regulators:** "[A]ll those positions are fully transparent to the regulators."
- **Long-Term Decisions:** "All of those decisions are made on a very long-term basis."
- **Hedging:** "[W]e also need to manage the stress loss associated with that portfolio … so we have put on positions to manage for a significant stress event in Credit. We have had that position on for many years …."
- **Volcker Rule:** "[W]e believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker."

Source: 4/13/2012 "Edited Transcript JPM - Q1 JPMorgan Chase & Co. Earnings Conference Call," JPM-CIO-PSI 0001151.

Permanent Subcommittee on Investigations
EXHIBIT #1g

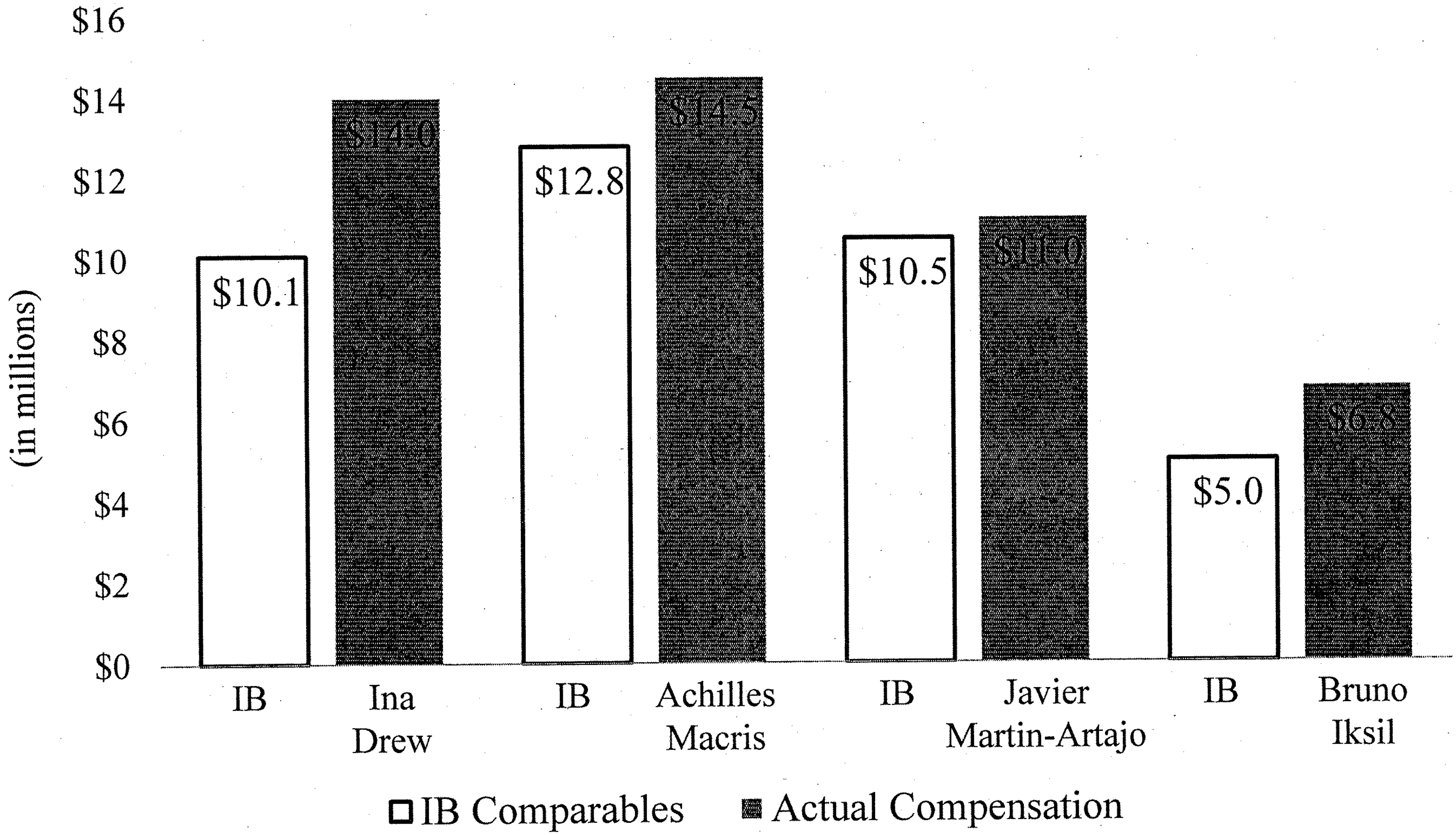
Synthetic Credit Portfolio
Internal Profits and Loss Reports
January – May 2012

Synthetic Credit Portfolio - Daily and YTD Profit and Loss
January 1, 2012 through May 15, 2012

Trading Date	Daily P&L	YTD P&L	Trading Date	Daily P&L	YTD P&L	Trading Date	Daily P&L	YTD P&L	Trading Date	Daily P&L	YTD P&L	Trading Date	Daily P&L	YTD P&L
3-Jan	-$2,331,403	-$2,331,403	1-Feb	$11,899,066	-$88,468,701	1-Mar	$15,808,609	-$153,233,146	2-Apr	$11,615,112	-$707,057,081	1-May	-$794,944	-$2,132,563,367
4-Jan	-$9,405,151	-$11,736,554	2-Feb	-$2,476,245	-$90,944,946	2-Mar	-$878,902	-$154,112,048	3-Apr	-$10,407,844	-$717,464,925	2-May	-$52,404,248	-$2,184,967,615
5-Jan	$11,489,045	-$247,509	3-Feb	$800,677	-$90,144,269	5-Mar	$1,171,999	-$152,940,049	4-Apr	-$11,100,155	-$728,565,080	3-May	-$91,590,554	-$2,276,558,169
6-Jan	-$6,118,207	-$6,365,716	6-Feb	-$3,633,327	-$93,777,596	6-Mar	$3,161,395	-$149,778,654	5-Apr	-$9,517,665	-$738,082,745	4-May	-$103,250,854	-$2,379,809,023
9-Jan	-$8,161,497	-$14,527,213	7-Feb	-$749,985	-$94,527,581	7-Mar	$1,264,716	-$148,513,938	10-Apr	-$415,342,049	-$1,153,424,794	7-May	-$58,065,892	-$2,437,874,915
10-Jan	-$1,147,064	-$15,674,277	8-Feb	-$23,773,934	-$118,301,515	8-Mar	$1,154,204	-$147,359,734	11-Apr	-$6,301,198	-$1,159,725,992	8-May	-$195,248,051	-$2,633,122,966
11-Jan	$223,462	-$15,450,815	9-Feb	-$4,114,971	-$122,416,486	9-Mar	-$4,565,697	-$151,925,431	12-Apr	-$4,809,755	-$1,164,535,747	9-May	-$108,126,095	-$2,741,249,061
12-Jan	-$3,552,588	-$19,003,403	10-Feb	$1,044,270	-$121,372,216	12-Mar	-$838,406	-$152,763,837	13-Apr	-$50,629,714	-$1,215,165,461	10-May	-$36,461,805	-$2,777,710,866
13-Jan	-$1,328,679	-$20,332,082	13-Feb	-$5,029,818	-$126,402,034	13-Mar	-$55,325	-$152,819,162	16-Apr	-$37,415,502	-$1,252,580,963	11-May	-$570,159,849	-$3,347,870,715
16-Jan	-$1,474,654	-$21,806,736	14-Feb	-$1,756,535	-$128,158,569	14-Mar	-$3,654,838	-$156,474,000	17-Apr	$9,948,665	-$1,242,632,298	14-May	-$227,592,775	-$3,575,463,490
17-Jan	$538,245	-$21,268,491	15-Feb	-$3,310,361	-$131,468,930	15-Mar	-$730,181	-$157,204,181	18-Apr	-$28,338,553	-$1,270,970,851	15-May	-$119,236,467	-$3,694,699,957
18-Jan	$1,531,279	-$19,737,212	16-Feb	$2,787,722	-$128,681,208	16-Mar	-$3,864,759	-$161,068,940	19-Apr	-$29,239,630	-$1,300,210,481			
19-Jan	-$2,497,903	-$22,235,115	17-Feb	$151,612	-$128,529,596	19-Mar	-$3,368,891	-$164,437,831	20-Apr	-$32,236,022	-$1,332,446,503			
20-Jan	-$5,824,024	-$28,059,139	20-Feb	$1,402	-$128,528,194	20-Mar	-$43,553,294	-$207,991,125	23-Apr	-$161,148,061	-$1,493,594,564			
23-Jan	-$14,937,654	-$42,996,793	21-Feb	-$3,647,248	-$132,175,442	21-Mar	$701,825	-$207,289,300	24-Apr	-$81,602,918	-$1,575,197,482			
24-Jan	-$18,663,381	-$61,660,174	22-Feb	-$5,258,735	-$137,434,177	22-Mar	-$1,786,282	-$209,075,582	25-Apr	-$187,629,766	-$1,762,827,248			
25-Jan	-$5,349,602	-$67,009,776	23-Feb	-$1,144,086	-$138,578,263	23-Mar	-$12,555,383	-$221,630,965	26-Apr	-$162,235,258	-$1,925,062,506			
26-Jan	-$1,609,067	-$68,618,843	24-Feb	-$5,248,999	-$143,827,262	26-Mar	-$32,426,419	-$254,057,384	27-Apr	$15,364,325	-$1,909,698,181			
27-Jan	-$3,637,880	-$72,256,723	27-Feb	-$7,575,866	-$151,403,128	27-Mar	-$44,740,604	-$298,797,988	30-Apr	-$222,070,242	-$2,131,768,423			
30-Jan	-$22,790,129	-$95,046,852	28-Feb	-$2,894,309	-$154,297,437	28-Mar	-$50,685,464	-$349,483,452						
31-Jan	-$5,320,915	-$100,367,767	29-Feb	-$14,744,318	-$169,041,755	29-Mar	-$49,996,238	-$399,479,690						
						30-Mar	-$319,192,503	-$718,672,193						

Source: Subcommittee chart created from data provided by OCC spreadsheet, OCC-SPI-00000298. Numbers do not reflect restated P&L figures.

2011 CIO Compensation
vs.
Investment Bank Comparables



Permanent Subcommittee on Investigations
EXHIBIT #1h

Source: Subcommittee chart created from data provided by JPMorgan Chase, 6/21/2012 CIO Compensation Presentation, JPM-CIO-PSI-H 0002746, at 754.

Timeline: Key Events in JPMorgan Chase Whale Trades

Nov. 2006	Bank authorizes Chief Investment Office (CIO) to trade credit derivatives.
2008	Synthetic Credit Portfolio (SCP) acquires its name.
2009	As financial crisis eases, SCP earns $1 billion.
2010	OCC examines CIO investment portfolios; SCP is not explicitly mentioned. OCC requires documentation of investment decisions; Ina Drew criticizes OCC intrusiveness.
2011	Over 2011, SCP's notional size increases tenfold from $4 billion to $51 billion.
Nov. 2011	SCP makes $1 billion credit derivatives bet for gain of $400 million.
Dec. 2011	Bank & CIO managers decide improving economy lessens need for credit protection. Jamie Dimon instructs Ina Drew to reduce the CIO's Risk Weighted Assets (RWA).
Dec. 22, 2011	CIO traders propose reducing RWA, in part, by manipulating models. CIO quantitative head Pat Hagan develops CIO models that artificially lower SCP risk results.
Jan. 6, 2012	SCP trading breaches CS01 risk limit; breach continues and increases until CIO risk metrics are overhauled in May.
Jan. 16-20, 2012	SCP trading causes four-day breach in bankwide VaR; breach reported to Jamie Dimon.
Jan. 23, 2012	Dimon and Chief Risk Officer John Hogan approve a temporary bankwide VaR limit increase to end the breach; told a new CIO VaR model will reduce CIO's VaR by 44%.
Jan. 27, 2012	CIO names SCP for the first time in a routine VaR report to OCC. New VaR model approval is rushed through and drops CIO's VaR overnight by 50%.
Late Jan. 2012	SCP losses escalate. CIO traders begin mismarking SCP values to minimize losses. Mr. Dimon orders bank to stop giving daily CIO profit/loss data to OCC; OCC objects; Chief Financial Officer Doug Braunstein restores data, angering Mr. Dimon.
Late Jan. 2012	CIO trader Bruno Iksil gives presentation showing SCP lost $100 million in January and could lose $300 million more; proposes "trades that make sense" -- buying more longs to offset losses and reduce RWA. OCC holds standard quarterly meeting with CIO; told SCP would be reduced.
Feb. 2012	Over February, SCP loses another $69 million.
Mar. 2, 2012	Comprehensive Risk Measure (CRM) used to calculate RWA indicates SCP could lose up to $6.3 billion in 2012, in worst case scenario. CIO risk manager calls result "garbage."
Mid-Mar. 2012	Julien Grout, SCP trader, keeps 5-day spreadsheet showing reported SCP values deviated from midpoint prices by over $400 million. Trader Bruno Iksil calls SCP's booked values "idiotic" and calls SCP book "more and more monstrous." Over two weeks, CIO traders acquire $40 billion more in multiple long credit derivatives, in what OCC called "doubling down" on an already losing trading strategy.
Mar. 20, 2012	Traders Iksil and Grout report internally $40 million loss, largest SCP loss to date, and a $600-800 million "lag" in SCP book, but Ina Drew says she did not read the email.

Permanent Subcommittee on Investigations

EXHIBIT #1i

Timeline: Key Events in JPMorgan Chase Whale Trades

Mar. 23, 2012	Ms. Drew orders "phones down" and stops SCP trading. SCP trading breaches CSW10% limit; it continues until risk metrics overhauled in May.
Mar. 29, 2012	SCP trading breaches CIO Stress Loss limit, which is tested weekly, through April.
Mar. 31, 2012	At quarter end, SCP's notional size triples from $51 billion to $157 billion, and SCP flips from net short to net long. Total quarterly losses reported internally as nearly $719 million. CIO London office head Achilles Macris says he's "lost confidence" in his team, SCP has moved into "crisis mode."
Apr. 5, 2012	After media inquiries, bank prepares talking points that SCP is a "hedge" and regulators were "fully" informed of trades, but then drops both words from talking points.
Apr. 6, 2012	Bloomberg and Wall Street Journal report whale trades by JPM CIO office in London.
Apr. 9, 2012	Senate confirms new Comptroller of the Currency, Thomas Curry. Regulators have first meeting with JPM on whale trades; bank downplays any problem.
Apr. 10, 2012	CIO traders report internal SCP daily loss of $6 million, then 90 minutes later, different credit derivative values leading to a loss of $400 million.
Apr. 11, 2012	--Bank's chief spokesman, Joe Evangelisti, quoted saying whale trades were a "hedge" of bank's overall risk." --To prepare for earnings call, bank executives receive SCP presentation showing, in a financial crisis, SCP would not offset bank losses, but lose $250 million. SCP also lost money in 3 negative credit scenarios, showing it wasn't hedging bank's credit risks.
Apr. 13, 2012	Bank executives learn SCP positions are huge & hard to exit; SCP reports $1.2 billion loss. Bank files 8-K form previewing first quarter earnings and holds earnings call. --Bank CEO Jamie Dimon calls whale trade stories "a complete tempest in a teapot." --With respect to SCP, Chief Financial Officer Doug Braunstein says: --"All of those positions are put on pursuant to risk management at the firm-wide level." --"[A]ll those positions are fully transparent to the regulators" who get "information on those positions on a regular and recurring basis as part of our normalized reporting." -- "All of those decisions are made on a very long-term basis." --"[W]e also need to manage the stress loss associated with that portfolio … so we have put on positions to manage for a significant stress event in Credit." --"[W]e believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker." 8-K filing discloses CIO's VaR results, but not the January change in CIO's VaR model.
Apr. 19, 2012	OCC inquires for first time about CIO breaches, including CS01 breach of over 1,000% for 71 days. CIO Chief Market Risk Officer, Peter Weiland, tells OCC that risk limit will be replaced with something more "sensible" in the future.

Timeline: Key Events in JPMorgan Chase Whale Trades

Apr. 27, 2012	Bank's Chief Risk Officer John Hogan dispatches Ashley Bacon, his deputy, to London CIO office to analyze SCP.
May 4, 2012	Bank calls OCC Examiner-in-Charge Scott Waterhouse to disclose SCP loss of $1.6 billion; internally, losses were reported to be $2.3 billion.
May 9, 2012	Bank meets with OCC; Chief Risk Officer John Hogan denies SCP books were mismarked, despite collateral valuation disputes.
May 10, 2012	Bank's Controller validates SCP marks, even though the marks were $512 million off the midpoints, were "aggressive," consistently favored the bank, and minimized SCP losses. Bank files 10-Q form finalizing first quarter earnings and holds business update call. Mr. Dimon discloses: --SCP in much worse shape than disclosed a month earlier. --SCP lost $2 billion in second quarter. (Internally, losses reported as $2.8 billion.) --"[T]he synthetic credit portfolio was a strategy to hedge the Firm's overall credit exposure.... We're reducing that hedge." Calls SCP a hedge 8 times during call. --"In the first quarter, we implemented a new VAR model, which we now deemed inadequate. And we went back to the old one, which had been used for the prior several years, which we deemed to be more adequate." 10-Q filing does not clearly disclose that same information.
May 11, 2012	Internally, bank reports SCP daily loss of $570 million, its largest; no public disclosure.
May 14, 2012	Bank fires London CIO personnel: Achilles Macris, Javier Martin-Artajo, Bruno Iksil. Ina Drew, CIO head, retires from JPMorgan Chase.
June 2012	Bank discloses SCP has lost $4.4 billion.
July 13, 2012	Bank restates first quarter profits, disclosing additional SCP losses of $660 million.
Fourth quarter	OCC issues six Supervisory Letters with 20 Matters Requiring Attention involving CIO.
Dec. 2012	SCP losses for the year total $6.2 billion. SCP has been dismantled, with most credit derivatives transferred to JPMorgan Investment Bank.
Jan. 2013	Bank releases management task force report on whale trades. OCC issues Cease and Desist Order requiring JPMorgan Chase to take corrective actions.

Prepared by U.S. Senate Permanent Subcommittee on Investigations, March 2012.

EXCERPT

CHIEF INVESTMENT OFFICE - ORGANIZATION

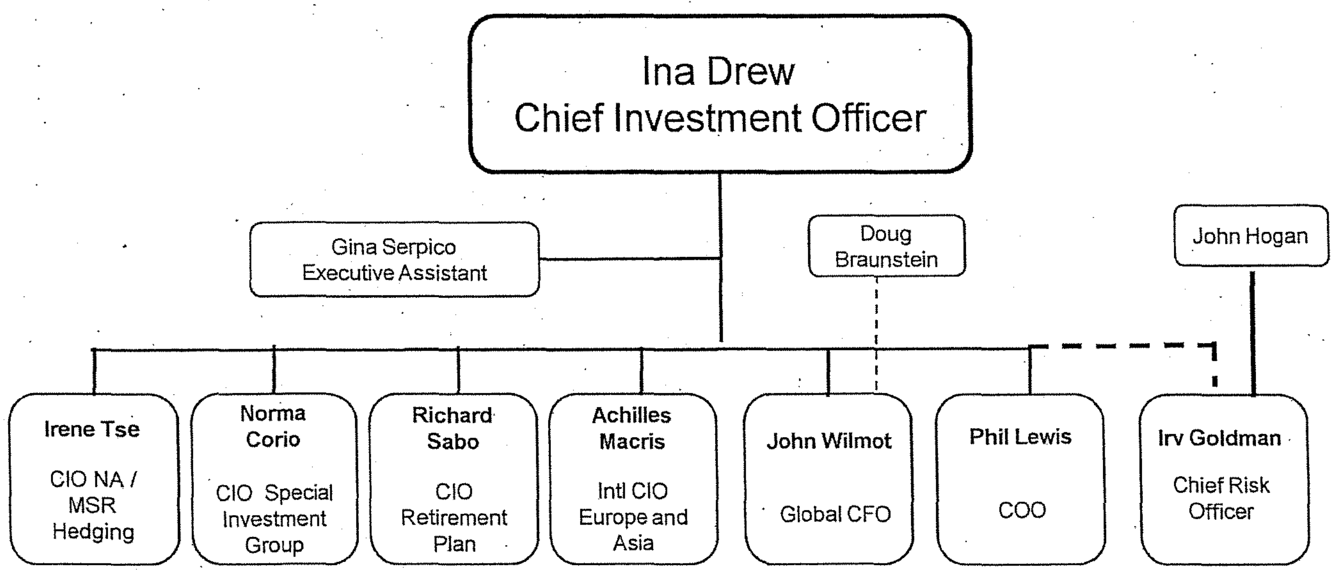
April 2012

CHIEF INVESTMENT OFFICE

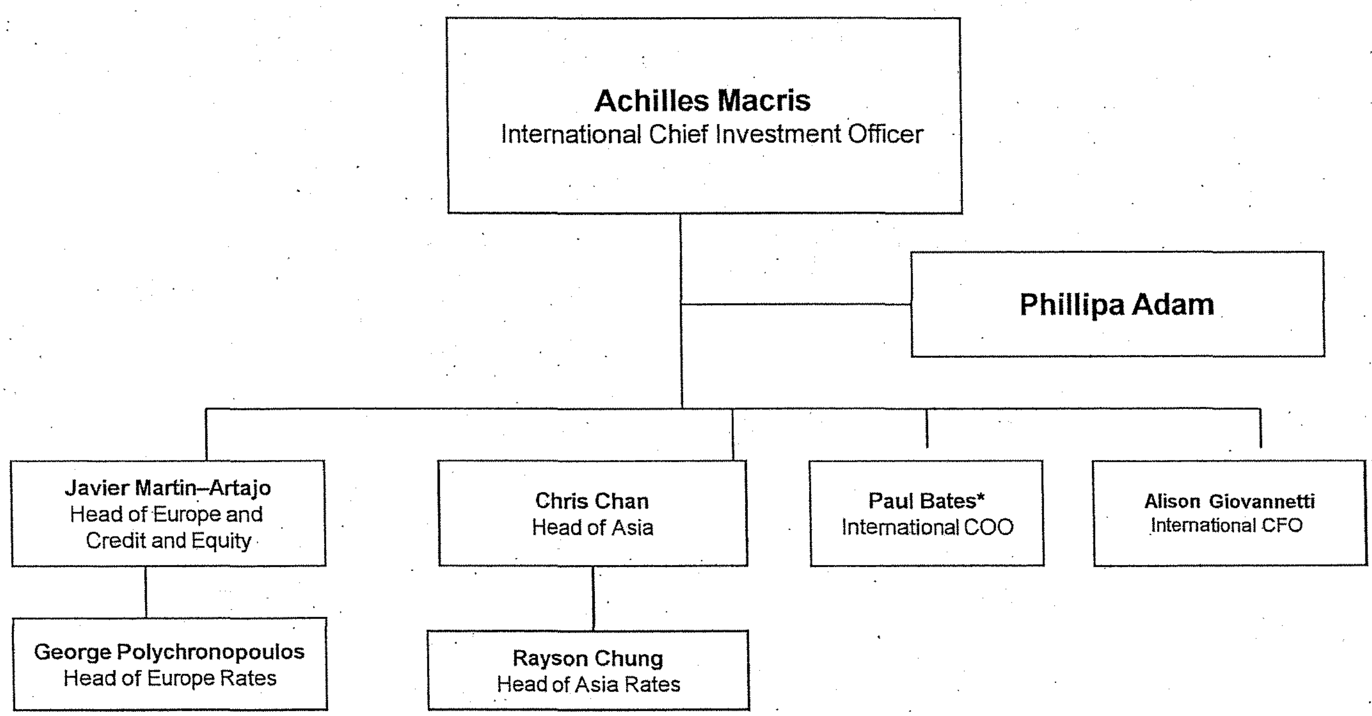
Permanent Subcommittee on Investigations

EXHIBIT #2

Chief Investment Office – Direct Reports



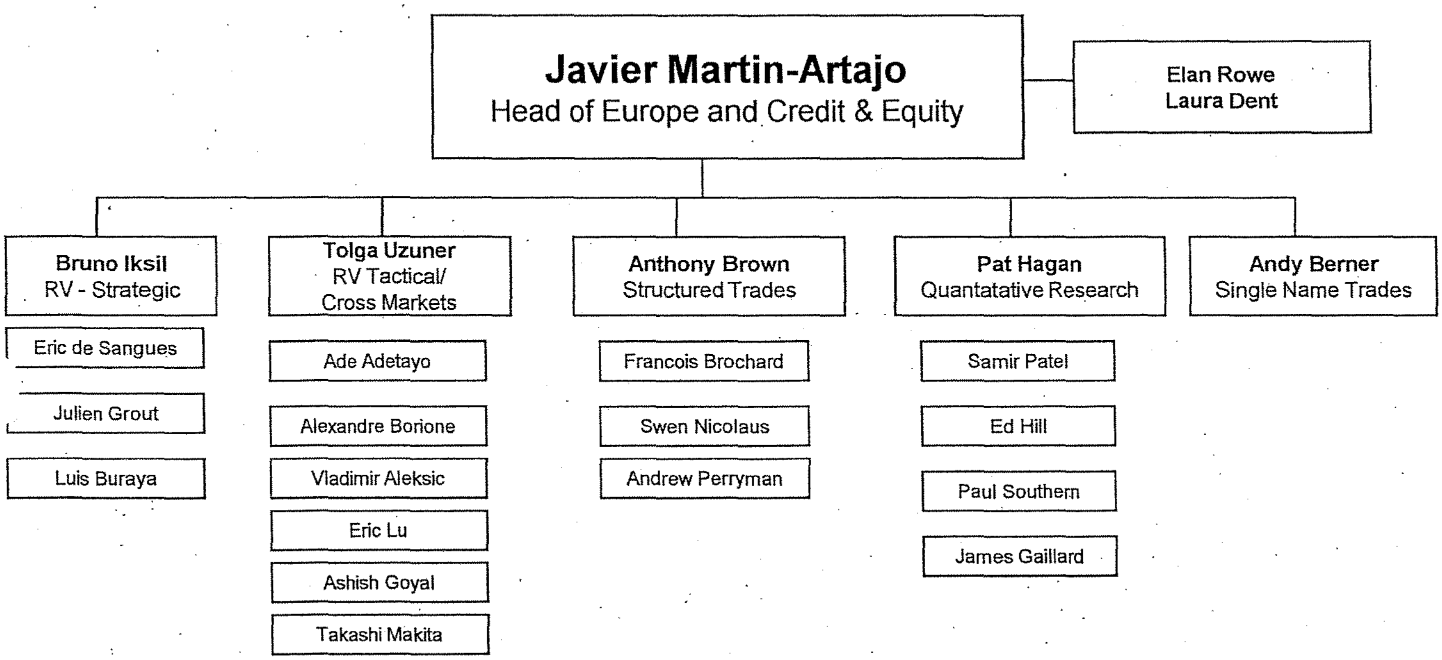
International CIO



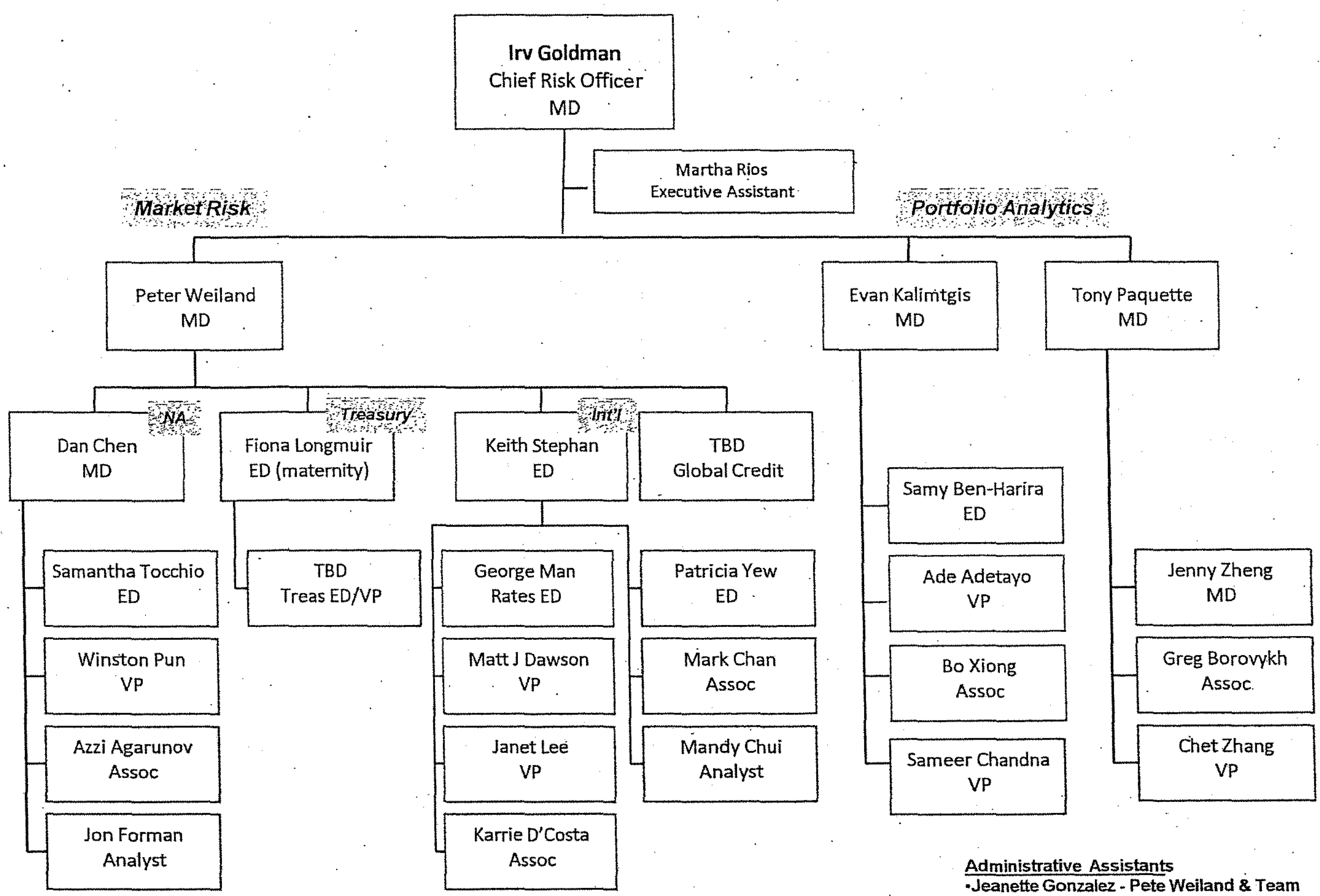
*Reports to Phil Lewis – CIO Global COO
**Reports to John Wilmot – CIO Global CFO

International Chief Investment Office

Equity and Credit



CIO RISK MANAGEMENT TEAM



<u>Administrative Assistants</u>
- Jeanette Gonzalez - Pete Weiland & Team
- Elan Rowe – London Risk Team

Testimony of Jamie Dimon

Chairman & CEO, JPMorgan Chase & Co.

Before the U.S. Senate Committee on Banking, Housing and Urban Affairs

Washington, D.C.

June 13, 2012

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, I am appearing today to discuss recent losses in a portfolio held by JPMorgan Chase's Chief Investment Office (CIO). These losses have generated considerable attention, and while we are still reviewing the facts, I will explain everything I can to the extent possible.

JPMorgan Chase's six lines of business provide a broad array of financial products and services to individuals, small and large businesses, governments and non-profits. These include deposit accounts, loans, credit cards, mortgages, capital markets advice, mutual funds and other investments.

What does the Chief Investment Office do?

Like many banks, we have more deposits than loans – at quarter end, we held approximately $1.1 trillion in deposits and $700 billion in loans. CIO, along with our Treasury unit, invests excess cash in a portfolio that includes Treasuries, agencies, mortgage-backed securities, high quality securities, corporate debt and other domestic and overseas assets. This portfolio serves as an important source of liquidity and maintains an average rating of AA+. It also serves as an important vehicle for managing the assets and liabilities of the consolidated company. In short, the bulk of CIO's responsibility is to manage an approximately $350 billion portfolio in a conservative manner.

While CIO's primary purpose is to invest excess liabilities and manage long-term interest rate and currency exposure, it also maintains a smaller synthetic credit portfolio whose original intent was to protect – or "hedge" – the company against a systemic event, like the financial crisis or Eurozone situation. Among the largest risks we have as a bank are the potential credit losses we could incur from the loans we make. The recent problems in CIO occurred in this separate area of CIO's responsibility: the synthetic credit portfolio. This portfolio was designed to generate modest returns in a benign credit environment and more substantial returns in a stressed environment. And as the financial crisis unfolded, the portfolio performed as expected, producing income and gains to offset some of the credit losses we were experiencing.

What Happened?

In December 2011, as part of a firmwide effort in anticipation of new Basel capital requirements, we instructed CIO to reduce risk-weighted assets and associated risk. To achieve this in the synthetic credit portfolio, the CIO could have simply reduced its existing positions; instead, starting in mid-January, it embarked on a complex strategy that entailed adding positions that it believed would offset the existing

Permanent Subcommittee on Investigations

EXHIBIT #3

ones. This strategy, however, ended up creating a portfolio that was larger and ultimately resulted in even more complex and hard-to-manage risks.

This 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.

What Went Wrong?

We believe now that a series of events led to the difficulties in the synthetic credit portfolio. Among them:

- CIO's strategy for reducing the synthetic credit portfolio was poorly conceived and vetted. The strategy was not carefully analyzed or subjected to rigorous stress testing within CIO and was not reviewed outside CIO.
- In hindsight, CIO's traders did not have the requisite understanding of the risks they took. When the positions began to experience losses in March and early April, they incorrectly concluded that those losses were the result of anomalous and temporary market movements, and therefore were likely to reverse themselves.
- The risk limits for the synthetic credit portfolio should have been specific to the portfolio and much more granular, *i.e.*, only allowing lower limits on each specific risk being taken.
- Personnel in key control roles in CIO were in transition and risk control functions were generally ineffective in challenging the judgment of CIO's trading personnel. Risk committee structures and processes in CIO were not as formal or robust as they should have been.
- CIO, particularly the synthetic credit portfolio, should have gotten more scrutiny from both senior management and the firmwide risk control function.

Steps Taken

In response to this incident, we have taken a number of important actions to guard against any recurrence.

- We have appointed new leadership for CIO, including Matt Zames, a world class risk manager, as the Head of CIO. We have also installed a new CIO Chief Risk Officer, Chief Financial Officer, Global Controller and head of Europe. This new team has already revamped CIO risk governance, instituted more granular limits across CIO and ensured that appropriate risk parameters are in place.

- Importantly, our team has made real progress in aggressively analyzing, managing and reducing our risk going forward. While this does not reduce the losses already incurred and does not preclude future losses, it does reduce the probability and magnitude of future losses.

- We also have established a new risk committee structure for CIO and our corporate sector.

- We are also conducting an extensive review of this incident, led by Mike Cavanagh, who served as the company's Chief Financial Officer during the financial crisis and is currently CEO of our Treasury

& Securities Services business. The review, which is being assisted by our Legal Department and outside counsel, also includes the heads of our Risk, Finance, Human Resources and Audit groups. Our Board of Directors is independently overseeing and guiding these efforts, including any additional corrective actions.

- When we make mistakes, we take them seriously and often are our own toughest critic. In the normal course of business, we apply lessons learned to the entire Firm. While we can never say we won't make mistakes – in fact, we know we will – we do believe this to be an isolated event.

Perspective

We will not make light of these losses, but they should be put into perspective. We will lose some of our shareholders' money – and for that, we feel terrible – but no client, customer or taxpayer money was impacted by this incident.

Our fortress balance sheet remains intact: as of quarter end, we held $190 billion in equity and well over $30 billion in loan loss reserves. We maintain extremely strong capital ratios which remain far in excess of regulatory capital standards. As of March 31, 2012, our Basel I Tier 1 common ratio was 10.4%; our estimated Basel III Tier 1 common ratio is at 8.2% – both among the highest levels in the banking sector.[1] We expect both of these numbers to be higher by the end of the year.

All of our lines of business remain profitable and continue to serve consumers and businesses. While there are still two weeks left in our second quarter, we expect our quarter to be solidly profitable.

In short, our strong capital position and diversified business model did what they were supposed to do: cushion us against an unexpected loss in one area of our business.

While this incident is embarrassing, it should not and will not detract our employees from our main mission: to serve clients – consumers and companies – and communities around the globe.

- In just the first quarter of this year, we provided $62 billion of credit to consumers.
- Over the same period we provided $116 billion of credit to mid-sized companies that are the engine of growth for our economy, up 16% year on year.
- For America's largest companies, we raised or lent $368 billion of capital in the first quarter to help them build and expand around the world.
- We are one of the largest small business lenders and the leading Small Business Administration lender in America, providing $17 billion in credit to small businesses in 2011, up 70% year on year. In the first quarter, we provided over $4 billion of credit to small businesses, up 35% year on year.
- Even in this difficult economy, we have hired thousands of new employees across the country—over 61,000 since January 2008. We also have hired nearly 4,000 veterans over the past two years, in

[1] On June 7th, the Federal Reserve Board issued proposed Basel III rules, and we will be reviewing these ratios under the proposal.

addition to the thousands of veterans who already worked at our Firm. We founded the "100,000 Jobs Mission" – a partnership with 45 other companies to hire 100,000 veterans by the year 2020.

- Recently, we launched a groundbreaking and consumer-friendly reloadable card – Chase Liquid – that offers customers financial control and flexibility.

- And over the past three years, in the face of significant economic headwinds, we made the decision not to retrench – but to step up – as we did with markets in turmoil when we were the only bank willing to commit to lend $4 billion to the state of California, $2 billion to the state of New Jersey and $1 billion to the state of Illinois.

All of these activities come with risk. And just as we have remained focused on serving our clients, we have also remained focused on managing the risks of our business, particularly given today's considerable global economic and financial volatility.

Last, I would like to say that in the face of these recent losses, we have come together as a Firm, acknowledged our mistakes, and committed ourselves to fixing them. We will learn from this incident and my conviction is that we will emerge from this moment a stronger, smarter, better company.

Thank you, and I'd welcome any questions you might have.

From:	McInerney, James A
To:	Dianne.Dobbeck@ny.frb.org; Waterhouse, Scott; Waterhouse (Regulator), Scott X; Sullivan, Michael; Crumlish, Fred; cneedham@FDIC.gov; Oarya@FDIC.gov; Arya(Regulator), Om; jyao@fdic.gov
CC:	Genova, Diane M.; Gunselman, Gregg B; Hill, Erin
Sent:	7/24/2012 8:08:37 PM
Subject:	CIO: Response to Regulator Requests on NBIA, Risk Tolerance and Follow-up VaR model questions
Attachments:	CIO Risk Appetite 2010 FINAL.PDF; CDS amendment CDS Residential MBS-doc.zip; Credit & Equity-pdf.zip; NBIA Amendment_ITRAXX_CMBX-doc.zip; NBIA_am_Sov_CDS -doc.zip

CONFIDENTIAL

As requested, please see our response to your questions on NBIA, Risk Tolerance and the VaR Model:

1) NBIA: Attached is the NBIA for the CIO relating to Credit and Equity Capability in NA and EMEA. The approval document lists the Initiative Sponsors, the Key Contacts and the Working Group members. There are emails attached to the document evidencing the individual approvals. Also attached are the approvals for additional activities within CIO: Sovereign CDS Trading, Credit Default Swaps referencing Residential Mortgage Backed Securities and Credit Default Swaps referencing Markit CMBX index.

2) Risk Tolerance: Attached is the presentation made to the Risk Working Group on September 16, 2010.

3) Follow up to VaR model questions: Patrick Hagan will attend a meeting with you tomorrow and is prepared to give oral answers to your questions relating the VaR model.

Kind regards,

Jim McInerney
Vice President & Assistant General Counsel
JPMorgan Chase Bank, N.A.
Mortgage Banking Legal Department
237 Park Avenue
New York, New York 10017
Direct: (212) 622-0560
james.a.mcinerney@jpmchase.com

Permanent Subcommittee on Investigations
EXHIBIT #4

EXCERPT

Chief Investment Office
New Business Initiative Approval
Executive Summary

Name of Initiative	Credit and Equity Capability
Portfolio(s)/Region(s)	NA/ EMEA
Initiative Sponsor	Achilles Macris, Andy Pauzures
Initiative Approver	
Brief Initiative Description	CIO needs broad product capability/expertise to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposures created by the Firm's operating businesses. The key areas where CIO needs to initially build out its product capability are in Credit & Equities.
Economic Rational for Proceeding	Credit: ■ The Firm has large cyclical exposure to credit, which is the single largest risk concentration from the operating businesses. ■ Credit exposure and capital are increasingly fungible (Basel II). ■ CIO to add credit capabilities to manage macro overlay programs similar to interest rates, mortgages, and foreign exchange. Equity: Provides CIO with capability to opportunistically allocate capital to equities to: ■ Refine and target existing macro views. ■ Complement CIO's existing product capability in constructing macro hedges over the economic cycle.
Key Changes From Current Activity	Credit: CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO's capability in order to allow CIO to manage corporate credit exposures and diversify its asset classes. Equity: **Redacted by the Permanent Subcommittee on Investigations**
Changes to Operational Processes	CIO will rely on the Equity Derivatives Group (EDG) support model. This

	will be determined and governed by a Service Level Agreement. CIO will retain ownership of balance sheet substantiation.
Key Risk Issues	CIO will be reliant upon the EDG middle office processing and confirmation activity. This will be addressed via SLA between CIO and EDG support.
Risk Rating (1, 2 or 3)	2 - Medium New products and systems to CIO, but not to the Firm
Priority Rating (A, B or C)	A - High
Other Significant Information	
Target Launch Date	
Date Authorized to Proceed with Development	

Guidance:
Initiative Approver: authorizes initiative development, agrees the initiative launch and prioritizes initiatives for development. The initiative approver should be a direct report of the CIO.
Initiative Sponsor: the Sponsor should typically be a Portfolio Manager.

Risk Rating is based on incremental risk and materiality of risk change:
1 – High Risk – *significant incremental risk* - new business for the area, significant residual risk after risk management, manually intensive environment, considerable legal exposure, cross border issues, significant effort for Regulator approval, infrastructure under stress, major investment of capital, significant balance sheet implication
2 – Medium Risk – *moderate incremental risk* - multiple risk control areas are affected requiring cross discussion about the risks and operational considerations.
3 – Low Risk – *little incremental risk* - implementation of a vanilla initiative requiring the involvement of several risk control areas where only minor concerns are anticipated.

JPMorganChase

Chief Investment Office
New Business Initiative Approval Proposal

Credit & Equity Capability

Initiative Sponsor	Achilles Macris, Andy Panzures
Key Contact	Roger Kibbie-White, Alison Giovannetti, Brandon Konigsberg, Bonnie Kindler, Jason Hughes
Date Authorization to Develop Received	
Target Launch Date	

Table of Contents

1. Proposal Summary

Name of Initiative	Credit and Equity Capability
Portfolio(s)/Regions(s)	NA/ EMEA
Initiative Sponsor	Achilles Macris, Andy Panzures
Initiative Approver	
Brief Initiative Description	CIO needs broad product capability/expertise to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposures created by the Firm's operating businesses. The key areas where CIO needs to build out its product capability are in Credit & Equities.
Economic rationale for proceeding	Credit: ■ The Firm has large cyclical exposure to credit, which is the single largest risk concentration from the operating businesses. ■ Credit exposure and capital are increasingly fungible (Basel II). ■ CIO to add credit capabilities to manage macro overlay programs similar to interest rates, mortgages, and foreign exchange. Equity: Provides CIO with capability to opportunistically allocate capital to equities to: ■ Refine and target existing macro views. ■ Complement CIO's existing product capability in constructing macro hedges over the economic cycle.
Key changes from current activity	Credit: CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO's capability in order to allow CIO to manage corporate properties and diversify its asset classes. Equity: **Redacted by the Permanent Subcommittee on Investigations**
Key Risk issues	CIO will be reliant upon the EDG middle office processing and confirmation activity. This will be addressed via SLA between CIO and

	EDG support.
Risk Rating (1, 2 or 3)	**2 - Medium** New products and systems to CIO, but not to the Firm
Priority Rating (A, B or C)	A - High
Processing Location	
Main systems impacted	STS, PYRAMID
Other LOB's or Legal Entities Impacted	Bank and Whitefriars Inc.
Operational impact (include anticipated volumes and key capacity metrics)	Anticipated Monthy Vols Credit Indices: iTraxx, CDX etc. 80 Credit default swaps 40 **Redacted By** **Permanent Subcommittee on Investigations**
Other significant information	
Regulatory approvals required	No
Balance Sheet usage	
Other Policies impacted	
Additional Headcount Required	4 traders – 2 in EMEA , 2 in New York 2 FTE cost allocation from Equity Derivatives group 2 CIO Middle Office FTE , 1 in EMEA , 1 in New York
Date authorized to proceed with development	
Target Launch Date	Late April
Key Contact for questions	Roger Kibble-White, Alison Giovannetti, Brandon Konigsberg, Bonnie Kindler, Jason Hughes
Person responsible for Post Implementation Review	

2. Working Group and Approvers

Stakeholder Area	Working Group Member(s)	Signature	Agreed Completion Date	Date Approved
Business Sponsorship				
Global Head	Ina Drew			
Global CFO	Joe Bonocore			
Portfolio Manager (Initiative Sponsor)	Achilles Macris, Andy Panzures			
Regional CFO	Brandon Konigsberg, Roger Kibble-White, Colvis Lee			
T&O Manager	Alison Giovannetti, Phil Lewis			
Risk Control Areas				
Market Risk, Credit Risk & VCG	Bob Rupp, Fiona Longmuir			
Finance – Accounting	Mark Allen, Allister Jeffrey, David Alexander			
Regulatory Capital	Keith Enfield/Mark Weber			
Finance – Controls	Elliot Honeyfield, Nancy Dennery			
T&O – Technology	Joe Colman, Nick Wood			
T&O - Operations	Alison Giovannetti, Bonnie Kindler, Tom Mauro			
Tax	Mark Frediani			
Legal	Carolyn Monroe-Koatz			
Compliance	Colin Harrison, Bob Cole			
Funding	Frederic Mouchel			
Audit	Bill McManus, Sally Russell			
Other as appropriate				
Senior Country Officer				
Legal Entity CFO/SFO	Allister Jeffrey			

*Sign-Offs are contained in a separate file distributed with this document

3. Initiative Overview

i. Initiative description, economic justification, strategic fit, growth forecast, expected volume, capacity limits
ii. Business Rationale including market opportunities and risks

Please see Executive Summary.

Proposed initial product list:

Credit:

- Credit Indices: iTraxx, CDX etc. – see below for indices
- Credit default swaps (not on corporate names) – see below for indices
- Options on Credit Indices– see below for indices.
  For EMEA, Options on Credit indices are dependent upon the build out of credit products within Pyramid Equities, scheduled for May/June 2006, and should not be traded until this implementation is complete.

  Indices:

  Europe: Itraxx, USA: CDX, Japan: Itraxx

  Components:

  - Xover 5 yr
  - Hivol 5 yr
  - Main IG 5 yr
  - Main IG 10yr
  - Financial Sub Index 5 yr
  - Financial Sub Index 10 yr

  Options on:

  - Xover 5 yr
  - Hivol 5 yr
  - Main IG 5 yr

Equity:

–

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Permanent Subcommittee on Investigations

4. Trade & Legal Entity Flow

i. Include an end to end product flow diagram including external resources utilized

Pyramid → STS → General Ledger

- Client facing trade captured in Pyramid
- Trade settled through STS
- Confirmation generated through XDG a subset of STS
- Pyramid auto generates a back to back trade between the Bank and JP Morgan Whitefriars Inc.
- Pyramid auto feeds JPMCB and JP Morgan Whitefriars Inc General Ledger
- Client risk recorded in JMPCB
- Trade risk recorded in JP Morgan Whitefriars Inc

ii. List legal entities impacted

Street → Bank → Whitefriars Inc

- London Branch (trades back-to-back through the branch)
- NY Branch (trades back-to-back through the branch)
- JP Morgan Whitefriars Inc. (ultimate repository of the risk)

5. Market Risk/Valuation Control/Credit Risk

Market Risk

The initial product slate is:

Credit ($5mm VaR limit):

- Credit Indicies
- Credit default swaps
- Options on credit indices

Equity ($10mm VaR limit):

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The Business has, to date, operated under a regional limits infrastructure therefore it may be necessary to realign the hierarchy to be more reflective of a global risk framework by asset class. This will require developmental work from the VARS MO and the risk reporting teams.

Equities trading:

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Permanent Subcommittee on Investigations

Credit trading:
Credit trading is essentially a new business and therefore requires a new limits infrastructure comprising both VaR and non-statistical measures such as 10% credit spread widening, csbpv or default exposure.

Ideally CIO should clone the Credit Hybrids version of Pyramid and utilize the "Trevor" database to ensure:
(i) index exposures are fed on a decomposed name-by-name basis for more accurate VaR computation and to feed the Single Name Position Risk monitoring process.
(ii) options can be appropriately handled (the Equities version does not support credit options)
CIO will also need to clone the separate PCM feed from Trevor for regulatory capital purposes.

It is understood that owing to systems constraints the Credit Hybrids functionality within Pyramid will not be available for use by CIO until May/June 2006. **CIO should therefore refrain from undertaking credit options trading until this time.** Since the Equities version of Pyramid is the only platform available then there will be a number of short-comings, namely:
a) no decomposed index feed
b) no SNPR feed
c) reliance on the Pyramid model for computing VaR (in which credit data is understood to be dubious)
CIO will need to additionally clone the PCM feed for regulatory capital purposes and should ensure that the relevant credit products are set up accordingly.

Given the deficiencies of the Pyramid Equities version for the credit trading activity, MVAR would insist that in the event the required systems development does not occur by end of H1 '06 new activities must stop and the CIO Risk Committee must evaluate how to proceed.

Valuation Control

CIO is not a market maker and uses the Investment Bank's risk and valuation systems to transact its products. As such CIO is a price taker using prices and valuation inputs controlled and determined by the market making businesses of the bank. CIO's Valuation Control Group coordinator will ensure that where pricing adjustments are identified from the month end price test process for market making groups in the Investment Bank, that where CIO hold the same positions the adjustments are also discussed with/applied to CIO.

Credit trading:

The only candidates for reserves are credit spread options which may qualify for Unobservable Parameter Reserves depending on the size and type of positions held. Index CDSs tend not to incur reserves, however, if the business were to venture into single name space theses positions would qualify for Price Discovery, Recovery Rate and/or Concentration reserves.

6. Finance - Accounting

i. Describe accounting treatment to be utilized

The instruments in the initial product slate are derivatives and as such must be marked-to-market. These items will be treated as trading instruments. ETF's will also be treated as trading instruments.

ii. Consider Accounting Policy review and regulatory reporting implications

Regulatory considerations are considered in Section 8 below.

iii. Will the accounting for the new products be performed manually or will it be automated?

The accounting will be automated using the ACE accounting engine to generate entries.

7. Finance - Regulatory Capital

JP Morgan Whitefriars Inc. has no standalone regulatory capital requirements. Positions in JP Morgan Whitefriars Inc. will be subject to the Firm's regulatory capital requirements:

i. *Has this product been reviewed by regulatory reporting (US and non-US) to ensure that it will be reported in accordance with regulatory reporting requirements. List any regulatory reporting requirements (US and non-US) in relation to the new product and provide a description of any requirements that differ from GAAP.*

This product been reviewed by regulatory reporting (US and non-US) to ensure that it will be reported in accordance with regulatory reporting requirements.

ii. *For Risk-based capital purposes, will this product be booked under trading or banking book rules and has legal and regulatory reporting reviewed the proposed treatment.*

For Risk-based capital purposes, this product will be booked under trading book rules and legal and regulatory reporting reviewed the proposed treatment.

iii. *Will this product feed into appropriate market, counterparty credit and specific risk systems (if so, please describe the feed names, internal model, risk and booking systems, and appropriate contacts in technology and middle office)? If not, have procedures and controls been put in place to report it manually and who will be the contact person for manual reporting?*

The following approaches will be used to feed the Firm's specific risk systems:

- Credit: CIO will leverage the Equity Derivatives Group's PYRAMID infrastructure. CIO will use the infrastructure to feed the Firm's PCM model which will be used to calculate specific risk on the credit products with the exception of Credit Options which will be calculated using the following rule:-

  For option positions, long or short, the risk weighted amount is the market value of the effective notional amount of the underlying instrument or index multiplied by the option's delta. These are required to be reported on a manual template. For credit options which are NOT price based, we may not be able use a option delta approach (we may need to use a notional x 8% approach).

  Equity:

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iv. *Describe the nature of any collateral held in relation to this product*

No specific collateral will be held against the proposed products, however derivative MTM collateralisation will be subject to normal Firm collateral group process.

v. *Does this product impact deposits and, if so, has this been communicated to regulatory reporting for purposes of calculating appropriate reserves.*

This product does not impact deposits.

vi. *Has any impact to risk weighted assets been identified, evaluated and communicated to regulatory reporting. Are the appropriate risk weighted asset limits in place and been reviewed by the applicable CFO?*

Given the use of approved models as detailed above, the impact to risk weighted assets is not deemed to be material and can be accommodated within CIO's existing limits.

vii. *Has the methodology for calculating risk weighted assets for VAR and specific risk been communicated and approved by regulatory reporting & Market Risk Management? Is any regulatory approval or specific risk model development required for this product?*

The methodology for calculating risk weighted assets for VAR and specific risk been communicated and approved by regulatory reporting. The models have been approved by the regulators and hence no specific regulatory approval or specific risk model development is required for this product.

viii. *If this product requires risk (including general, specific and counterparty) has the product been submitted to regulatory reporting to update the risk inventory list?*

The product slate is part of the bank's existing approved products.

8. Finance - Controls

i. *Consider changes to the control environment including process, control procedures and review*
ii *Sarbanes Oxley implications: ownership of new process templates, testing*

The Credit and Equity business will ultimately reside in JP Morgan Whitefriars Inc. A new operational controls template will be created for SOX purposes specific to the Credit & Equity business and will address all key controls. Also, additional control steps will be added to the "CIO CFO" SOX template covering this new activity.

Discreet cost centers, SPN's and books are being established for CIO Europe and New York to support and segregate the activity.

9. T&O - Technology

CIO New Business Initiative Approval Policy

Post-Implementation Review

Section 1 - to be completed at the time of approval

Name of Initiative:	
Line of Business:	
Post Implementation Key Contact:	
Launch Approval Date:	
First Transaction Date:	

Brief description of the approved initiative:

(copy from initiative summary)

List any conditions associated with the approval, comment on open items and the timeframe for completion.

Risk Review Group	Conditions raised during sign off	Comments

Section 2 - to be completed within 6 months of the activity going live

Address the following:	
Is the initiative as described in the proposal when it was approved?	
Is the initiative within the volumes and limits agreed when approval was granted?	
Have there been any operational errors as a result of introducing this initiative?	
What economic value has been received and how does that value compare to the initial projections?	
Have there been material operational changes that were or should be documented?	
Other points of note	
Post implementation review completed by	(Insert name)
Date	(Insert date completed)

Send completed copy to LOB ORM, Regional Expeditor and Audit

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Credit

10% Credit Spread Widening	$2mm (Total) $2mm (By Sub-Index e.g. itraxx main, itraxx hivol)
CSBPV	$2mm (Total) $2mm (By Sub-Index)
Vega	tba (Total – expressed in 0.1 bp b/e terms)

Credit & Equity NBIA Sign-off.txt

CIO & GFLM
Alison C Giovannetti
20/04/2006 12:44

To: Jason LDN Hughes/JPMCHASE@JPMCHASE, Roger X Kibble-White/JPMCHASE@JPMCHASE
cc:
Subject: Re: Credit & Equity NBIA - sign off
This document contains a file attachment with a file size of 198.2 KB.

Signed off

Regards,
Alison

Alison Giovannetti
GDP : 8 325 8025
External : (020) [redacted]

▬ = Redacted by the Permanent Subcommittee on Investigations

Corporate Reporting Business Advisory - Tel 212-834-9425 Cell [redacted]
Keith Enfield
20/04/2006 14:51

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: Credit & Equity NBIA

I approve but I think you should make a note that non-vanilla equity products (if you ever have any) and credit swaptions (which you are planning on trading and are not currently approved for PCM) will need to be reported via the manual template.

Phil Lewis
21/04/2006 13:57

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Alison C Giovannetti/JPMCHASE@JPMCHASE, thomas.j.mauro@jpmorgan.com@JPMCHASE
Subject: Re: Credit & Equity NBIA
This document contains a file attachment with a file size of 198.2 KB.

Jason - ok to sign-off.

As stated in the document, next step is to finalise the SLAs and SOPs

regards
Phil

David M Alexander
25/04/2006 14:11

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE
Subject: Re: Credit & Equity NBIA

Credit & Equity NBIA Sign-off.txt

Jason -

You have my approval. I traded vms with Roger - all of these positions will be mtm in a trading book. Please revert back to me if any other types of positions are held beyond what is included in the NBIA that might warrant different acctg, I.e. Loans or non-marketable equity securities.

Thanks.

Nancy E. Dennery Chief Investment Office - Tel (212) 834 - 9485
Nancy E Dennery
25/04/2006 13:09

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: Fw: Credit & Equity NBIA
This document contains a file attachment with a file size of 198.2 KB.

Yes, I have reviewed and sign off for the controls section.

Treasury - Tel +44 20 7777 0034
Frederic Mouchel
03/05/2006 09:56

To: Jason.LDN.Hughes@jpmorgan.com@JPMCHASE
cc:
Subject: Re: Credit & Equity NBIA
This document contains a file attachment with a file size of 198.2 KB.

Fine with me.

Rgds
F

Investment Bank - Technology
Nicholas JS Wood
03/05/2006 17:50

To: Jason LDN Hughes/JPMCHASE
cc: joseph g coleman
Subject: Re: Credit & Equity NBIA
This document contains a file attachment with a file size of 199.4 KB.

Jason - this looks fine from my point of view. Off the top of my head the areas that we need to include in the plan are:
my review of any tools that Joe may be developing (you allude to these but don't specify what they do or how big they will be - bottom of P13)
create appropriate id admin workflows for the existing apps (Pyramid, STS, etc) for the CIO staff - unless we will use thre same approvers as for EDG and E&H
update the BC plans for CIO as these new systems will need to be included.

regards,

Nick Wood

Robert J. Cole Compliance - Tel 212/270-1554 Fax 212/270-3450
Robert J Cole

05/05/2006 20:19

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE, Brandon Konigsberg/JPMCHASE@JPMCHASE, Carolyn Monroe-Koatz/JPMCHASE@JPMCHASE, Colin R Harrison/JPMCHASE@JPMCHASE
Subject: Re: NBIA - Compliance Section

Jason- See my comments below (in red and strikethrough), which includes new language regarding compliance approval required before trading in credit/equity indices with less than 20 names as we discussed. With these changes, we are ok from US Compliance perspective

Feel free to call me with any questions.

- Tel (201) 595-5696 Fax (201) 595-6776
Arthur Kirshenbaum
04/05/2006 15:48

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: Fw: Credit & Equity NBIA

Jason,
I have no further comments or questions and approve.
Is this e-mail sufficient or do you have a more formal process?
Arthur

Mark Frediani
27/04/2006 15:25

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: Fw: Credit & Equity NBIA
This document contains a file attachment with a file size of 778.5 KB.

Jason,

I don't have any issues. Please accept this e-mail as my sign-off.

Regards,
Mark

Robert R Rupp
28/04/2006 20:49

To: Achilles O Macris/JPMCHASE@JPMCHASE, Andrew Panzures/JPMCHASE@JPMCHASE
cc: Ina Drew/JPMCHASE@JPMCHASE, Enrico Dalla Vecchia/JPMCHASE@JPMCHASE, Joseph S. Bonocore/JPMCHASE@JPMCHASE, Roger X Kibble-White/JPMCHASE@JPMCHASE, Brandon Konigsberg/JPMCHASE@JPMCHASE, Jason LDN Hughes/JPMCHASE@JPMCHASE, Fiona J. Longmuir/JPMCHASE@JPMCHASE
Subject:

Enrico, Fiona and I met to review the credit and equity NBIA and we agreed to sign-off, for purposes of the new product approval process.

Fiona prepared a summary of our discussion which includes a list of follow-up issues (see the bottom of the attachment). More detailed information is included in the NBIA document. Most of the issues are related to feeds and reports that Roger/Fiona/Jason and others have been working on. In addition to those issues, there are two items I want to note here:

1. We assembled an approach to limits that parallels the method used in the IB for these products. While we are set on VAR limits, we need to work with you to fill out the other proposed limits (eg delta, vega, credit events) outlined in the attachment.

2. Pls note the systems issues around credit options which need to be resolved before proceeding with that product.

Any questions/issues, lets discuss early next week. thanks

Bob

CIO / GFLM Technology - Tel 212-622-6136
Joseph G Coleman
25/04/2006 13:03

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Alison C Giovannetti/JPMCHASE@JPMCHASE
Subject: Re: Credit & Equity NBIA

Confirmed - I sign off

Elliot M Honeyfield
20/04/2006 10:39

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: Credit & Equity NBIA
This document contains a file attachment with a file size of 198.2 KB.

Happy to sign off, just noticed a few grammar errors that I will advise of

regards

Elliot

LONDON BRANCH LEA LEGAL ENTITY CONTROLLERS - Tel 44 207 777 2275 Fax 44 207 777 2010
Mark S. Allen
09/05/2006 18:50

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Andrew Marcovitch/JPMCHASE@JPMCHASE, Arthur Kirshenbaum/JPMCHASE@JPMCHASE, Dermot M Walsh/JPMCHASE@JPMCHASE, Rachel E Leigh/JPMCHASE@JPMCHASE, Madhura Shah/JPMCHASE@JPMCHASE
Subject: Re: Fw: Credit & Equity NBIA
This document contains a file attachment with a file size of 778.5 KB.

Jason,

My sign-off is obviously dependant on Rachel Leigh's approval to use the Equities infrastructure. Otherwise no further questions.

Regards,

Mark

Roger X Kibble-White
10/05/2006 12:10

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc:
Subject: Fw: Credit & Equity NBIA
This document contains a file attachment with a file size of 198.2 KB.

Jason

Signed-off.

Thanks

Roger

Chief Investment Office Finance and Business Management - Tel (852)2800-7091 or GDP280-7091 Fax (852)2810-6709
Colvis Lee
10/05/2006 14:52

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Charles K.C. Mong/JPMCHASE@JPMCHASE, Roger X Kibble-White/JPMCHASE@JPMCHASE
Subject: Re: equity and credit initiatives

Hi Jason,

There is no issue from Asia CIO CFO perspective. The market risk limits granted are on a global basis. We are in the process of coordinating a separate NBI sign-off for Asia and will refer to the global limits in our assessment. Pls take this as my signoff.

Thanks,

Colvis

Chief Investment Office CFO/COO
Joseph S. Bonocore
10/05/2006 16:09

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE, Ina Drew/JPMCHASE@JPMCHASE
Subject: Credit/Equities NBIA

Approved.
Joe

Chief Investment Office
Ina Drew
10/05/2006 16:19

Credit & Equity NBIA Sign-off.txt

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Roger X Kibble-White/JPMCHASE@JPMCHASE, Joseph S. Bonocore/JPMCHASE@JPMCHASE
Subject: Fw: Credit/Equities NBIA

Approved,
Ina Drew

Carolyn L. Monroe-Koatz Managing Director & Assoc. General Counsel
Carolyn Monroe-Koatz
15/05/2006 14:59
To: Roger X Kibble-White/JPMCHASE@JPMCHASE
cc:
Subject: Credit and Equity Capability NBIA

Roger - can't find the mail asking me to sign off. I am signed off, but I am going to send you later today a revised NBIA. My assistant is inputting more material into the Legal section right now. CMK

JPMORGAN CHASE & CO.

Audit Department Report

CIO Global Credit Trading

Report Number: G-07/005
Audit Rating: Satisfactory
Report Date: November 29, 2007
Audit Type: Audit

No Prior Report Explanation: First Time Review of New Business, Product or Service

Business Overview and Context

Chief Investment Office (CIO) credit trading activities commenced in 2006 and are proprietary position strategies executed on credit and asset backed indices. Trades are executed in London and New York . CIO has its own dedicated Middle Office, Market Risk and Valuation Control Groups (VCG), but utilizes the IB Equities Pyramid/STS suite of applications and IB Operations groups to process, confirm and settle the trades.

Audit Scope

Audit reviewed the following global risk and control processes operating in London and New York:

- Trade capture processes & controls (including cancel, amends & late trades)
- Daily P&L and market risk calculation, sign off & reporting processes and controls
- Monthly VCG valuation & reserves
- Middle Office reconciliation break item clearance & oversight

Key Findings

Based on the results of our evaluation and sample testing, the control environment is rated "Satisfactory". However, addressing the following matters will further enhance the effectiveness of control procedures:

- We noted an aged item of $500,000 (debit balance) in a suspense account. While this was identified by Middle Office, month-end reconciliations did not highlight the item on a timely basis. Management is currently determining proper disposition of the item and is strenghtening reconciliation procedures.

- While not material to the overall year-to-date CIO P&L, we noted some calculation errors in the VCG price testing for September month-end. We identified 6 errors, resulting in net under-reserving of $386,000. Management is currently in the process of adjusting the entries and implementing additional controls over the review of calculation results.

Status

Management has agreed with the audit findings and is implementing corrective actions. No further response is necessary.

Business Details

Level 1: Chief Investment Office
Business Executive: Ina Drew

Level 2: CIO
Business Executive: Achilles O Macris, Joseph S. Bonocore

Permanent Subcommittee on Investigations
EXHIBIT #5

Location: New York, New York, US
Business Executive: Javier X Martin-Artajo, Phil Lewis, Roger X Kibble-White

Audit Details
Management Team Member: Hatzopoulos, Alexander X
Audit Manager: William K McManus
Auditor In Charge: Sally Russell

Detailed Findings and Management Action Plans

Issue: Suspense Item

The September month end balance on a reserve account (with a debit balance of $24.9 million) included a $ 500k debit which appears to have been outstanding since April 2007. This had been identified at August month end by CIO and is under investigation by Finance and Middle Office to determine disposition, including write-off if necessary. This item arose when an unrelated brokerage adjustment item posted in May was erroneously matched as a reversal of the April month end P&L adjustment for late trades executed after end of day. The month end reconciliation process had failed to identify the error.

Management should continue their investigation and strengthen their reconciliation procedures over this account

Action Plan

CIO agrees with the point raised and the accompanying recommendation. As stated, CIO was aware of the issue and we have already acted to strengthen our processes around this reconciliation. Specifically, pricing adjustments and trade related adjustments (for example late trades) are now recorded in separate PYRAMID books and reconciled discretely. Pricing reserves are also specifically substantiated against Pricing Testing results.

Target Date: 12/31/07
Issue Owner: Roger X Kibble-White

Issue: VCG Calculation Errors

While not material to the overall year-to-date CIO P&L, we noted some calculation errors in the VCG price testing calculation for September month end. We identified 6 errors, resulting in net under-reserving of $386k. Details have been provided to Management. While controls over reviewing more material differences are operating effectively, VCG should enhance their current procedures for validating final price testing calculations.

Action Plan

By nature VCG process for Credit Price testing is a manual operation pulling together large amounts of information from multiple sources. Whie the errors recorded were small the size of positions in certain strategies multiplies the effect. To avoid similar mistakes going forward CIO has instigated extra controls, including separately recording all prices received in "soft copy" from brokers, dealers etc, a review of the calculations and prices used by other members of the group and CIO has moved to running the process weekly to provide on-going feedback and identify potential issues prior to month end.

CIO has also identified new sources of prices for a number of strategies where there had previously been difficulty in sourcing information.

Target Date: 12/31/2007
Issue Owner: Phil Lewis

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– End Report –

ummary of Positions by Type

lotional USD Factorec	Date						
ype	2011-01-03	2011-03-31	2011-06-30	2011-09-30	2011-12-30	2012-03-30	2012-06-29
DS_INDEX	-14,212,090,532	18,981,099,123	44,978,685,306	17,869,281,012	17,803,320,690	99,809,214,335	-15,922,982,448
DS_SINGLE_NAME					-	-	835,252,534
DS_TRANCHE	10,212,156,745	-4,820,952,252	-3,021,344,404	26,371,449,362	33,283,389,737	57,269,099,390	54,604,244,782
rand Total	**-3,999,933,787**	**14,160,146,870**	**41,957,340,902**	**44,240,730,375**	**51,086,710,428**	**157,078,313,725**	**39,516,514,867**

Summary of Positions by Type and Series

Notional USD Factored		Date						
Type	Product Series	2011-01-03	2011-03-31	2011-06-30	2011-09-30	2011-12-30	2012-03-30	2012-06-29
DS_INDEX	CDX.NA.HY	-15,872,894,000	-1,014,951,500	11,932,826,500	3,114,116,500	-4,246,185,000	-22,047,733,000	-29,913,674,000
	CDX.NA.IG	-17,589,506,395	-12,051,602,395	-14,121,147,995	-29,177,517,995	-9,947,825,995	62,123,218,005	14,169,226,005
	CDX.NA.IG.HVOL	-0	-0	-	-	-	-	
	CDX.NA.XO	-	-	-	-	-	-	
	ITRAXX.EUR.FINSEN	-0	-70,952,480	-155,864,191	26,866,987	0	73,240,757	-0
	ITRAXX.EUR.FINSUB	-613,097,189	-1,197,677,867	-1,861,670,893	-1,488,431,075	-2,328,273,666	-2,114,660,403	-3,102,705,254
	ITRAXX.EUR.HIVOL	0	0	-	-	-	-	-
	ITRAXX.EUR.MAIN	24,385,425,805	37,478,656,786	51,872,468,296	48,309,323,652	40,740,245,026	71,774,454,424	10,428,139,571
	ITRAXX.EUR.SOVXWE	-	-	-	-	-	46,665,000	-
	ITRAXX.EUR.XOVER	-19,905,753	73,790,579	-1,421,626,410	-1,682,545,056	-5,215,875,674	-8,880,974,448	-6,338,972,770
	LCDX.NA	-4,502,113,000	-4,236,164,000	-1,266,300,000	-1,232,532,000	-1,198,764,000	-1,164,996,000	-1,164,996,000
DS_INDEX Total		**-14,212,090,532**	**18,981,099,123**	**44,978,685,306**	**17,869,281,012**	**17,803,320,690**	**99,809,214,335**	**-15,922,982,448**
DS_SINGLE_NAME						-	-	835,252,534
DS_SINGLE_NAME Total						**-**	**-**	**835,252,534**
DS_TRANCHE	CDX.NA.HY	9,367,799,720	8,118,656,644	10,394,268,290	13,177,165,794	12,369,757,169	14,308,175,567	15,204,533,082
	CDX.NA.IG	-10,810,447,157	-19,648,039,614	-13,545,590,864	-5,911,554,006	-5,380,701,943	-7,356,130,485	-9,000,333,231
	ITRAXX.EUR.MAIN	8,354,776,253	3,325,954,275	-3,111,788,697	15,957,364,778	23,239,155,826	47,355,169,732	45,438,160,356
	LCDX.NA	3,300,027,930	3,382,476,443	3,241,766,867	3,148,472,796	3,055,178,686	2,961,884,575	2,961,884,575
DS_TRANCHE Total		**10,212,156,745**	**-4,820,952,252**	**-3,021,344,404**	**26,371,449,362**	**33,283,389,737**	**57,269,099,390**	**54,604,244,782**
Grand Total		**-3,999,933,787**	**14,160,146,870**	**41,957,340,902**	**44,240,730,375**	**51,086,710,428**	**157,078,313,725**	**39,516,514,867**

Permanent Subcommittee on Investigations
EXHIBIT #6

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Tue, 10 Jan 2012 17:05:41 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject: Re: International Credit Consolidated P&L 09-Jan-2012

Let's review the unwind plan to maximize p l. We may have a tad more room on rwa. Pls schedule asap.

From: Martin-Artajo, Javier X
To: Drew, Ina
Cc: Macris, Achilles O
Sent: Tue Jan 10 12:01:01 2012
Subject: RE: International Credit Consolidated P&L 09-Jan-2012

Total reserve is 30 MM . I do not think that we will have a release for sometime unless we get an opportunity . Bruno has been unwiding some of these postions opportunisticly . 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 .

From: Drew, Ina
Sent: 10 January 2012 16:17
To: Martin-Artajo, Javier X
Cc: Macris, Achilles O
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 O
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 iliquidity of the credit derivatives book . In a way it is a reserve release for iliquid indexes .

From: Drew, Ina
Sent: 09 January 2012 21:25
To: Martin-Artajo, Javier X
Cc: Macris, Achilles O
Subject: FW: International Credit Consolidated P&L 09-Jan-2012

The management line is?? Thanks.

From: Munjayi, Tendai

Sent: Monday, January 09, 2012 3:58 PM
To: EOD Credit estimate
Cc: CIO P&L Team
Subject: International Credit Consolidated P&L 09-Jan-2012

MTM Credit P&L as at 09/01/2012			
			USD 000's
		Daily Est.	MTD
Strategic	Redacted By Permanent Subcommittee on Investigations		
Tactical	Core Tactical	-1,824	-3,306
	Tactical 2	0	31
	Credit Single Names	35	161
Total Core		-4,329	-30,811
Investments	Redacted By Permanent Subcommittee on Investigations		
Total Investments			
Management			
Total International Credit:		-4,068	-7,740

TRR Credit P&L as at 09/01/2012			
			USD 000's
		Daily Est.	MTD
Strategic	Redacted By Permanent Subcommittee on Investigations		

Redacted By

Permanent Subcommittee on Investigations

Tactical	Tactical 1	-1,824	-3,306
	Tactical 2	0	31
	Credit Single Names	35	161
Total Core		-4,329	-30,811
Investments			

Redacted By

Permanent Subcommittee on Investigations

Total Investments			
Management		0	20,772
Total International Credit:		-4,068	-7,740

CREDIT MARKET COMMENTARY

Synthetic Credit

Another day with very little realized volatility, and a bit more weakness, coming from European bank equities (Italian banks such as Unicredito), pushing single names, then FINSEN then iTraxx.Main index wider. Overall levels of spreads remain very high, relatively to the recent move in convexity instruments - credit volatility was once more very much for sale, especially in Europe (-3pt in iTraxx. Main ATM March), and longer date mezzanine tranches are decently tighter too. US credit was wider - consolidating a bit after the recent outperformance given the good numbers for the US economy. Our iTraxx positions are getting hurt mostly due to the long overlay, and the compression between iTraxx.Main and iTraxx.Xover. In CDX.IG super senior tranches are catching a bid - causing mezzanine tranches to tighten, hurting our positioning in this complex. In CDX.HY short dated off the run index are decently outperforming today, causing HY curves to steepen - we are also benefiting from higher mezzanine tranches across the board.

Redacted By

Permanent Subcommittee on Investigations

Many Thanks and Kind Regards

Tendai,

Tendai Munjayi
Chief Investment Office
JP Morgan Chase & Co.
100 Wood St, London EC2V 7AN
Tel ☎ +44 (0) 207 777 9424
Email ✉ tendai.munjayi@jpmorgan.com

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Wed, 18 Jan 2012 15:58:26 GMT
: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: Meeting materials for 11am meeting
Importance: High

From: Perryman, Andrew X
Sent: 18 January 2012 15:57
To: Serpico, Gina
Cc: Iksil, Bruno M; Martin-Artajo, Javier X; Macris, Achilles O; Hagan, Patrick S
Subject: Meeting materials for 11am meeting
Importance: High

Hi Gina,
Please find attached a copy of the meeting materials for Ina's 3pm meeting with Javier, Achilles and Bruno. Any questions please do not hesitate to give me a call.

Kind regards,
Andy

Andrew Perryman | JPMorgan | Chief Investment Office | 100 Wood Street, 6th Floor, London, EC2V 7AN | ☎ Direct: +44 20 7777 1070 | Blackberry: [redacted] | ✉ andrew.perryman@jpmorgan.com

▬▬ = **Redacted by the Permanent Subcommittee on Investigations**

EXCERPT

J.P.Morgan

CORE CREDIT BOOK HIGHLIGHTS

Bruno Iksil

January 2012

Core Credit Book – Current RWA Summary

- The table below is the CIO International desk model's Core Credit Book RWA summary (Strategic + Tactical)
- As of COB 16th January 2012 the CIO calculated Core Credit Book RWA was USD20.9bln
- This compares to average USD40.3bln RWA for December 2011 provided by QR

Core Credit	CIO Calc 99Var	CIO Calc Capital	CIO Calc RWA	QR Reported RWA (December Average)
HistVar	86,566,113	273,746,085	3,421,826,066	5,431,270,000
StressVar	189,476,958	599,178,751	7,489,734,393	17,557,570,000
CRM	802,991,095	802,991,095	10,037,388,685	18,274,000,000*
Total		1,675,915,931	**20,948,949,143**	41,262,840,000

*Average CRM for Q4 provided

Core Credit	CIO Calc 95Var
HistVar	69,252,890
StressVar	166,360,769

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Credit book highlights

3 blocks of forward spread exposure

- **Main ITraxx S9:** 20% book RWA – gross notional: USD90bln - estimated carry: USD100mm
- **CDX IG9:** 35% book RWA – gross notional: USD278bln - estimated carry: USD200mm
- **CDX HY10 and 11:** 45% book RWA – gross notional: USD115bln - estimated carry: USD10mm

Main P&L components

- 35% reduction cost USD590mm (not a worst case but based on today's market depth)
  - -USD130mm Main
  - -USD250mm CDX IG
  - -USD210mm CDX HY
- Expected carry over the year with regular reduction : USD300mm – 500mm
- Remaining optionality: USD200-300mm on defaults
- Potential drawdown: USD100-200mm in US HY

Expiration schedule :

- **Main ITraxx S9:** June 2013 (50% position)
- **CDX IG9:** Dec 2012 (40% position)
- **CDX HY10 and 11:** Jun 2012 and Dec 2012: (30% position)

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Thu, 19 Jan 2012 14:01:52 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>
CC: Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>
Subject: Credit book Decision Table - Scenario clarification

Ina ,

as a follow up from yesterdays conversation regarding the tranche book I would like to further clarify the different scenarios and assumptions for each of them .

The first scenario is the one discussed when you were in London an is a scenario that we reduce our book to the agreed target at year end 2012 of 20.5 Bln but the current model used by QR remains . This would need the path of reduction to be to reduce the RWA using a strategy that postions the book for maximum carry and would have high trading costs and a higher risk profile so that we could have also a large drawdown .

The second scenario or Central Scenario discussed with you and John Wilmot is a scenario that we meet the year end target by opportunistically reducing the necessary legs and optimization is used following the current QR model guidelines and assumes that we get a reduction on the cost of capital using the new VAR .

The third scenario is posible if we get the new model but we do not get diversification and we would reconsider .

The fourth scenario is our Target scenario and the one we are hoping to implement again by midyear .

Let me know if you want to further discuss .

Best regards

Javier

Permanent Subcommittee on Investigations
EXHIBIT #9

Credit book Decision Table in "no diversification" assumption

Model	QR model prevails	QR model prevails	CIO model prevails	CIO model prevails
Scenarios and perceived feasibility as of today	REDUCTION (as discussed at 7th December 2011 meeting London and follow up on Xmas)	CENTRAL SCENARIO (possible with data from QR as discussed with John Wilmot)	Possible if approved by QR	TARGET SCENARIO (to be confirmed once approved by QR)
Model applied and diversification	QR Model no diversification	QR Model no diversification	CIO Model no diversification	CIO Model no diversification
Data?	No detailed data	Data updates through the year	Data available	Data available
Reduction in RWA	RWA reduced from USD 43 Bln to USD 20 Bln	RWA reduced from USD 43 Bln to USD 20 Bln	RWA reduced from USD 21 Bln to USD 15 Bln	RWA reduced from USD 21Bln to USD 20 Bln
RWA target EOY (undiversified)	USD 20 Bln	USD 20 Bln	USD 15 Bln	USD 20 Bln
Estimated Diversified RWA	USD 20 Bln	USD 20 Bln	USD 15 Bln	USD 7.5 Bln
Risk management	Systematic reduction of the largest legs across the book Unwind of existing trades across the board	Opportunistic reduction of the critical legs identified from marginals Buying protection on IG9 10yr, MAIN S9, HY10 7yr	Active risk reduction of the critical legs with regards to RWA marginals Buying protection on IG9 10yr, MAIN S9, HY10 7yr	Opportunistic risk reduction and optimization towards upside in stress Roll the protection on short tern tenors expiring
Trading cost	USD 590mm	USD 250mm	USD 100mm	USD 100mm
Carry	USD 400-500mm	USD 200mm	USD 200mm	USD 50mm
Optionality	USD 0-50mm	USD 50-150mm	USD 0-50mm	USD 0-300mm
P&L range	USD -150mm to USD -50mm	USD -50mm to 100mm	USD 50mm to USD 150mm	USD -50mm to USD -250mm
Drawdown needed	USD 300mm	USD 200mm	USD 150mm	USD 100mm

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From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Thu, 26 Jan 2012 09:11:17 GMT
: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: credit book last version

From: Iksil, Bruno M.
Sent: 26 January 2012 08:31
To: Perryman, Andrew X
Subject: credit book last version

latest version for ismg.. for ur record

EXCERPT

J.P.Morgan

CORE CREDIT BOOK HIGHLIGHTS

Bruno Iksil

January 2012

STRICTLY PRIVATE AND CONFIDENTIAL

Credit book executive summary

1-The credit book has a YTD P&L -100MUSD and conveys a further 300M USD drawdown

- **Where the YTD loss coming from?**
  - **Short risk HY exposure (-50M USD) + off the run vs on the run basis (-200MUSD)**
- **What would generate the drawdown ?**
  - Further distorsion on forward spreads : -200M USD
  - Rally in US HY and defaults at the same time (as Eastman Kodak this year) : -200M USD
- **Which trades were done so far this year ? :** sold protection in Itraxx main-xover and CDX IG (no US HY)
- Offsetting gains to the loss : new trades (+110MUSD) and carry (+40MUSD)

2- the trades that make sense

- The trade that makes sense : sell the forward spread and buy protection on the tightening move
  - Use indices and add to existing position
  - Go long risk on some belly tranches especially where defaults may realize
  - Buy protection on HY and Xover in rallies and turn the position over to monetize volatility
- Start with a long risk bias and use the equity tranches on tighter spreads to optimize upside on stress.

3- Profile of the book and main scenario considered :

- The book is long vega short gamma (like tactical but 15-20 time larger) : daily carry +2M
- Main scenario is spread tightening : we add gamma via flatteners and sell protection
- The plan : buy protection on the way to tighter spreads

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Credit book Risk Profile

1-The credit book conveys upside on defaults in IG and a decompression trade HY vs IG

- **We are both long risk on forward spreads and carry Jump to default upside in itraxx Main S9 and CDX IG9**
- **The long risk overlay in series 9 is mostly hedging short risk in US HY and Itraxx Xover**
- **We also carry a "spread basis" risk between series 9 in IG versus on the runs IG indices**

2- The main P&L drivers

- The forward spreads in series 9 IG, in particular in Equity tranches :
  - 10M$ per Bp in Main itraxx S9
  - 20M$ per Bp in CDX IG9
- The Hy10-HY11 2yr into 2yr forward spread (via equity tranche) versus the HY14 5yr (3yr) : 1-2M$ per Bp
- A compression trade : US HY vs US IG (3.5M$ per BP), itraxx Xover vs itraxx Main (1.25M$ per BP)

3- The current strategy :

- We receive forward spreads in IG series 9 and HY series 10-11 versus on the run spreads
- We hedge the downside in HY defaults with an overlay short risk in HY on the runs
- We position for cheap upside on Jump to default in high grade space within a RWA reduction plan

Credit book P&L story Q4 2011 till today

1-Where does the loss and potential drawdown come from?

- The book started the year short risk long vega : spreads tightened 20% across the board (IG-25Bp HY-125Bps)
  - Estimated loss on pure spread tightening & HY to IG compression = 50M USD*
  - S9/IG9 forward spread vs on the run = 100M* USD (5bp)*
  - HY off the run lagging on the runs (EK) = 100M USD* (65bps)*
- Which is current loss , which is further drawdown
  - Current loss shows the spread rally mitigated by new trades : -100M USD
  - Most of the drawdown will come from basis risk from Off the runs series where we have longs versus on the run series where we have shorts

2- What triggered this loss : position unwinds and book rebalancing ?

- In Q4 2011 : we sold out some of the biggest exposure to reduce RWA
  - Sold HY8 to Hy11 indices to reduce longs : 10 bln (60% of the long)
  - Bought back 0-3 5x10 in ig9 and s9 : total 400m (10-15% of the position)
  - Sold protection on super-senior IG and sold risk in HY on the runs to cover hy11 3yr expiry
- Markets were in high stress level and we had to keep P&L in check, thus stay short risk long vega

3- What was done this year so far? :

- Sold protection across the board : 10Bln main, 10bln IG versus short risk 7Bln US HY
- Added flatteners : 5bln S9, 10bln ig9 to maintain the upside on defaults.

Credit book trades that makes sense…

1-Sell protection across the IG board – buy protection in HY

- Stress levels in Europe should recede similarly to Q3-Q4 2008 between Bear stearns and Lehman
  - The LTRO plus potential coming collateral criteria changes will help stabilization
  - Unicredit "successful" recap provides a temporary "floor" to bank tangible equity
  - Market players were deeply shaken and started the year very defensively
- IG credit spreads have been plagued by financial stress
  - the memory of 2008 has triggered a deep rooted sell off in financials
  - Yet US banks and some european banks have made genuine efforts to clean their exposure

2- add flatteners in IG and HY on a large credit rally

- The deleveraging process will not stop ;
  - Rates are very low but credit spreads are explosive
  - Banks will tier out the weak lenders in a low potential growth environment
  - HY and Xover names are the most vulnerable if growth does not pick up while rates stay low
- The long risk exposure and the flatteners should provide a low level of RWA versus the upside on credit events

3- Use belly tranches on wide spreads and equity tranches on tight spreads

- Go long risk belly tranches when spreads are wide and about to collapse
- Go long risk equity tranches when spreads are tight, stable and about to become volatile

Credit book profile change proposed and main scenario...

1-The credit book has still a long vega, short gamma profile

- **Current carry is +2M, VAR, 60-70MUSD dly, net short risk of +200MUSD in 50% spread widening**
- **Central scenario :**
  - Spreads tighten another 50%, curve barely moves
  - The book started the year long vega, short risk and suffered as risk aversion receded fast.
- **What the plan is short term:** sell more protection especially in Xover and HY to maintain RWA under check and neutralize the +/- 50% Credit spread moves scenarios

2- The target risk profile

- The book will step into positive gamma- long risk profile
  - The upside on default will be reduced due to the long risk but remains elevated thanks to the flatteners
  - The carry will be maintained on a constant spread basis but will diminish with spreads tightening
  - Larger shorts will remain in Xover and HY names

3- Adverse scenarios and possible drawdowns

- Defaults show in series where we are long risk (HY10-HY11) and not in others : this can cost 200m upfront
- The curves steepen and spreads do not tighten : this can cost another 300M.

Credit book profile P&L summary table

Compression effect		Relative Compression	Bp Value
CDX HY S17 05Y	-134	-27	3.5M USD
CDX IG S17 05Y	-22		BP value
ITRAXX XO S16 05Y	-130	6	1.25M USD
ITRAXX MN S16 05Y	-25		

Fwd Evolution (Idx)		Relative performance of fwd vs OTR	
CDX IG S17 05Y	-22		
CDX IG S15 05Y	-28		
CDX IG S14 05Y	-31		
CDX IG S14+S15 05Y	-30		BP Value
CDX IG S09 5X5	-23	6	20M USD
ITRAXX MN S16 05Y	-25		
ITRAXX MN S15 05Y	-28		BP Value
ITRAXX MN S09 5X5	-27	1	10M USD
CDX HY S17 05Y	-134		BP Value
CDX HY S10 5X7	-70	64	1M USD

Fwd Evolution (ITranches)			
ITRAXX MN S09 05Y 00-03	-0.44		
ITRAXX MN S09 10Y 00-03	1.26	1.70	
CDX IG S09 05Y 00-03	-1.16		
CDX IG S09 10Y 00-03	0.07	1.23	
CDX HY S08 05Y 10-15	-5.36		EASTMAN KODAK
CDX HY S09 05Y 10-15	-7.12		EASTMAN KODAK
CDX HY S08+S09 05Y 10-15	-6.24		EASTMAN KODAK
CDX HY S10 07Y 10-15	-6.46	-0.22	EASTMAN KODAK

RV

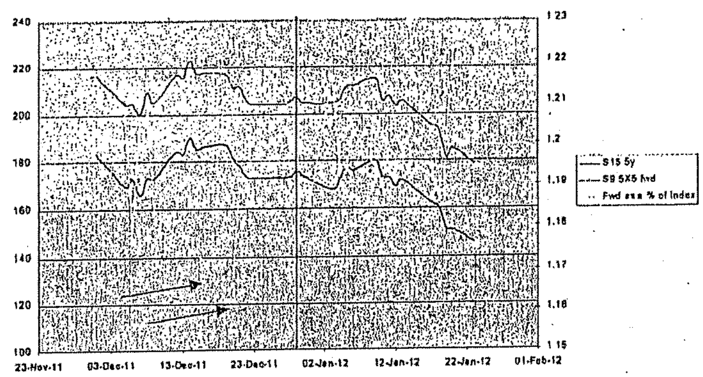
	iTraxx	CDX.IG	CDX.HY
Carry	10.0	20.0	10.0
New Trades PnL	70.3	110.4	-46.1
Directionality	-13.5		26.8
Compression	7.6	-93.6	
Forward Underperformance	-13.9	-125.4	-64.0
	Europe	USA	
Total	60.5	-161.8	

SKEW 5YR (as of 25/01 close)	
ITRAXX.IG	-7.0
ITRAXX.XO	-14.7
ITRAXX.HV	-11.2
ITRAXX.FINSNR	-5.9
ITRAXX.FINSUB	-17.2
ITRAXX.SOVX.WE	-11.1
CDX.IG	-8.1
CDX.HY	1.6

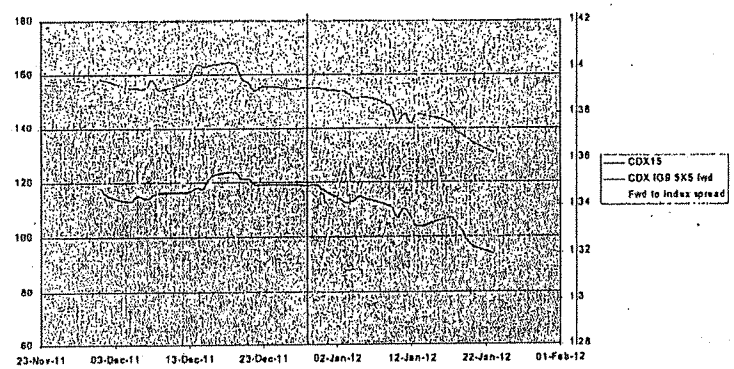
Skew as of Dec30,11 CLOSE	
ITRAXX.IG	-9.3
ITRAXX.XO	-5.3
ITRAXX.HV	-7.2
ITRAXX.FINSNR	-11.0
ITRAXX.FINSUB	-21.6
ITRAXX.SOVX.WE	-3.2
CDX.IG	-9.8
CDX.HY	0.2

Credit book profile P&L Charts

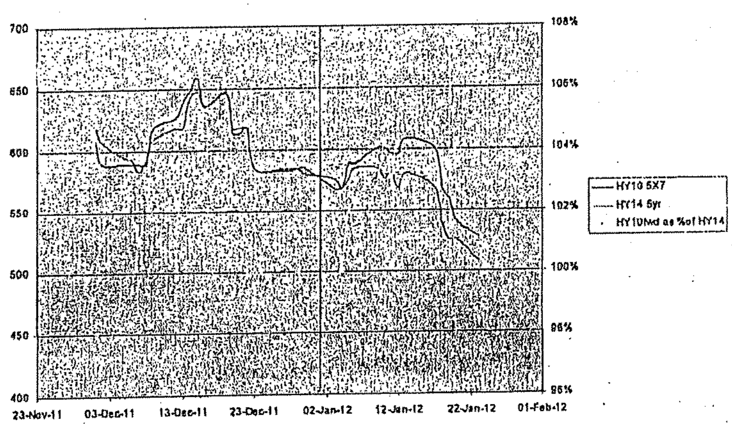
Itraxx spread history



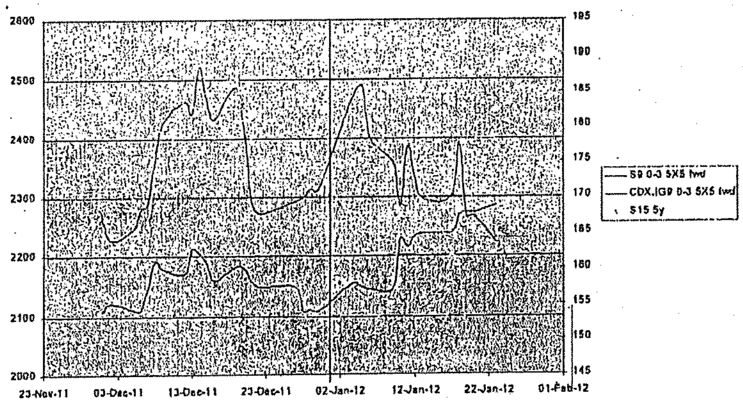
CDX IG spread history



US HY spread history



Equity tranche fwds versus index



Core Credit Book – Current RWA Summary

- The table below is the CIO International desk model's Core Credit Book RWA summary (Strategic + Tactical)
- As of COB 16th January 2012 the CIO calculated Core Credit Book RWA was USD20.9bln
- This compares to average USD43bln RWA for December 2011 provided by QR

Core Credit	CIO Calc 99Var	CIO Calc Capital	CIO Calc RWA	QR Reported RWA (December Average)
HistVar	86,566,113	273,746,085	3,421,826,066	5,431,270,000
StressVar	189,476,958	599,178,751	7,489,734,393	17,557,570,000
CRM	802,991,095	802,991,095	10,037,388,685	18,274,000,000*
Total		1,675,915,931	**20,948,949,143**	41,262,840,000

*Average CRM for Q4 provided

Core Credit	CIO Calc 95Var
HistVar	69,252,890
StressVar	166,360,769

Decision Table

Model	QR model prevails	QR model prevails	CIO model prevails	CIO model prevails
Scenarios and perceived feasibility as of today	REDUCTION (as discussed at 7th December 2011 meeting London and follow up on Xmas)	CENTRAL SCENARIO (possible with data from QR as discussed with John Wilmot)	Possible if approved by QR	TARGET SCENARIO (to be confirmed once approved by QR)
Model applied and diversification	QR Model no diversification	QR Model no diversification	CIO Model no diversification	CIO Model no diversification
Data?	No detailed data	Data updates through the year	Data available	Data available
Reduction in RWA	RWA reduced from USD 43 Bln to USD 20 Bln	RWA reduced from USD 43 Bln to USD 20 Bln	RWA reduced from USD 21 Bln to USD 15 Bln	RWA reduced from USD 21Bln to USD 20 Bln
RWA target EOY (undiversified)	USD 20 Bln	USD 20 Bln	USD 15 Bln	USD 20 Bln
Estimated Diversified RWA	USD 20 Bln	USD 20 Bln	USD 15 Bln	USD 7.5 Bln
Risk management	Systematic reduction of the largest legs across the book Unwind of existing trades across the board	Opportunistic reduction of the critical legs identified from marginals Buying protection on IG9 10yr, MAIN S9, HY10 7yr	Active risk reduction of the critical legs with regards to RWA marginals Buying protection on IG9 10yr, MAIN S9, HY10 7yr	Opportunistic risk reduction and optimization towards upside in stress Roll the protection on short term tenors expiring
Trading cost	USD 590mm	USD 250mm	USD 100mm	USD 100mm
Carry	USD 400-500mm	USD 200mm	USD 200mm	USD 50mm
Optionality	USD 0-50mm	USD 50-150mm	USD 0-50mm	USD 0-300mm
P&L range	USD -150mm to USD -50mm	USD -50mm to 100mm	USD 50mm to USD 150mm	USD -50mm to USD 250mm
Drawdown needed	USD 300mm	USD 200mm	USD 150mm	USD 100mm

Credit book highlights

3 blocks of forward spread exposure

- **Main ITraxx S9:** 20% book RWA – gross notional: USD90bln - estimated carry: USD100mm
- **CDX IG9:** 35% book RWA – gross notional: USD278bln - estimated carry: USD200mm
- **CDX HY10 and 11:** 45% book RWA – gross notional: USD115bln - estimated carry: USD10mm

Main P&L components

- 35% crude reduction cost USD590mm (in case we get no detail from QR computation)
  - -USD130mm Main
  - -USD250mm CDX IG
  - -USD210mm CDX HY
- Expected carry over the year with regular reduction : USD300mm – 500mm
- Remaining optionality: USD200-300mm on defaults
- Potential drawdown: USD100-200mm in US HY

Expiration schedule :

- **Main ITraxx S9:** June 2013 (50% position)
- **CDX IG9:** Dec 2012 (40% position)
- **CDX HY10 and 11:** Jun 2012 and Dec 2012: (30% position)

Credit book possible paths

QR method prevails : target RWA 20Bln

- **Path 1 : QR provides regular and detailed data about CRM-stress var and var scenarios:**
  - Active and opportunistic reduction necessary : trading cost estimated to be 250M USD
  - Estimated carry accrued over the year 200MUSD
  - Potential gains from remaining convexity : 50-150M USD
  - **P&L range : -50MUSD to +100M USD**

- Path2 : QR does not update (2011 scenario) : <u>Central scenario so far</u>
  - **Systematic reduction necessary : estimated reduction cost 590M USD**
  - **Estimated carry accrued over the year 400-500M USD**
  - **Potential gains from remaining convexity : 50M USD**
  - **P&L range : -150MUSD to -50M USD**

- Path 3 : **QR grants diversification in VAR-STRESS VAR_ CRM**
  - P&L range to be defined
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 200-300M USD

J.P.Morgan

Credit book possible paths 2

CIO method prevails : target RWA 20Bln

- **Path 1 : 15 Bln RWA target no optionality targeted: the books expires naturally**
  - Risk management and trading costs : 100M USD
  - Estimated carry accrued over the year 200MUSD
  - Potential gains from remaining convexity : 0-50M USD
  - P&L range : 100M-150M USD
- **Path2 : 20 Bln RWA Jump optionality : the book is actively managed**
  - Risk management and trading cost 100M USD
  - Estimated carry accrued over the year 50M USD
  - Potential gains from convexity : 0-250M USD
  - P&L range : -50MUSD to 200MUSD
- **Path 3 : Diversification granted**
  - P&L range to be defined
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 300-500M USD

Credit book possible paths 3

Possible risk management options as the book options for upside on Jump-to-default expire :

- **Path 1 : the risks are neutralized and the book accrues the remaining carry**
  - We buy protection on long term tenors where we have long risk exposures
  - Ideal scenario if forward credit spreads compress
  - The cost will be very low on a bull market.
  - Target positions IG9 10yr, Main Itraxx 10yr, HY10 7yr, HY11 7yr
- **Path2 : The upside on jump to default events is maintained the book is not reduced**
  - We roll over the jump upside by adding flatteners on low spreads
  - We lock a good positive carry by selling the forward credit spreads on wide spreads
  - The cost can be limited but this requires some increase in notionals
  - Target trades : flatteners on mezzanine tranches, flatteners on indices, directional trading on on-the-run indices
- **Path 3 : Diversification granted**
  - With data : the book can be scaled according to stress scenarios
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 300-500M USD or more..

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 30 Jan 2012 18:07:48 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: RE: update on core credit book

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yes. Are you available now?

From: Martin-Artajo, Javier X
Sent: 30 January 2012 18:05
To: Iksil, Bruno M
Subject: Re: update on core credit book

Let's discuss when you have a second . Can you call me on my mobile ?

From: Iksil, Bruno M
Sent: Monday, January 30, 2012 04:41 PM
To: Martin-Artajo, Javier X
Cc: Grout, Julien G
Subject: update on core credit book

We have to report a loss in the widening today, much less because the book has a long 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 foward 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 to consensus. At the current stage, we still have the long risk in forwaed 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.

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 30 Jan 2012 17:28:21 GMT
To: Buraya, Luis C <luis.c.buraya@jpmorgan.com>; De Sangues, Eric <eric.de.sangues@jpmorgan.com>
Subject: FW: update on core credit book

From: Iksil, Bruno M
Sent: 30 January 2012 16:42
To: Martin-Artajo, Javier X
Cc: Grout, Julien G
Subject: update on core credit book

We have to report a loss in the widening today, much less because the book has a long 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 foward 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 to consensus. At the current stage, we still have the long risk in forwaed 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

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Tue, 31 Jan 2012 12:36:28 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: hello, quick update in core credit...

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ok they keep playing games in itraxx now. I will show up for small in the hope we can limit the pain.

as to IG9, things look much better. not that we are imune but we can show that we are not at mids but on realistic level.

I wait for Hy and will keep you in the loop when I have a final number.

I went I to ISMG and advised that we set the book for long risk carry the time for us to see whether we really need to fight in mars.

It will be time then : I just reminded the episode of 09 when I feared the drawdown and I ended up with the right position but not the right timing.

I hope I did right.

Let me know your thoughts.

Regards

Bruno

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EXHIBIT #13

From: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Sent: Tue, 31 Jan 2012 13:42:51 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>
Subject: Core book p&l drawdown and main exposures

FYI -- further to our discussion, please see my comments to Javier below:

-----Original Message-----
From: Martin-Artajo, Javier X
Sent: 31 January 2012 12:44
To: macris@[redacted] Macris, Achilles O
Subject: Re: Core book p&l drawdown and main exposures

Achilles ,
The meetings so far are positive with respect to VAR , good for Stress Var and not clear for CRM . Been working on the presentation for today this morning . I am in a meeting with Risk now and with QR in 45 minutes . Then Ina and Hogan briefly . The process here in NY is complicated because Market Risk needs to coordinate with the guys that talk to the regulators on a very regular basis .

So we are going to see a further reduction of the Var of at least 15%in the next 3-4 weeks . Now I am working on the CRM with QR. Then to see Adam Gilbert on the regulatory side .

▬ = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: macris@[redacted]
Sent: Tuesday, January 31, 2012 07:58 AM
To: Martin-Artajo, Javier X
Cc: Iksil, Bruno M; Stephan, Keith; Kalimtgis, Evan
Subject: FW: Core book p&l drawdown and main exposures

Hi Javier,

How is it going in NY?
Are you dialling into ISMG?
We need to discuss the synthetic book.

The current strategy doesn't seem to work-out.
The intention was to be more bullish, but the book doesn't behave as intended.

Taking into account the conservative year-end marks and the January positive carry, the financial
Performance is worrisome.
I think that we need to urgently revaluate the core position in bearish steepeners and the associated maximum drawdown's.
The "timing" issues on the older series are somewhat predictable, and the

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second order p&l discrepancies should be viewed differently from the core position.

Thanks,
A

----- Original Message -----
From: Iksil Bruno [mailto:[redacted]
Sent: Tuesday, January 31, 2012 06:28 AM
To: Iksil, Bruno M
Subject: Core book p&l drawdown and main exposures

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The book currently conveys a short risk exposure in us hy and a long risk exposure in ig indices series 9 (both CDx and itraxx). This exposure balances the jump to default risk of the book : we would lose money now on a default in us hy and make money if the default occurs in ig world. One can summarize the net exposure as : the book has a bullish flatteners in ig and a bearish steepeners in us hy.

Since the start of the year, the book loses money on the short in hy and makes money overall in ig as expected. Now, the loss in hy is higher than expected because of equity tranches moves (linked to Kodak default). The gain in ig is lower than expected due to the lag in series forward spreads.

The drawdown in p&l is large because the notionals are large and the trade on forward spreads involve many legs all of which incurs a loss. The drawdown is sudden because the spreads have squeezed but capital has not come back to the markets yet. The skews and the basis remain large while the spreads have tightened 20% ytd.

Why does it impact the book ?
The book used the forward spreads (a net long risk exposure) to buy protection on defaults short term and buy some upside on large spread widening. This worked very well last year.
Now January is very bullish and the street owns the protection we sold on the forwards. Towards month end the spread on series 9 remains sticky and tends to widen more than the rest especially the on-the-run indices where the book still has short risk overlay. So the book is squeezed on both ends and we saw this pattern from the first days of the year. It did not really correct since then. This explains why the ig part of the book does not perform as expected.

The book is also hurt on the hy leg and this is linked to the unwinds from last year : I sold out some longs in hy8-9-10-11 series. The street was caught long risk in the on the run indices ie hy14-15-16-17 when AMR filed : they entered flatteners by selling what I was selling in order to limit the losses. In this rally, with Kodak filing for chapter 11, they have sponsored their own position at the expense of the book. No one can tell what will happen after Kodak is removed rom the indices because the recovery is quite low already (73%). The on the runs indices have rallied a lot since December catching up with the equity market. The book has lagged the rally on its longs via equity tranches but would catch up if there isn't any default in us hy over the next 3-6 months (in hy10-11 series).

Yesterday and today most likely, no matter what the market will do, the series 9 forwards will underperform and for hy I expect some framing too. Yet here this is broad based. I tried to fight it in the last sessions and it was unsuccessful.

If you have time I will send you a memo that describes the technicals of the market positioning in ig world. Let me know if you care to read it.

Best regards

Bruno Iksil

From: Achilles Macris <macris@[redacted]

Sent: Thu, 01 Mar 2012 11:10:42 GMT

To: 'Martin-Artajo, Javier X' <javier.x.martin-artajo@jpmorgan.com>

Subject: priorities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Hey Javier,

Here are some thoughts:

- Focus on the metrics and P+L of the synthetic book. I am worried that the $20b RWA committed be year-end, is too aggressive. If we need to

Actually reduce the book, we will not be able to defend our positions.... We need to win on the methodology and then the diversification. Hogan, doesn't not understand the book and it should be explained through Ashley etc. Let's meet Ashley soonest.

As this would be driving all things important to us, it would be important to focus on the P+L and the post methodology RWA, should be what it takes to achive the P+L.....

We need to find a low RWA spread trade for size. Something between George and Tolga. Maybe Austria or EU, and buy $15b spread with low RWA.....

OR, step-in and buy the RMBS at new tights if you think that would generate issuance....

In Credit, to focus on some MtM low hanging fruit...... to assist the B/E for Bruno etc

Thanks,

Achilles

Permanent Subcommittee on Investigations

EXHIBIT #15

From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Tue, 20 Mar 2012 19:52:02 GMT
To: CIO ESTIMATED P&L <CIO_CREDIT_P&L@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: CIO Core Credit P&L Predict [20 Mar]: -$39,686k (dly) -$275,424k (ytd)

Daily P&L: -$39,685,995
YTD P&L: -$275,424,307

Daily P&L($) YTD P&L($)

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Europe High Grade -21,802,054 32,664,651

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Redacted By
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US High Grade -20,314,624 458,833,337

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US HY & LCDX 11,562,342 -404,083,807

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US ABX / TABX -155 -20,081

Redacted By

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New Investments -10,802,807 -392,038,020

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Dead Books (Core) -85 1,377

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Washbook/Costs 0 0

[redacted]

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Explanatory P&L (in $1000s):
Name Total Dirctnl Tranche Carry IR N/T Adjust FX

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Close COD

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SOVX 0
CDX IG 83.5 -1.5
CDX HY 100 -0.063
LCDX 102

The roll period creates distortions in prices that impact us. The hit comes mostly from the rally in credit market where the series 9 both Itraxx.Main and CDX.IG lag. The book does not have enough CS01 to balance this lag : as the breakdown shows the book loses a lot of money on directional ($105M) while it is long risk in CDX.IG credit and short risk in CDX.HY and iTraxx.Xover credit. Yet, we estimate the gain on decompression as $30M in Europe and $30M in the US while the series 9 lag versus the market is of 1-2bps or $100M. The net result is a loss of $40M and we must expect more to come until investors opt to profit from the ongoing lag in those series 9.

As of today, reconstructing the CDX.IG9 10yr performance from the on the run indices and the 4 widest names in CDX.IG9 (Radian, MBIA, Istar, Sprint), the underperformance of the CDX.IG9 curves is between 6bps to 13 bps, which amount approximately to $450-500M for the sole CDX.IG9 series. iTraxx.Main S9 is also lagging by 3-4 bps or another $60-80M. Added to this the CDX.HY loss of $100M for Kodak and Rescap, plus the lag of the CDX.HY10-CDX.HY11 series versus the on-the-runs that is also $100-200M, the lag in P&L is material ($600-800M). As to the potential outperformance, it is much more a function of whether some names default and which one will default. We estimate the carry daily to be $1M while it may not show as it is stored in the ability of the forward spreads to "roll down" the curve. So far they did but at a much lower pace than the on the run indices rally : both in CDX.IG, iTraxx.Main and CDX.HY curves : in IG space, the long term forward rolled down slower than the market (i.e. short term spreads outperformed) while in CDX.HY, it is the opposite, i.e. long term spreads outperform short term spreads. This can be explained by the recovery in CDX.IG space while RESCAP and KODAK failed in CDX.HY space.

The CDX.HY bucket is now protected against any default and the cost of buying the protection is covered with selling protection in CDX.IG on the run indices. We sold more protection today in CDX.IG and iTraxx.Main in order to improve the carry and the recovery of the book looking forward.

Again, a lot of prices are still being framed and we are providing our best estimate.

From: Oaikhiena, Isi <isi.oaikhiena@jpmchase.com>
Sent: Tue, 20 Mar 2012 20:40:57 GMT
To: EOD Credit estimate <EOD_Credit_estimate@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: International Credit Consolidated P&L 20-Mar-2012

MTM Credit P&L as at 20/03/2012

		USD 000's			
		Daily Est.	MTD	QTD	YTD
Strategic	Europe High Grade	Redacted By Permanent Subcommittee on Investigations			
	US High Grade				
	US High Yield				
	US ABX and TABX				
	Europe Sub Fin				
	IR Hedges				
	New Investments				
	Total Strategic	-39,686	-41,621	-275,425	-275,425
Tactical	Core Tactical	Redacted By Permanent Subcommittee on Investigations			
	Tactical 2				
	Credit Single Names				
Total Core		-41,814	-35,852	-222,885	-222,885
Investments	MTM CLO	Redacted By Permanent Subcommittee on Investigations			
	MTM ABS				
	Investment Equity				
	ABS CDS				

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Total Investments Management		Redacted By Permanent Subcommittee on Investigations			
Total International Credit:		-41,595	-21,584	-86,205	-86,205

	TRR Credit P&L as at	20/03/2012			
		USD 000's			
		Daily Est.	MTD	QTD	YTD
Strategic	Europe High Grade	Redacted By Permanent Subcommittee on Investigations			
	US High Grade				
	US High Yield				
	US ABX and TABX				
	Europe Sub Fin				
	IR Hedges				
	New Investments				
	Total Strategic	-39,686	-41,621	-275,425	-275,425
Tactical	Tactical 1	Redacted By Permanent Subcommittee on Investigations			
	Tactical 2				
	Credit Single Names				
Total Core		-41,814	-35,852	-222,885	-222,885
Investments	MTM CLO	Redacted By Permanent Subcommittee on Investigations			
	MTM ABS				
	Investment Equity				
	ABS CDS				
	AFS ABS (TRR)				
	AFS CLO (TRR)				

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Permanent Subcommittee on Investigations

Total Investments				
Management				
Total International Credit:	**-41,595**	**-21,584**	**-86,205**	**-86,205**

CREDIT MARKET COMMENTARY

Synthetic Credit

The roll period creates distortions in prices that impact us. The hit comes mostly from the rally in credit market where the series 9 both Itraxx.Main and CDX.IG lag. The book does not have enough CS01 to balance this lag : as the breakdown shows the book loses a lot of money on directional ($105M) while it is long risk in CDX.IG credit and short risk in CDX.HY and iTraxx.Xover credit. Yet, we estimate the gain on decompression as $30M in Europe and $30M in the US while the series 9 lag versus the market is of 1-2bps or $100M. The net result is a loss of $40M and we must expect more to come until investors opt to profit from the ongoing lag in those series 9.

As of today, reconstructing the CDX.IG9 10yr performance from the on the run indices and the 4 widest names in CDX.IG9 (Radian, MBIA, Istar, Sprint), the underperformance of the CDX.IG9 curves is between 6bps to 13 bps, which amount approximately to $450-500M for the sole CDX.IG9 series. iTraxx.Main S9 is also lagging by 3-4 bps or another $60-80M. Added to this the CDX.HY loss of $100M for Kodak and Rescap, plus the lag of the CDX.HY10-CDX.HY11 series versus the on-the-runs that is also $100-200M, the lag in P&L is material ($600-800M). As to the potential outperformance, it is much more a function of whether some names default and which one will default. We estimate the carry daily to be $1M while it may not show as it is stored in the ability of the forward spreads to "roll down" the curve. So far they did but at a much lower pace than the on the run indices rally : both in CDX.IG, iTraxx.Main and CDX.HY curves : in IG space, the long term forward rolled down slower than the market (i.e. short term spreads outperformed) while in CDX.HY, it is the opposite, i.e. long term spreads outperform short term spreads. This can be explained by the recovery in CDX.IG space while RESCAP and KODAK failed in CDX.HY space.

The CDX.HY bucket is now protected against any default and the cost of buying the protection is covered with selling protection in CDX.IG on the run indices. We sold more protection today in CDX.IG and iTraxx.Main in order to improve the carry and the recovery of the book looking forward.

Again, a lot of prices are still being framed and we are providing our best estimate.

Secured Credit

The market continues to trade well with mezzanine paper closing in on their peak levels from mid-2011 and a continued shortage of senior vanilla ABS/MBS continuing to put pressure on spreads. We continue to receive healthy amortisations across the asset classes.

March 20, 2012

~~DRAFT~~ Transcript of Call ~~#56015307083 50332369~~ JPM-CIO-A 00000055

Date: **March 20, 2012**

Time: **16:09:36 – 16:31:56**

Participants: Martin-Artajo and Iksil

Iksil	Hello.
Martin-Artajo	Hi Bruno.
Iksil	Yea. Hi Javier.
Martin-Artajo	Hello man.
Iksil	Yea so, yea we sent an estimate down 40 million today.
Martin-Artajo	Yea. Why did you do that?
Iksil	Because you know, it was, we actually did not recover what we're gaining on decompression we are making like 50, 60 million on decompression and we were losing [inaudible] in this lag and--
Martin-Artajo	Okay, okay, I just don't want you to do this, I don't know why you've done it anyway you've done it, so that's it. I don't know why, anyway, you should have told me this because it doesn't help us for the conversation for tomorrow
Iksil	Yea but I thought that because you have discussed already, you know, I thought we should actually you know, not do like minus, minus 5 every day but just say okay boom you know there is, there is something happening, it's the roll date (overlapping voices) --
Martin-Artajo	Okay, okay listen you've done it. You think that this is right. This is not what I would have done but you've done it so I'm okay with this. I've already said what the problem is, so okay they know they're not going to be surprised we have a meeting tomorrow it's just that um--
Iksil	I know it's embarrassing but--

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Permanent Subcommittee on Investigations
EXHIBIT #17

Martin-Artajo Yea I don't understand your logic mate, I just don't understand. I told Achilles, he told me that he didn't want to show the loss until we know what we're going to do tomorrow. But it doesn't matter I know that you have a problem you want to be at peace with yourself, okay its okay Bruno. I've, it's alright I know that you're in a hard position here, because, you know

Iksil I can tell you how I got there. You know, I work with Julien that's why we are still there and, you know, what we've tried to do is to say okay you know for month's end, we want to fight, where are we you know, so and you know really, really, if we want to just be realistic as to what we can expect to do, I wanted to show like upfront, precisely before ~~what~~ we discuss, you know, what it's going to look like that you know if we expect potentially to lose 100, 200 million it's because from where we are today, right, we will fail to bring back one basis point here, a crossover point in high yield there. It's just that, you see, just

Martin-Artajo No, no, no, it's okay, it's everywhere I know. I've sent you, I've sent you a report there to illustrate what the problem is. I don't know if you've read it, but it just highlights the whole conversation we've had. Okay --

Iksil Yea, okay.

Martin-Artajo Um, it basically says the following, it basically says that we've reduced enormously the volatility of the book, the VaR and the stress VaR and the CRM, okay? Now the problem that we have is that we've increased thise IRC because of the extra long lets say okay

Iksil Yes, yes [inaudible], right?

Martin-Artajo Yes.

Iksil Yes, I saw it yes.

Martin-Artajo So the problem that we have ~~from~~ with this, ok, is that, the problem that we have from this is that really it just shows the problem, this spreadsheet just shows the problem. It shows that, it shows that -we have a book that has been reduced in risk terms a lot. It shows that these guys have been doing something with the model that is stupid okay because the CRM now, they just don't know how to explain what we do okay? They're just stupid quants really okay? The only guy that has been able to understand a little bit is the new guy, this Venkat guy. He understands what the problem is okay. He knows that this book, we need to keep doing what

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we're doing. It's just that we need to get rid of the CRM by externalizing the trade which is what the investment bank needs to do and then at some point we need to time the extra long, okay, which means that, you know, we can keep the long until it gets very, very tight or, or you do what the investment bank does is that you short IG and you go long high yield and then you get the benefit of that because happens to be the problem that the CRM has, okay. It happens to be capital for free. And that's what the, that's what the investment bank has done if you think about it okay. The investment bank has the short as the overlay okay, let's put it the hedges, right? So our hedges are kind of a long according to the model that these guys use okay. You follow me?

Iksil No, no. I know, I know you see but that's why I tried sending this P&L I sent also the comments it came from Julien but I wrote it, where I said okay you know we take this loss, we are ~~mountaining~~ maintaining long risk where we have to be, the rally is on IG but guess what you know it's lagging so much that actually we have to show loss, and I explained that this is a lag that keeps going, that amounts to a potential of 800 bucks, right, that, that --

Martin-Artajo What are you saying Bruno? What are you talking about? What is, y~~Y~~ou're losing your mind here, man, why did, you're sending an email that you would get, what is this 800 bucks?

Iksil It's just the lag that we have in IG, ~~HY~~ in high yield, in main that is all over the book that makes that this book is just bleeding ~~in~~ the money but it's just the lag, that's just the lag.

Martin-Artajo Okay but this is ~~just~~ what we need to explain tomorrow you don't need to explain in the email man.

Iksil Yea but I had to put the comment on this big move, I thought, I thought that was, that was a way to, to, to show what's happening on a day like --

Martin-Artajo Yea but why do you do it today when we are going to explain it tomorrow. Anyway, listen you've done it okay I don't know man, I've been, I don't know why you didn't tell me when I was there I don't know why, why.

Iksil Because, because, because that's, that's what we saw today, you know we've tried everything, we've run though all the runs, all the prices, all the way we should--

Martin-Artajo I know Bruno but listen mate, listen the problem that, okay it's fine you've done it I cannot really tell you, you know, not to do this, you've done it because you feel

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you have to do it, that's okay. What I don't understand at all is why are you explaining this, this way on the email? Why don't you explain it tomorrow when Ina is there and we have, because this only, this only creates, it just creates more tension you understand? It's not going to help me here as much, right? Because then tomorrow I'm going to say look you know this is. What happens if she tells me that we cannot keep going long? I just don't, anyway, no it's not a big deal, okay 40 million, to be honest is not a big deal, it's not a big problem, okay so don't, don't, okay, I don't know, I'm just, I'm just tired, man, I just, I don't know what to. You know we are really getting into something that the ~~IB~~ investment bank hates, okay, and you know they just do. They just have it because they have the opposite position here because they have optimized their model, right? So they've optimized this model and now we're going to have to challenge them not only in the market but on the model side, because otherwise, you know, otherwise, we're going to have to trade at some point you know, and that's what I, that's what I--

Iksil ~~It's~~ That's what you fear.

Martin-Artajo Sorry?

Iksil That's ~~It's~~ what you fear, right? That at some stage we are in a corner because no one wants to go on with this challenge with the IB, yes?

Martin-Artajo No, I don't know Bruno, you're logic sometimes, let's talk tomorrow because we have all morning to prepare for this okay? I, listen man, I, I don't know, I know that you're doing your job, you're trying your best, okay, so, you know, I don't think you mean, you know, I just sometimes don't connect with you, I don't know, I just don't know how to explain this.

Iksil Yea it's difficult because you know the thing is we're on the desk and we're really looking at it you know and everything and I said you know it's like there were 4 basis points missing on IG 9 or 4 basis points missing on ~~[inaudible]~~ S9 so we try to you know--

Martin-Artajo Okay, okay, o~~O~~kay man, this is, this is okay, I wish I had, sorry about I didn't get your call. I um-

Iksil No, I tried, I waited, I waited. I sent you an SMS because I thought you would you know receive it on you blackberry before everything, but you know and we kept looking for it, and I tried and tried, and I'm not fooled by that you know it's just that, I have to, I don't know I thought, I thought that was, that was not realistic

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know what we were doing, and um, and I said probably I was wrong you know, I thought that it was this estimate before tomorrow, you know, was the way to, because I know Ina is going to read the comments, so maybe it will leave some time, and she will have different questions, or I don't know, because usually when we discuss you know we're really short and squeezed and I wanted to say these things before we actually, I actually have to explain the whole thing, but in summary that's what we, we discussed today right, that it's just a mark to market noise, that's um. So that, I don't know, probably I ~~Olivier~~ made the mistake right, but that, it's one mistake for~~from~~ another here, because if I don't --

Martin-Artajo No, no, no, man, no man.

Iksil I think I do a worst one, you know so. It's sort of my logic is strange but ~~it's like~~in fact I have to choose between one bad thing and one thing that I think was wors~~e~~t.

Martin-Artajo Yea no I, listen I'm not going to, I'm not going to sugar coat things, you know. I don't know if you're thinking that you, you know I'm just trying to do this the best possible way, man, okay so, I'm trying to get all the facts in front of Achilles and Ina, the fact that we show a loss here it's okay it's not, it is a problem, you know I've already told her that there's a problem, so, you know, I've already told her, so you know we're going to sit down tomorrow and talk about the CRM and we're going to talk about the problems. You know I've sent you an email on what she wants to discuss tomorrow she wants to see the changes in the book okay so you need to make sure Julien does that.

Iksil It, I was working on it.

Martin-Artajo Okay. Thank you for that man, I am, I know, I've been, I'm working on this other deal that I need to get done for the ~~book~~ for the book, for the secured credit book. It's just that I um, shit, I wish, I don't know, just explained this a little bit better because what happens is that you know, I think that, it's nor here nor there, it just highlights that there are problems in the book. You know in that sense I understand what you're saying. The problem ~~that~~ I have is that I wish that um, because I also think that what~~'s~~ happens ~~here~~, what's happening here it'ss just the investment bank that we have in front of us is doing things I mean, this, the call that I had today you know when Anil Pinto [sic] called I know that they have a problem here okay. So the more we recognize that we have a problem okay. ~~So t~~The more ~~we~~ you recognize ~~that we have a problem okay, it's, the more you recognize~~ the harder it is to settle with the IB at a better price if that what's going to happen. You understand what I'm saying?

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Iksil — Yea, yea because we settle the P&L at a level where we acknowledge more and more and more, which means that it's more and more acceptable, and therefore it's more and more [~~inaudible~~] ~~issues~~difficult to refuse. That's the way I understand that, yes.

Martin-Artajo — Yes, so in a way, what happens is that, imagine if tomorrow, imagine if tomorrow they say we need to settle with the IB, okay. If there is a chance, I'm saying I think it's a, I don't know, a 15 percent, 25 percent chance because we are over the capital here, okay. Listen to me tomorrow we'll go through this, but I don't know you probably are tired now. But 25 percent chance, why? Because we are over the capital right and we have a loss here that is, it's not a dramatic loss, okay. It's a loss that you know that we can take and ~~we can~~ get out because the books are so big now in terms of P&L that you know, you know if I take the other side of this, and say, if you are Achilles, if Achilles is going to decide on this okay, he would say okay let's get out of the trade and settle with the IB and whatever it is right? You follow me?

Iksil — Yes, yes.

Martin-Artajo — So, so, you know there is a chance that this happens and they say okay stop this, we're going to stop this, they call the investment bank and they settle this okay, they settle the delta difference that we need and the CRM that we need to externalize okay. There is a chance that this happen, I'm not saying it's~~this is~~ going to happen Bruno I'm just telling you that this could happen. So let's sit down tomorrow to discuss because I want to see all the, all the scenarios that we need to discuss, the other scenario that we need to discuss is how, what is the trade that puts us back inside the capital right, inside the 36 billion. Well, it's very easy to do now because all you need to do is reduce the, reduce the extra delta that Pat has in his book by a third, right? A little bit more than a third, a little bit more than a third. You follow me?

Iksil — Yes.

Martin-Artajo — You understand what I'm saying?

Iksil — Yes, yes, yes, yes.

Martin-Artajo — Okay so, you know it could be that they say okay well let's reduce the extra delta, i.e. the long in ~~IG~~ investment grade by a third, which means that we need to reduce the extra delta that we have by, I don't know, the number could be, I don't know 6

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billion, okay? 6 billion, okay? And then we're inside the capital now~~and~~ we, you and I, don't want that, because, because we don't because we've decided that's not what we want to do. But I'm just giving you all the, we need to discuss this tomorrow, it's not the right time, okay you've sent the email Ina's going to see it, she's not going to be surprised by the loss because I've discussed it with her. She will send me an email, and Achilles tonight, so ~~we'll~~ I will have to answer this email you see. So, so anyway, you've just created something I need to return, respond that's all. That's why I'm telling you. I just want you to know that this is what's going to happen so you know, it's a consequence that maybe I could have avoided but it's unavoidable tomorrow, because we need to, we need to explain what are the options that we have, and when we explain the options we're going to say okay, what are the options here? The options are settle with the ~~IB~~investment bank, not settle with the ~~IB~~ investment bank but then we have to time the exit of the book so, you know, and that's, so they give us extra capital for let's say a quarter or two, right? And then, you know, you know, then other things happen. I think that, I think that, I think, you know, I think we have to be honest with what we do here, that's going to be our issue. It's not going to amount to $40 million I agree with you so I don't think this is an issue, but I wish I could have discussed it with you. So thank you for um, thank you for um, for the work. I don't know man. I know that you're late in the office and you should go and rest, and we'll talk tomorrow.

Iksil Okay, okay.

Martin-Artajo Everything else, everything else okay? You tired, you okay, man, you tired, are you sleeping well?

Iksil No it's, no it's relatively okay because you know again, I, the discussion with Achilles you know I (he?) tried again the question I have, do I miss something? Did I miss something? And I did feel, you know, unsettled by his questions, you know, and I just think that, I agree with you it's really a question of ~~perfection~~perception, and yea probably I should not have done that it's just that you know that, that's the situation still I thought that that would be you know a way to start ~~stop~~ the discussion--

Martin-Artajo Okay, it's not here nor there, okay I'm just saying it's, I don't know. I wish I could discuss it with you, because um, I didn't, I didn't want to show the P&L and Achilles told me yesterday not to do it. So, okay, so we're just going to have to explain that this is getting worse, that's it. Okay, alright man -- Sorry?

Iksil No I said sorry for that, it's just that, yea, I in any case I ~~(inaudible) or~~ feel bad. If I

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do that I know I'm not making your life any easier, and if --

Martin-Artajo No, no, no, you know I think that you're an honest guy, you know, it's just that, I did not want you to do this way, but you know you feel that the bid offer spreads are giving you a headache, and you want to release it this way, which is your own way of doing it, and it's fair, it's fair, it's fair. I don't want you to-- Sorry?

Iksil The thing is you know today, I said I told Julien you know okay let's try to frame this you know, this P&L estimate whatever it's going to be, right, so that with tomorrow, whatever the decision made, right, whether we settle or we decide to fight, you know like we go long and then we are going to defend the position on IG, on 9, on ~~HY~~ high yield you know, try to do the minimum size everywhere you know so that the book grows~~goes~~ a little bit but not too much, so that we are, you know, we maintain knowledge the level where we are, and [inaudible] we aren't too far off. I thought ~~saw~~ that tomorrow, at one stage, after, before at one stage later, I would show you, you know what the plan can be, where, how many basis points here and there we are chasing and what size we can expect to do, right? And I realized we were, we were, we had to get closer to where the market is even if the market is wrong, you see? Because, because that's where we start, you know, it's also, I want to avoid you know a second stage where I say something and you know, I don't, I cannot deliver because then you know there will be a lot of questions and doubts, and I didn't see you know we are close enough to where the market is it may move you know, I'm aware of that, so we didn't want to show something, like. The number I search, you know, is the result of where I thought, you know, we could take a reference. So that whatever ---

Martin-Artajo Okay Bruno, no, no, no, it's fine, okay, I see what you're going through, okay I think you're going through your own logic here to explain it, and there is, there is, you know, I think you have a reasonable way of explaining this, I um, you know, it would have been okay. I wish I discussed it with you, but that's, that's done, okay. You've done it, it's ~~that's~~ fine, and this is what you believe and I'm sure you have, you know, we'll sit down tomorrow and we'll look at the spreadsheet. I'm sure you've done some numbers that make sense and you that think this is a part of something that you can't recover ~~and there for~~therefore you've released, and you know, I know what you're doing and you're signaling here that there is a problem. I've already said it, Achilles knows it, and Ina knows it, and you're saying it now so, okay. I truly don't have a lot to say now because we have so much to speak tomorrow, I mean we have a long day tomorrow. So I, I hope, you know. Let's go and relax a little bit if you can, and let's start tomorrow, and we'll start again, because this is not going to be, you know, there's not a lot we can do on the phone

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	now and you know I want you to be fresh tomorrow too. So I, I, thank you for at least letting me know and calling me, and I'll see you tomorrow, okay?
Iksil	Okay, okay.
Martin-Artajo	Okay man. Bye.
Iksil	Bye.

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From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Thu, 22 Mar 2012 17:46:07 GMT
To: CIO ESTIMATED P&L <CIO_CREDIT_P&L@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: CIO Core Credit P&L Predict [22 Mar]: +$82k (dly) -$276,990k (ytd)

Daily P&L: $82,141
YTD P&L: -$276,990,321

Daily P&L($) YTD P&L($)

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Europe High Grade 25,839,314 124,436,937

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US High Grade -82,388,848 409,065,325

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US HY & LCDX 94,962,354 -347,851,042

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EXHIBIT #18

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US ABX / TABX -155 -21,008

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New Investments -20,633,978 -461,330,052

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Dead Books (Core) -13 2,017

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Washbook/Costs 0 0

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Explanatory P&L (in $1000s):
Name Total Dirctnl Tranche Carry IR N/T Adjust FX

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Another day of weakness triggered by negative news from China overnight, a very poor set of PMI in Europe. The market feels shaky here, with European financials, iTraxx.Xover and CDX.IG underperforming. Volatilities are higher by about +4pt across the board, but there was no flattening of index curves - some market players were actually marking curves a tad steeper, on the off the run series (S9, IG9). No obvious theme in tranches today - equity tranches were steeper again, in CDX.IG, but slightly flatter in iTraxx.
The behaviour of the book was close to what happened yesterday - the book is making money thanks to the decompression trades in Europe and in the US (our shorts in CDX.HY, S14,15,16,17 widened), with gains estimated to $80M. Again, the book is getting hurt with losses in index forward spreads in S9 and IG9, and in tranches (weaker CDX.HY equity and mezzanine tranches, steeper IG9 equity tranches).

Today we sold protection in the following index: iTraxx.Main (5.65B), iTraxx.Xover (300M), CDX.IG (3.95B) and FINSUB (100M). Beside providing carry, these trades should reduce the VaR, but increase the IRC. We are pausing in our sale of protection, to see what the overall impact on capital numbers is going to be.

Again, a lot of prices are still being framed and we are providing our best estimate.

From: Goldman, Irvin J
Sent: Thu, 22 Mar 2012 19:53:19 GMT
To: Weiland, Peter <peter.weiland@jpmchase.com>
Subject: RE: I would like to understand the increase in positions in credit

---

Ina is freaking - really! Call me

-----Original Message-----
From: Weiland, Peter
Sent: Thursday, March 22, 2012 03:26 PM Eastern Standard Time
To: Goldman, Irvin J
Subject: FW: I would like to understand the increase in positions in credit

Here is my best estimate.

Delta-adjusted on-the-run equivalent position increased from $91B to $122B, up 34%, same pct as cs01. CSW 10% and 50% only went up 11-13%. So my estimate would be somewhere in between but on the high side. I would say IRC increases from $18.75B to about $26B, which would take total RWA to $52B.

Starting with the $45B we discussed the other day:

Assuming that the CRM didn't change because most of the activity has NOT been in tranches, I got index position changes from George:

21-Mar-12	Notional	Delta Adj OTR Eqv Pos	Spr01	Spr+10%	Up50%
CDX IG	52,127,750,005	86,961,565,781	-39,871,740	-431,420,257	-2,114,101,859
ITRAXX MN	45,669,025,000	35,013,568,593	-20,469,654	-231,638,821	-1,139,079,866
Combined Total	97,796,775,005	121,975,134,375	-60,341,394	-663,059,078	-3,253,181,725

Diff	Notional	Delta Adj OTR Eqv Pos	Spr01	Spr+10%	Up50%
CDX IG	27,683,000,000	22,670,658,318	-10,374,650	-55,572,802	-280,773,456

ITRAXX MN	6,757,250,000	7,975,193,276	-4,862,885	-14,376,964	-75,079,284
Combined Total	34,440,250,000	30,645,861,594	-15,237,535	-69,949,765	-355,852,740

07-Mar-12	Notional	Delta Adj OTR Eqv Pos	Spr01	Spr+10%	Up50%
CDX IG	24,444,750,005	64,290,907,463	-29,497,090	-375,847,456	-1,833,328,404
ITRAXX MN	38,911,775,000	27,038,375,317	-15,606,769	-217,261,857	-1,064,000,582
Combined Total	63,356,525,005	91,329,282,780	-45,103,858	-593,109,313	-2,897,328,985

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Peter Weiland
Tel: +1 212 834 5549
Mob: +1 914 [redacted]

From: Drew, Ina
Sent: Thursday, March 22, 2012 2:00 PM
To: Weiland, Peter; Goldman, Irvin J
Subject: I would like to understand the increase in positions in credit

Since our meeting yesterday and what the RWA implications are.

			pre-split	post-split
RWA	4Q 2011	1 Jan 2012	22 Feb 2012	7 MAR 2012
VaR	4,770	4,415	2,572	2,572
Stress VaR	15,468	11,898	8,812	3,812
CRM	*Actual*	*Actual*	*Estimate*	*Estimate*
CRM standalone	26,395	31,100	78,763	15,600
CRM div. factor	31%	29%	29%	5%
CRM diversification	-8,122	-9,093	-22,841	-780
Net CRM	18,274	22,007	55,921	14,820
IRC	[illegible]	[illegible]	2,520	8,750
TOTAL Tranche RWA	36,215	38,840	67,105	44,754

From: ADE ADETAYO <AADETAYO1@[redacted]
Sent: Fri, 23 Mar 2012 16:35:37 GMT
To: ADE ADETAYO <AADETAYO1@[redacted]; ADE ADETAYO <ADEBOWALE.O.ADETAYO@JPMORGAN.COM>; BRUNO IKSIL <BIKSIL2@[redacted] BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>
Subject:

03/23/2012 05:17:22 ADE ADETAYO, MORGAN (J.P.) has joined the room
03/23/2012 05:17:22 ADE ADETAYO, MORGAN (J.P.) says:
*** MORGAN (J.P.) (20833) Disclaimer: THIS IS FOR INFORMATION ONLY AND NOT THE PRODUCT OF JPMORGAN `S RESEARCH DEPT.IT IS INTENDED FOR THE RECIPIENT ONLY.IT IS NOT AN OFFER OR SOLICITATION FOR PURCHASE OR SALE OF ANY FINANCIAL PRODUCT AND NOT SUITABLE FOR PRIVATE CUSTOMERS.PRICES ARE INDICATIVE ONLY.WE MAY HOLD A Ã¨POSITION OR ACT AS MARKET MAKER IN ANY FINANCIAL PRODUCT DISCUSSED ABOVE. CLIENTS SHOULD CONSULT THEIR ADVISORS ON TAX,ACCOUNTING,LEGAL OR OTHER ISSUES ARISING AND EXECUTE TRADES THROUGH A JPM ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE. FOR Ã¨INFORMATION ABOUT JPM UK ENTITIES REFER TO Ã¨www.jpmorgan.com/pages/disclosures 2009 JPMORGAN CHASE & CO. JPMSL IS AUTHORISED AND REGULATED BY THE FSA.

03/23/2012 05:17:30 ADE ADETAYO, MORGAN (J.P.) says:
hi bruno

03/23/2012 05:17:30 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:17:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (748320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY. PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/23/2012 05:17:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
hello

03/23/2012 05:17:45 ADE ADETAYO, MORGAN (J.P.) says:
can I call you

03/23/2012 05:18:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
sure

03/23/2012 05:18:14 ADE ADETAYO, MORGAN (J.P.) says:
if you are free,\

03/23/2012 05:18:25 ADE ADETAYO, MORGAN (J.P.) says:
thanks, whats your number...

03/23/2012 05:18:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
0044 [redacted]

03/23/2012 05:50:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
javier mobile is [redacted]

Permanent Subcommittee on Investigations
EXHIBIT #20

03/23/2012 06:16:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
did you get Javier on the phone

03/23/2012 06:16:15 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
?

03/23/2012 06:16:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
btw we take a big hit today

03/23/2012 06:16:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
across the board

03/23/2012 06:16:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
right where we have a position

03/23/2012 06:17:17 ADE ADETAYO, MORGAN (J.P.) says:
yes I called spoke to him quickly

03/23/2012 06:17:24 ADE ADETAYO, MORGAN (J.P.) says:
he said will call me back

03/23/2012 06:17:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/23/2012 06:17:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cool

03/23/2012 06:17:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
thx for that

03/23/2012 06:18:34 ADE ADETAYO, MORGAN (J.P.) says:
seems people in the mkt know the position

03/23/2012 06:18:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes

03/23/2012 06:18:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
they do

03/23/2012 06:18:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and they have a chief commander

03/23/2012 06:19:30 ADE ADETAYO, MORGAN (J.P.) says:
no good

03/23/2012 06:19:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
no

03/23/2012 06:19:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
u see

03/23/2012 06:19:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
u will feel less alone very soon

03/23/2012 06:20:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but like u

03/23/2012 06:20:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i did not fail

03/23/2012 06:20:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
this is not what i will be told

03/23/2012 06:20:25 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
unlike you

03/23/2012 06:20:25 ADE ADETAYO, MORGAN (J.P.) says:
damn

03/23/2012 06:20:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i picked the trades

03/23/2012 06:20:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
so us ee

03/23/2012 06:20:55 ADE ADETAYO, MORGAN (J.P.) says:
hope it turns out well for you

03/23/2012 06:21:03 ADE ADETAYO, MORGAN (J.P.) says:
I really hope so

03/23/2012 06:21:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
no well it is not the end of the world

03/23/2012 06:21:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but the end of what i have done so far

03/23/2012 06:21:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
for sure

03/23/2012 06:21:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i cannot fight

03/23/2012 06:21:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i cannot wait

03/23/2012 06:21:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i cannot argue

03/23/2012 06:22:51 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i may not come back on Monday

03/23/2012 06:23:00 ADE ADETAYO, MORGAN (J.P.) says:
really?

03/23/2012 06:23:03 ADE ADETAYO, MORGAN (J.P.) says:
oh no

03/23/2012 06:23:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
well

03/23/2012 06:23:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i will know this afternoon

03/23/2012 06:23:15 ADE ADETAYO, MORGAN (J.P.) says:
damn

03/23/2012 06:23:25 ADE ADETAYO, MORGAN (J.P.) says:
hope goes okay

03/23/2012 06:23:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
this is a big setup i think

03/23/2012 06:23:35 ADE ADETAYO, MORGAN (J.P.) says:
I relly hope so

03/23/2012 06:23:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but i comes from the top

03/23/2012 06:23:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and there is little i can do

03/23/2012 06:24:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
if they let the book roll that will be a gain in the end

03/23/2012 06:24:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but the drawdown is huge

03/23/2012 06:24:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
a bit like the guys blowing on the super seniors

03/23/2012 06:25:38 ADE ADETAYO, MORGAN (J.P.) says:
damn, so sorry to hear this

03/23/2012 06:26:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ah it could be worse

03/23/2012 06:26:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
I could have doe a bad trade

03/23/2012 06:26:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
u know some real big mistake

03/23/2012 06:26:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i did not

03/23/2012 06:26:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but u know how it is

03/23/2012 06:26:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
once the loss is there

03/23/2012 06:26:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
good trades look like very abd trades

03/23/2012 06:27:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and this is where all this stops

03/23/2012 06:27:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i am not so much at loss

03/23/2012 06:27:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
net net

03/23/2012 06:27:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
if they just freeze the book

03/23/2012 06:27:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
that will be a gain

03/23/2012 06:27:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but the damage to me is irreversible

03/23/2012 06:27:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and that was the aim i think

03/23/2012 06:28:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
it is flattering to see all these guys devoting so much energy to that aim

03/23/2012 06:28:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
the pain for me is sam as for you

03/23/2012 06:28:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
to distance myself from wat ketp alive for so many years

03/23/2012 06:29:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and to keep a positive memory of all this

03/23/2012 06:29:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ie not giving too much importance to today's events

03/23/2012 06:30:41 ADE ADETAYO, MORGAN (J.P.) says:
wow

03/23/2012 06:30:52 ADE ADETAYO, MORGAN (J.P.) says:
so sad this is happening

03/23/2012 06:30:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
it had to happe

03/23/2012 06:31:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
it started back in 2008 you see

03/23/2012 06:31:15 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i survived pretty well

03/23/2012 06:31:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
until i was alone

03/23/2012 06:31:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
to be the target

03/23/2012 06:31:39 ADE ADETAYO, MORGAN (J.P.) says:
u alone now?

03/23/2012 06:31:53 ADE ADETAYO, MORGAN (J.P.) says:
you have the backing of londin right?

03/23/2012 06:31:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes i mean the guys know my position because i am too big for the market

03/23/2012 06:31:59 ADE ADETAYO, MORGAN (J.P.) says:
london

03/23/2012 06:32:02 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes

03/23/2012 06:32:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i did

03/23/2012 06:32:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
because i made a lot of money

03/23/2012 06:32:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
there was no other reason

03/23/2012 06:32:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
this year

03/23/2012 06:32:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
for the first time, achilles started thinking i could be of use other than to make money

03/23/2012 06:32:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
just to protect the whole group

03/23/2012 06:33:02 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but here is the loss

03/23/2012 06:33:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and it becomes too large

03/23/2012 06:33:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
and this is it

03/23/2012 06:33:28 ADE ADETAYO, MORGAN (J.P.) says:
will he bck you?

03/23/2012 06:33:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
we realize that i am too visible

03/23/2012 06:33:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
up to a point yes

03/23/2012 06:33:44 ADE ADETAYO, MORGAN (J.P.) says:
good

03/23/2012 06:33:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but here this is too big an issue

03/23/2012 06:33:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
it is out of my hands already

03/23/2012 06:35:19 ADE ADETAYO, MORGAN (J.P.) says:
so what happens now?

03/23/2012 06:35:37 ADE ADETAYO, MORGAN (J.P.) says:
you having a meeting with Javier and Achilles

03/23/2012 06:35:39 ADE ADETAYO, MORGAN (J.P.) says:
?

03/23/2012 10:20:58 ADE ADETAYO, MORGAN (J.P.) has left the room
03/23/2012 11:30:22 ADE ADETAYO, MORGAN (J.P.) has joined the room
03/23/2012 11:30:22 ADE ADETAYO, MORGAN (J.P.) says:

03/23/2012 12:35:37 ADE ADETAYO, MORGAN (J.P.) has left the room

▬▬ = Redacted by the Permanent Subcommittee on Investigations

From: JULIEN GROUT <JGROUT3@[redacted]
Sent: Fri, 23 Mar 2012 18:37:47 GMT
To: JULIEN GROUT <JGROUT3@[redacted]>; JULIEN GROUT <julien.g.grout@jpmchase.com>; BRUNO IKSIL <BIKSIL2@[redacted]BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>
Subject:

03/23/2012 05:45:49 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:45:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (741671) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY. PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/23/2012 05:45:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno

03/23/2012 05:45:54 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:45:54 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (748320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY. PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/23/2012 05:45:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:01 JULIEN GROUT, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c mort la

03/23/2012 05:46:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
david de CS appoelle au sujet des skew trades. je lui demande un prix ferme sur indice vs single names?

03/23/2012 05:46:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
coupons matched etc

03/23/2012 05:46:33 JULIEN GROUT, JPMORGAN CHASE BANK, says:
?

03/23/2012 05:46:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui

E-MAIL TRANSLATION

▬▬ = Redacted by the Permanent Subcommittee on Investigations

From: JULTEN GROUT <JGROUT3@[redacted]
Sent: Fri, 23 Mar 2012 18:37 :47 GMT
To: JULTEN GROUT <JGROUT3@[redacted]; JULIEN GROUT
<j ulien .g.grout@jpmchase.com>; BRUNO IKSIL <BIKSIL2@[redacted] BRUNO
IKSIL <bruno.m.iksil@jpmorgan.com>
Subject:

03/23 /20]205:45:49 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03 /23/201205:45:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (741671) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MA Y HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A IP. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/23/20]205:45 :54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno

03/23/20 1205:4554 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23120 12 05 :4554 BRUNO IKSIL, JPMORGAN CHASE BANK, says
*** JPMORGAN CHASE BANK, (748320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY. PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A IP. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/23/201205:45:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
salut
hi
031231201205:46:01 JULTEN GROUT, JPMORGAN CHASE BANK, says:
salut
hi
03/23/20 1205:4603 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c mort la
it is over/it is hopeless now
03/23 /20 1205:46:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
david de CS appoelle au sujet des skew trades. je lui demande un prix ferme sur indice vs single names?
David from CS calls about skew trades. I ask him a firm price on index vs single names?
03/23/201205:46:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:

coupons matched etc
coupons matched etc
03/23/2012054633 JULIEN GROUT, JPMORGAN CHASE BANK, says:
?
?
03 /23/201205:46:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 1205:46:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c un full upfront
it is a full upfront
03/23/20 1205:46:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok understood
ok understood
03 /23/201205:48: 11 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pour revenir a ton premier point
to get back to our first point
03 /23 /20 1205:48: 14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
continue a vendre la ss
keep on selling the ss
03/23/201205:48 :25 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
leve la 0-3 10yr
levy/raise/exercise the 0-3 10yr
03/23/20 1205 :48 :28 JULIEN GROUT, JPMORGAN CHASE BANK, says
on en discutera lundi si tu veux bien,
we will talk about that on Monday if it is fine with you
03 /23 /20 1205:48 :32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok ok je continue ca
ok ok I continue that
03123/20 1205:48 :38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03 /23 /201205:48:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je te dis
I tell you
03/23/201 205:48:52 BRUNO TKSIL, JPMORGAN CHASE BANK, says
ils vont nous defoncer
they are going to trash/destroy us
03/23/20 12 05:48 :56 JULIEN GROUT, JPMORGAN CHASE BANK, says :
y a bcp a dire, mais je ne veux pas charger ta charette qui est deja bien remplie
there is a lot to say, but I don't want to burden you more than you already are
03/23 /20 12 055228 BRUNO IKSIL, JPMORGAN CHASE BANK, says
c soir tu as au moins 600m
tonight you'll have at least 600m
03123/201 2055236 BRUNO IKSIL, JPMORGAN CHASE BANK, says
BID ASK
BID ASK
03/23 /20 120552:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
MID
MID

03123120 1205 :52 :51 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
BID ASK TU AS 300M AU MOINS
BID ASK YOU HAVE 300M AT LEAST
03/23/2012 05:54:46 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as vu le run de jospehine.. attack full force.
You have seen Josephine's run.. attack full force.
03/23/2012 05:57 :56 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui
yes
03 /23 /20120557:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c partout
it is everywhere/all over the place
03/23/20 12 0558:04 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
on est mort je te dis
we are dead I tell you
03/23 /2012 05:58 :19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais bon c hors de mon controel maintenant
but then it is out of my hands now
03/23/2012 05:58:27 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
j'ai fait ce qu'il fallait
I did what I had to do
03 /23 /2012 06:04:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
*03/23/2012 06:*18:11 JULIEN GROUT, JPMORGAN CHASE BANK, says
oula bnp ...
wow bnp...
03/23/2012 07:2702 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno/
bruno/
03/23/2012 07:30:46 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/2012 07:31:38 JULIEN GROUT, JPMORGAN CHASE BANK, says:
l'arret du trading c nous 3 ou juste moi?
The stop of the trading, is it the 3 of us or only me ?
03123/2012 07:31:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
toi
you
03123/2012 07:31 :52 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
sur core
on core
03/23/2012 07:31 :52 JULIE GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03 /23/2012 07:32:05 JULIEN GROUT, JPMORGAN CHASE BANK, says
eric/luis ils peuvent continuer, sur leur tactical
eric/luis can go on, on their tactical
03/23/2012 07:32:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

continue sur la ss les 0-3 1 A yr
go on with the ss the 0-3 1 A yr
03/23/2012 07:32:07 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
Ok?
03/23/2012 07:32:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03 /23 /20 1207:32:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
continue sur les 25-35 HY
go on with the 25-35 HY
03123 /20 120732:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
pas les 15-25
not the 15-25
03/23/201207:32:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/201207:33 :02 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu pourras me donner la couleur stp? s'il y en a.
will you give me the color please ? if there is some.
03/23120 1207:33: 17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
rien poour le moment
nothing for now
03 /23/201207:33 :20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23 /20 120733 :28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ca va se negocier avec l'IB
it will be negotiated with the IB
03/23/20 1207:33:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout en haut
at the top
031231201207:33:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et je vais en prendre pour mon grade
and I am going to be hauled over the coals
03 /23 /20 1207:33:44 JULIEN GROUT, JPMORGAN CHASE BANK, says
today?
today?
03/23/20 120733:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais bon on a du carry
but we have some carry
03123/20 1207:33 :51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah? cela t'a ete confirme/
ah ? it was confirmed to you ?
03 /23 /20 1207:34:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c pas necessaire
it is not necessary
03/231201207:34:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says
tu ne perds pas 500M sans conseuqences
you don't lose 500M without consequences

03/23/20 12 07:34:30 BRUNO TKSIL, JPMORGAN CHASE BANK, says
garde le pour toi
keep it for you
03123/201207:34:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh oui
oh yes
03/23 /20 120734:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c le bon sens qui me dit ca
good sense tells me so
03/23120 120746:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tua as parle a august? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august ? otherwise, I tell him to show us the skew trade (under the good format)?
03 /2312012074729 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23 /20 12074735 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/20 120747:38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
essaie de collecter des prix fermes
try to collect firm prices
03/23 /20 1207 4 745 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je n'ai rien vu de ferme pour le moment
I haven't seen anything firm for now
03/23 /20 1207481 5 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03123/2012 07:56:47 JULIEN GROUT, JPMORGAN CHASE BANK, says
Bruno? tu as besoin de qqcho/
Bruno ? do you need anything ?
03/23/20 12 08:13:16 JULIEN GROUT, JPMORGAN CHASE BANK, says
bon bruno
well bruno
03/23 /20 1208:13 :26 JULIEN GROUT, JPMORGAN CHASE BANK, says:
javier est reparti dans un conf call avec A
javier is back again in a phone call with A
03 /23/2012081332 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je n'ai pas pu lui parler
I couldn't talk to him
03/23 /201208 14 :05 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok
ok
03 /23/201208:14:24 JULIEN GROUT, JPMORGAN CHASE BANK, says:
mais bon il n'avait pas l'ai conceme par des slidse .. plutot autre chose
but anyway he did not seem concerned by the slides.. rather something else
03/23 /2012 08:14:35 JULIEN GROUT, JPMORGAN CHASE BANK, says
je vais chercher le dej et je reviens
I am going to get lunch and I come back
03 /23/2012 08:26: 17 BRUNO IKSIL, JPMORGAN CHASE BANK, says
tu es la?
Are you here?

03/23 /2012 08:31:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
urgent
urgent
03 /23/20 12 08:3349 JULIEN GROUT, JPMORGAN CHASE BANK, say s:
oui
yes
03/23/2012 085930 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde ton email
look at your email
03 /23/20 1209:0002 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
essaye de retrouver les run de roman shukhman sur ig9 pour montrer qu'ils sont plus steep et mettent le ig9 10yr plus que le marche
try to find roman shukhman's runs on ig9 in order to show that they are "more steep"/steeper and that they put the ig9 10 yr more than the market
03123/20 1209:01 :36 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno
bruno
03 /23/20 120902:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says
essaie de retrouver les chat sur les chat de jp ou ils nou sniffent
try to find the chats about the jp's chat where they sniff us
03123 /2012090213 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu te rappelles l'histoire de debut d'annee avec Sylvain sur le roll s9 5y?
do you remember the story from the beginning of the year with Sylvain on the s9 5y roll ?
03/23 /20120902:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
non
no
03 /23/20 1209:02:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says
c'etait koi deja?
What was it again?
03123 /20120902:41 JULIEN GROUT, JPMORGAN CHASE BANK, says
j'avais checke sylvain, et fait une gross taille de roll s9 5y
I had checked with Sylvain and done a big size of roll s9 5y
03 /231201209:0251 JULIEN GROUT, JPMORGAN CHASE BANK, says:
peux de temps apres il me dit que jpm le lift dessus
shortly after he tells me that jpm lifts him from it
03/231201209:0256 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ah oui
oh yes
03 /23 /20 1209:03:04 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
il faut le retrouver celui la
we need to find this one
03 /23 /20 1209:03 :13 JULIEN GROUT, JPMORGAN CHASE BANK, says
je 'ai, en francais malheureusement
I have it, in French unfortunately
03 /23/20120903 :21 BRUNO IKSIL, JPMORGAN CHASE BANK, says
c pas grave envoie
it does not matter, send it
03123 /20 120903:3 1 JULIEN GROUT, JPMORGAN CHASE BANK, says
en rrecanche peux tu me rappeler ce que tu avais trade/booke?
However could you remind me what you traded/booked ?
03123120 120903 :33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

achilles comprend tres bien le francais
achilles understands French very well
03 /23 /20 1209:03:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cad?
Which means?
03 /23 /201209:03:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je veux le timing exact
I want the exact timing
03/23/20 1209:03:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says
de quoi?
of what ?
03/23/20 1209:04:03 JULIEN GROUT, JPMORGAN CHASE BANK, says
ben des evenements
well, of the events
03/23/2012090416 JULIEN GROUT, JPMORGAN CHASE BANK, says
parce que si tu as deja traite du roll avant moi la dessus
because if you have already treated some roll before me on that
03123/2012090420 JULIEN GROUT, JPMORGAN CHASE BANK, says
ca sera encore plus limpide
it will be even clearer
03 /23 /20 120904:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu vois?
Do you see ?
03123 /20 1209:04:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne me souviens plus
I don't remember
03/23/201209:04:39 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok je regarde le blotter
ok I look at the blotter
03/23/201209:04:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c quel jour?
What day is it ?
03/23 /20 1209:05:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah ui ! tu as traite 250m de roll s9 avec db a 7h55 !!
oh yes! You dealt with 250m of roll s9 with db at 7h55!!
03 /23 /20 12 0905 :29 JULIEN GROUT, JPMORGAN CHASE BANK, says
le 4-jan
on 4th Jan
03 /23/20 120906:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok
ok
03 /23 /20 1209:0618 BRUNO IKSIL, JPMORGAN CHASE BANK, says
tu as le chat?
Do you have the chat?
03/23/20 120906:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ajoute le
add it
03/23 /20 1209:06 :29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
avec sylvain? oui

with Sylvain ? yes
03/23/20120906:31 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne vois rien chez moi
I can't see anything on mine
03 /23 /20 1209:06:37 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
mais je me rappelle
but I remember
03/23 /201209: 14:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok apparemment tu as booke le trade vers 8h20 ce jour la, moi j'ai trade a 9h.
ok apparently you booked the trade around 8h20 this day, and I traded at 9h.
03 /23/20 12 09: 14 :52 BRUNO IKSIL, JPMORGAN CHASE BANK, says
cool
cool
03 /23 /20 1209:5007 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pour l'instant je n'ai que 5 'pieces' au dossier
for now I have only 5 documents in the file
03 /23/201209:53:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde ton email
look at your email
03 /23/20 1209:53:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vu
seen
03/23120 1209:53:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
un de plus
one more
03/23/201209:54:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says
ben oui on ne va pas bosser comme si on etait parano tout le temps aussi
well yes, we are not going to work as if we were paranoid all the time!
03/23120 1209:54:25 JULIEN GROUT, JPMORGAN CHASE BANK, says:
6 pieces
6 documents
03/23120120956:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde tes chats a toi avec JP guys
look at your own chats with the JP guys
03/23 /2012 10:05 :37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je fais Mark Shirfan
I look at Mark Shirfan
03 /23/20 12 10:2250 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vois les emails stp
look at the emails please
03/23 /20 12 1023 14 BRUNO IKSIL, JPMORGAN CHASE BANK, says
je vois
I see
03/23 /20 12 10:23:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
la var explose
the var explodes
0312312012 10:2328 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oui
yes

03/23/20 12 10:23 :35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c foutu
it is over
03/23 /20 12 10:23 :37 JULIEN GROUT, JPMORGAN CHASE BANK, says:
le sule moyen c le book a zero
the only way is the book at zero
03123 /20 12 10:25 :04 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu peux me dire ce que t'a dit ade ce matin?
Can you tell me what ade told you this morning?
03/23/201210:2550 BRUNO TKSIL, JPMORGAN CHASE BANK, says
3 gars de l'ib sont venus lui demander ma taille sur ig9
3 IB guys came to ask him my size on ig9
03 /23 /2012 1026:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne veux pas savoir qui c
I don't want to know who it is
03/23/2012 1026: 19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je suis sur le call
I am on the call
03/23/2012 10:28:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
as tu eu des updates sur les marginal?
Did you get the updates about the marginal?
03/23/201210:28:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:
no
no
03/23/201210:28:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
rwa
rwa
03/23/2012 10:28:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
48.7
48.7
03 /23 /2012 10:2848 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
les marginals sur le rwa
the marginals on the rwa
03 /23120 12 10:29: 15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
non rien .. en cours
no, nothing.. in progress
03/23 /2012 10:29:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
j'en ai besoin
I need them
03/23/2012 10:2939 JULIEN GROUT, JPMORGAN CHASE BANK, says
je sais
I know
03/23/20J 2 10:2944 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je viens de relancer pat
I just asked Pat again
03 /23 /2012 10:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
merci
thanks
03 /23 /2012 10:31: 18 JULIEN GROUT, JPMORGAN CHASE BANK, says
tu peux me faire les transcripts de david gldenberg a CS stp?

Can you please do/check david gldenberg's transcripts to CS ?
03 /2312012 10:31 :38 BRUNO IKSIL, JPMORGAN CHASE BANK, say s:
je suis sur le call
I am on the call
03/23/2012 10:3145 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 10:3148 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout est sur le chat de cs
everything in on cs's chat
03/23 /2012 10:31 58 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
peux tu le faire.
can you do it?
03/23/20 12 10:3203 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03 /2312012 10 57: 13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
appelle moi qd tu peux
call me when you can
03 /23/20 12 11 :36: 16 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tjs en ligne?
Still online ?
03123/20 12 11 :3842 JULIEN GROUT, JPMORGAN CHASE BANK, says:
dis moi quand tu as pu retrouver les chats de David Goldenberg
tell me when you can find David Goldenberg's chats
03 /23 /20 12 11 :3843 JULIEN GROUT, JPMORGAN CHASE BANK, says:
stp
please
03 /23 /20 12 1200:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c sur le chat de cs sur la fin de mois
It is on cs's chat at the end of the month
03/23/20 12 1200 16 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et il ya celui de citi
and there is the citi one
03/23/20 12 1200:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
il faut montrer les deux en parallel
you need to show both in parallel
03/23/20 12 12 00 3 4 JULIEN GROUT, JPMORGAN CHASE BANK, says
peux tu me les envoyer stp?
Can you send them to me please?
03/23/20 12 12:0106 BRUNO IKSIL, JPMORGAN CHASE BANK, says
ok je fqis citi
ok I do citi
03/23/20 12 12:01 :12 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu peux fqire cs?
Can you do cs please ?
03 /23/2012 12:0339 JULIEN GROUT, JPMORGAN CHASE BANK, says:
C'ETAIT SUR QUOI DEJA ? LES 6B?
About what was it again? The 6B?

03 /23/20 12 12:0440 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok laisse tomber
ok give it up
03/23/20 12 12:0441 BRUNO IKSIL, JPMORGAN CHASE BANK, says
je e fais
I do it
03123/20 12 1204:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
desole y avait javier j 'ai perdu le fil
sorry javier was here and I lost track
03 /23/2012 12:04:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
pas de pb
no pb
0312312012 12:05:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde tes email
look at your emails
03/23/2012 1205:16 BRUNO TKSn.., JPMORGAN CHASE BANK, says:
je faire janvier et fevrier sur credit suisse
I am going to do January and February on credit suisse
03/23 /2012 12:05:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
peux tu te rappeler des chats ou les traders te disaient que l'IB poussait sur ig9?
Can you remember chats where the traders told you that the IB insisted on ig9?
03 /2312012 12:07:45 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
non
no
03/23 /201212:07:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
aucun
none
03/23 /2012 12: 19:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno
bruno
03 /23/20 12 12: 19:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23 /2012 12: 19:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ignore le dernier email pour csfb*
disregard the last email for csfb
03 /23 /2012 12 19:49 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
c un dupe
it is a trick
03 /23 /2012 12: 1952 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon j'ai les marginals old fashion
well, I have the old fashion marginals
03/23 /2012 12 1956 BRUNO IKSIL, JPMORGAN CHASE BANK, says
ah demande a Javier
ah ask Javier
03 /23 /2012122001 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
quel pnl on print today
what pnl we print today
03 /23 /2012 12:20:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne sais plus la

I don't know anymore
03 /23 /20121220:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
j'ai aussi les marginals pour un split IRC/optimal tranches book, ca t'interesse?
I also have the marginals for a split IRC/optimal tranches book, are you interested ?
03/23/20 12 12:20:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03 /23/2012 12:20:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
stp va voir javier
please, go see javier
03/23/2012 12:20:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne sais pas quel pnl envoyer la
I don't know which pnl I should send
03 /2312012 12:20:42 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok je vais aller lui demander. il pense que les pieces que j'ai amassees ne sont pas assez
ok I am going to ask him, he thinks that the documents that I collected are not enough
03/23/20 121 2:20:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03 /23120 12 12:20:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je vais aller lui envoyer
I am going to send them to him
03 /23/201212:22:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
dis moi qd core delta est updated
tell me when core delta is updated
03/23/2012 12:24:27 JULIEN GROUT, JPMORGAN CHASE BANK, says
done
done
03 /2312012 12:24:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
si on doit faire bcp plus de ig9 vs ig18 il faut faire une simulation sur le rwa via Pat
if we must do much more ig9 vs ig18, we need to do a simulation on the rwa via Pat
03/23/2012 12:27: 17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon je fais le pnl la
well, I do the pnl now
03/23/2012 1227: 18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
ok?
0312312012 12:29:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says
ah non on ne fera jamais ca !
oh no, we will never do that !
03/23/20 12 12:2959 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yen a mare a la fin
enough is enough
03/23/20 12 12:30 13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu as parle a Javier?
Did you talk to Javier?
03/23/20 12 12:37: 12 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu noteras qu'il veut faire les simuls de capital AVANT de traiter
you'll notice that he wants to do the capital simulations BEFORE dealing

03123/20 12 12:51 :30 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon ca va douiller sur la compression la
it is going to be spent/expensive on the compression now
03/23/20 12 12:52:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23120 12 12:53:00 JULIEN GROUT, JPMORGAN CHASE BANK, says
as tu parle a Javier?
Did you talk to javier ?
03/23/2012 125606 JULIEN GROUT, JPMORGAN CHASE BANK, says
b?
b?
03123 /20 12 12:56:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03 /23/201212:56:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23 /2012 12:57: 19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
we show -3 until month end on this one
we show -3 until month end on this one
03/23 /20 12 12:57:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says
anyway
anyway
03/23/20121303 :35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je peux appeler?
Can I call?
03/23/20 121303:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
si tu veux
if you want
03 /23/20 1213:0752 JULIEN GROUT, JPMORGAN CHASE BANK, says:
le bo ne va rien faire, parce quele pb aujourd'hui c'est la compression
the bo is not going to do anything, because today's problem is compression
03123 /20 12 13 08:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says
arrete
stop that
03123/201213 :08 :19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu ne perds pas 200m en compression
you do not loose 200m with compression
03/23/20 121308:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon
well
03123/20 12 13:09:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
on a 34m de cs0l en ig. hy unc'd today (par rapport a nos marques) et ig+3.25. ca fait 110m
we have 34m of cs01 in ig. Hy unc'd today (in comparison with our marks) and ig+3.25. it makes 110m
03/23/2012 1309:35 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok?
Ok?

03/23/2012 1309:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ecoute je n'ai pas le temps
listen, I don't have time
03123/20 1213:09:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pok
why?
03/23/20 121309:51 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok
ok
03/23/20 12130953 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je suis avec pat pour voir les trades
I am with pat to see for the trades
03/23/20 1213 :10:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout ce que je te demande c de dire a Javier ce que tu vois
all that I am asking you is to tell Javier what you see
03123/20 12 13: 10: 14 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
c tout et ils decide ce qu'on montre
that's it and he decides what we show
03/23/20 12 13: 1 0:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
parce que la moi je ne sais plus
because me, I don't know anymore
03/23/20 12 13 1026 BRUNO IKSIL, JPMORGAN CHASE BANK, says
je regarde la reduction du rwa
I look at the reduction in the rwa

03/23/20 12 14 :37 :47 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room

From: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Sent: Mon, 26 Mar 2012 22:23:58 GMT
To: Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Drew, Ina <Ina.Drew@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Stephan, Keith <keith.stephan@jpmorgan.com>
Subject: Tranche Plan

All,

Now that we have the new RWA increase, Ina would like to **discuss** the forward plan for reduction. She **does not want any trades executed** until we all discuss it. We will have a call first thing in the morning.

Irv

Irvin Goldman | **J.P.Morgan** | Chief Investment Office | 270 Park Ave. | ☎ Tel: +1 212 834 2331 | ✉ irvin.j.goldman@jpmchase.com

From: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Sent: Fri, 30 Mar 2012 14:15:25 GMT
To: Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: synthetic credit -- crisis action plan

FYI

From: Macris, Achilles O
Sent: 30 March 2012 15:13
To: Hogan, John J.
Cc: Drew, Ina
Subject: FW: synthetic credit -- crisis action plan

Hi John,

I have asked Ashley for help with the synthetic credit book.

In the first quarter, my team failed in targeting RWA and we need your urgent help to do a better job in Q2.
Ashley, Javier and myself think that the most experienced person at the firm is Olivier. Olivier is both familiar with the correlation product as well as the capital attributes of correlation.

I would be grateful if you could approve dedicating Olivier to CIO priorities for Q2.

Background: following years of exceptional performance in this book utilizing 5b RWA, we have decided to risk neutralize the book post the large gains on the AA events around thanksgiving. While we remained short in HY, we have bought IG to achieve a risk neural stance. Since then, and while both IG rallied and the RV between HY and IG worked in our favour, the proxing of IG long via IG 9 forwards, did not work and resulted in almost total loss of hedging effectiveness. Additionally, the RWA increased beyond my targets and I have lost confidence in my team's ability to achieve the targeted RWA and their understanding of the synthetic levers to achieve the RWA objectives.
Due to the size of the book, our market manoeuvrability is limited. I am further worried that the "best" course of action from a risk and economic point of view, may be conflicting with the appropriate capital utilization.

Many thanks,
Achilles

From: Bacon, Ashley
Sent: 30 March 2012 14:14
To: Macris, Achilles O
Subject: RE: synthetic credit -- crisis action plan

Achilles, John asked that you send him a note (cc Ina) just summarising that you want Olivier, what the ask is, and that this has some urgency. Then I think we move ahead.

Thanks

From: Macris, Achilles O

Permanent Subcommittee on Investigations
EXHIBIT #23

Sent: 30 March 2012 13:50
To: Goldman, Irvin J
Cc: Drew, Ina; Martin-Artajo, Javier X; Tse, Irene Y
ubject: RE: synthetic credit -- crisis action plan

Hi Irv,

I just spoke with Ashley regarding the issue and he has agreed to dedicate Olivier to help us with RWA targeting for Q2.

Ashley immediately understood the issue and agreed with the approach to get the firm's best talent involved early in the process.
Without any doubt, Olivier is very familiar with the correlation product as well as the management of the capital attributes of correlation.

Following our call, Ashley spoke with Venkat who also agreed with our proposal to dedicate Olivier to our priorities for Q2.
We have jointly agreed to have Olivier based in our office for Q2. Ashley will be informing John Hogan.
Both Ashley and Venkat are displaying very strong support and partnership on this. I am indebted to both.

best,
Achilles

▬▬ = Redacted by the Permanent Subcommittee on Investigations

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From: macris@[redacted]
Sent: 30 March 2012 10:38
o: Martin-Artajo, Javier X; Stephan, Keith
c: Brown, Anthony M; Polychronopoulos, George H; Uzuner, Tolga I; Enfield, Keith; 'Chris'; Weiland, Peter
Subject: synthetic credit -- crisis action plan

Hi guys,

On Tuesday we will be presenting the final action plan for the book for Q2.

As we already had several meetings on this, we must get it right this time, otherwise we could lose our collective credibility.

Due to the size of the book, we only have "one move" to achieve our dual objective of stabilizing the risk and P+L of the book, while achieving our
targeted RWA objectives for the end of Q2.
We must insure that we don't overtrade, or alter the risk profile to an uncertain RWA result.
Therefore, the objective is to determine what is the best course of action to insure that the book is and remains balanced in risk and P+L terms.
Additionally, we must "price" the best economic solution in terms of average and final Q2 RWA.

Regarding RWA targeting, I will be asking Ashley for help. Hopefully, Olivier will be made available to exclusively focus on the CIO RWA targeting for Q2.

Clearly, we are in a crisis mode on this. The crisis team is to have short daily meetings and your daily update and progress report needs to be commercial and forward looking to mark to implementation of the stated objectives.

We will be discussing the suspension of our investment programs as well as potential OCI crystallizations at the ISMG.

Thanks,
Achilles

THE WALL STREET JOURNAL.
WSJ.com

April 6, 2012, 1:19 p.m. ET

'London Whale' Rattles Debt Market

By GREGORY ZUCKERMAN And KATY BURNE

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.

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.

Those investors have been buying default protection on a basket of companies' bonds using an index of the credit-default swaps, or CDS. Mr. Iksil has been selling the protection, placing his own bet that the companies won't default.

Mr. Iksil, who works primarily out of London, has earned around $100 million a year for the bank's Chief Investment Office, or CIO, in recent years, according to people familiar with the matter.

There is no suggestion the bank or the trader acted improperly.

Mr. Iksil didn't respond to calls and emails seeking comment.

J.P. Morgan said the CIO unit is "focused on managing the long-term structural assets and liabilities of the firm and is not focused on short-term profits."

The bank added, "Our CIO activities hedge structural risks and invest to bring the company's asset and liabilities into better alignment."

Kavi Gupta, a trader at Bank of America Merrill Lynch, wrote a message to investors Thursday about the mystery trader, saying hedge funds are accelerating wagers against "the large long," or bullish investor. "Fast money has smelt blood," he wrote. Bank of America declined to comment.

The hedge funds are wagering that the cost of default protection using the index will increase, potentially putting Mr. Iksil in a money-losing position and forcing him to reduce some of his holdings.

Buying protection on the index is currently cheaper than what it costs to protect the index's component companies individually.

Any reduction in Mr. Iksil's position could result in profits for the hedge funds and losses for the bank, according to a person familiar with the matter. There is no indication that any such reduction is planned.

J.P. Morgan Chase has emerged from the financial crisis as one of the strongest global banks, and Chief Executive James Dimon often boasts of the company's "fortress balance sheet."

Mr. Iksil's trades are partially hedged, or protected by some offsetting trades, according to people close to the matter. Mr. Dimon is regularly briefed on details of some of the group's positions, these people added.

One person familiar with the matter said the bank has run tests that show Mr. Iksil's positions likely will be profitable in any economic or market downturn.

Some analysts who follow J.P. Morgan Chase, the biggest U.S. bank by assets, said they weren't aware of the group's trading. "They've talked about their investment strategies and procedures and risk controls but haven't highlighted this division," said Gerard Cassidy, a banking analyst at RBC Capital Market.

J.P. Morgan said the CIO unit's "results are disclosed in our quarterly earnings reports and are fully transparent to our regulators."

Mr. Iksil, who has worked at J.P. Morgan since January 2007, commutes to London each week from his home in Paris, and works from home most Fridays. He sometimes wears black jeans in the office and rarely a tie, according to someone who worked with him.

Mr. Iksil works with two junior traders and focuses on complex trades in credit markets, developing most of his investment ideas and then getting approval from senior bank executives, according to someone close to the matter.

In the past, he often has been bearish on markets and placed trades to express that downbeat perspective, sometimes criticizing colleagues as too optimistic on markets. Some of his best performances have come during market downturns, though he has also made trading mistakes in volatile times.

However, Mr. Iksil has turned more upbeat recently. He has been selling protection on an index of 125 companies in the form of credit-default swaps. That essentially means he is betting on the improving credit of those companies, which he does through the index—CDX IG 9—tracking these companies.

Mr. Iksil has done so much bullish trading that he has helped move the index, traders say. Now, even as Mr. Iksil is selling credit protection on the company index, a number of hedge funds and other investors are buying protection on it.

Some investors say they are betting that Mr. Iksil could have to exit some of his bullish trades, perhaps because the pending Volcker rule limiting bank risk-taking would push up the cost of credit protection. J.P. Morgan has said the Volcker rule doesn't prohibit its CIO unit from investing or hedging activities.

A sign of how hot the trade is: The net "notional" volume in the index ballooned to $144.6 billion on March 30 from $92.6 billion at the start of the year, according to Depository Trust & Clearing Corp. data.

Write to Gregory Zuckerman at gregory.zuckerman@wsj.com and Katy Burne at katy.burne@dowjones.com

Bloomberg
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JPMorgan Trader's Positions Said to Distort Credit Indexes

By Stephanie Ruhle, Bradley Keoun and Mary Childs - Apr 6, 2012

A JPMorgan Chase & Co. (JPM) 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 may be 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, they say they've taken the opposite side of transactions and that his orders are the biggest they've encountered. Two hedge-fund traders said they have seen unusually large price swings when they were told by dealers that Iksil was in the market. At least some traders refer to Iksil as"the London whale," according to one person in the business.

Joe Evangelisti, a spokesman for New York-based JPMorgan, declined to comment on Iksil's specific transactions. Iksil didn't respond to phone messages and e-mails seeking comment.

Most-Active Index

The credit indexes are linked to the default risk on a group of at least 100 companies. The newest and most-active index of investment-grade credit rose the most in almost four months yesterday and climbed again today.

The Markit CDX North America Investment Grade Index of credit-default swaps Series 18 (IBOXUMAE) rose 3.3 basis points to 100.2 basis points as of 10:18 a.m. in New York, after jumping 4.4 basis points yesterday, according to Markit Group Ltd. The price of the index is quoted in yield spreads, which rise along with the perceived likelihood of increased corporate defaults.

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EXHIBIT #24b

A credit-default swap is a financial instrument that investors use to hedge against losses on corporate debt or to speculate on a company's creditworthiness.

Iksil may have "broken" some credit indexes -- Wall Street lingo for creating a disparity between the price of the index and the average price of credit-default swaps on the individual companies, the people said. The persistence of the price differential has frustrated some hedge funds that had bet the gap would close, the people said.

Close Supervision

Some traders have added positions in a bet that Iksil eventually will liquidate some holdings, moving prices in their favor, the people said.

Iksil, unlike JPMorgan traders who buy and sell securities on behalf of customers, works in the chief investment office. The unit is affiliated with the bank's treasury, helping to control market risks and investing excess funds, according to the lender's annual report.

"The chief investment office is responsible for managing and hedging the firm's foreign-exchange, interest-rate and other structural risks," Evangelisti said. It's "focused on managing the long-term structural assets and liabilities of the firm and is not focused on short-term profits."

Iksil probably traded under close supervision at JPMorgan, said Paul Miller, an analyst at FBR Capital Markets in Arlington, Virginia.

"The issue is how much capital they're putting at risk,"said Miller, a former examiner for the Federal Reserve Bank of Philadelphia.

Volcker Rule

A U.S. curb on proprietary trading at banks, meant to reduce the odds they'll make risky investments with their own capital, is supposed to take effect in July. Regulators are still determining how the so-called Volcker rule will make exceptions for instances where firms are hedging to curtail risk in their lending and trading businesses.

Wall Street banks including JPMorgan, Goldman Sachs Group Inc. and Morgan Stanley have submitted comment letters and met with regulators to discuss their complaints about the rule.

"Several agencies claiming jurisdiction over the Volcker rule have proposed regulations of mind-numbing complexity,"JPMorgan Chief Executive Officer Jamie Dimon said in his annualletter to shareholders released this week. "Even senior regulators now recognize that the current proposed rules are unworkable and will be impossible to implement."

Combined Revenue

JPMorgan had $4.14 billion of combined revenue last year from the chief investment office, treasury and private-equity investments, according to the annual report. The treasury and chief investment office held a combined $355.6 billion of investment securities as of December 2011, up 14 percent from a year earlier, according to a year-end earnings statement.

Chief Investment Officer Ina Drew, who runs the unit, was among JPMorgan's highest-paid executives in 2011, earning $14 million, a 6.8 percent pay cut from 2010, the bank said in a regulatory filing this week. Drew referred a request for comment to Evangelisti.

Iksil has earned about $100 million a year for the chief investment office in recent years, the Wall Street Journal said in an article following Bloomberg News's initial report, citing people familiar with the matter.

Iksil joined JPMorgan in 2005, according to his career-history record with the U.K. Financial Services Authority. He worked at the French investment bank Natixis (KN) from 1999 to 2003, according to data compiled by Bloomberg.

Trader's Position

The French-born trader commutes to London each week from Paris and works from home most Fridays, the Journal article said, citing a person who worked with him.

The trader may have built a $100 billion position in contracts on Series 9 (IBOXUG09) of the Markit CDX North America Investment Grade Index, according to the people, who said they based their estimates on the trades and price movements they witnessed as well as their understanding of the size and structure of the markets.

The positions, by the bank's calculations, amount to tens of billions of dollars and were built with the knowledge of Iksil's superiors, a person familiar with the firm's view said.

To contact the reporters on this story: Stephanie Ruhle in New York at sruhle2@bloomberg.net; Bradley Keoun in New York at bkeoun@bloomberg.net; Mary Childs in New York at mchilds5@bloomberg.net

To contact the editors responsible for this story: David Scheer at dscheer@bloomberg.net; Shannon D. Harrington at sharrington6@bloomberg.net

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>
Sent: Tue, 10 Apr 2012 23:17:16 GMT
To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Subject: Re: Credit

Lovely

From: Braunstein, Douglas
Sent: Tuesday, April 10, 2012 07:14 PM
To: Hogan, John J.
Subject: Fw: Credit

A bit more than we thought

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 steeping of the 1g9 curve. SPECIFIC to our position. No other high grade or high yield index moved much clearly anticipating our liquidation.

I am in the office further reviewing the p l scenario with London and will send it on shortly.

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EXHIBIT #25

From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: Tue, 10 Apr 2012 22:50:48 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>
CC: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Stephan, Keith <keith.stephan@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>
Subject: Net positions vs average trading volumes

CIO Net Positions in Selected Indices vs. 1m daily trading volume:

The below table shows that CDX.IG.9 net position for CIO is $82.2bio, which is approximately 10-15 days of 100% of trading volume based on the 1m avg volume published by JPMorgan Research. ITX.9 net position for CIO is $35bio, which is approximately 8-12 days of 100% trading volume based on the 1m avg volume. For on the run positions the numbers are much smaller, ranging from 0.25 days to 2 days volume in IG and HY, respectively.

cid:image008.png@01CD1696.F4E58380

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

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	30 Mar 2012	1 Week ago	1m avg	LTM avg	[illegible]	
ITRAXX EUROPE SERIES 17	23.9	28.2	25.1	25.1	6.013	0.24
CDX.NA.IG.18	23.6	37.5	30.6	30.6	15.791	0.52
CDX.NA.IG.17	8.3	35.8	17.7	18.9	11.4925	0.65
CDX.NA.IG.9	7	8.6	8.1	10.6	82.234	10.16
ITRAXX EUROPE CROSSOVER SERIES 17	6.9	8.4	7.6	7.6	0.09	0.01
ITRAXX EUROPE SERIES 16	6.8	28.7	16	18.8	12.6035	0.80
CDX.NA.HY.17	6.6	3.8	4.3	3.5	8.0705	1.86
CDX.NA.HY.18	6.3	0	6.3	6.3	0	-
ITRAXX EUROPE SENIOR FINANCIALS SERIES 17	6.1	6.3	6.2	6.2	0	-
ITRAXX EUROPE SERIES 9	5	5.1	4.3	5.5	35.618725	8.33

Source: JPMorgan Credit Derivative Indices Daily Trading Volumes 30 Mar 2012

From: Wong, Elwyn
To: Kirk, Mike
Sent: 5/18/2012 3:20:16 AM
Subject: RE: CIO call with Mike Brosnan

This is just a strategy and not an explanation. And this is Ina Drew speak before she was fired.

They took up a strategy to reduce their make believe voodoo magic "Composite Hedge" linearly to change in 5ryr - 10 yr fwd CDS spread.

I give them first prize for "consistency". But so what? Why were they right and as hindsight would have it, they were wrong.

From: Kirk, Mike
Sent: Thursday, May 17, 2012 6:20 PM
To: Wong, Elwyn
Subject: RE: CIO call with Mike Brosnan

That's the point!

The relationship obviously didn't hold, and I would be if we plotted the graph today the locations would be far from the diagonal…and I be if we had access to the data that the red portion is moving up and farther to the right with each passing day in April

From: Wong, Elwyn
Sent: Thursday, May 17, 2012 5:58 PM
To: Kirk, Mike; Crumlish, Fred; Hohl, James
Cc: Waterhouse, Scott
Subject: RE: CIO call with Mike Brosnan

I was not at the April 16 meeting. But let me venture to guess what it is trying to say.

[cid:image001.png@01CD3459.B17C27D0]

The y-axis is rolling 10 yr cds - rolling 5 yr cds. They had a few Bloomberg graphs showing how this rolled spread from being NEGATIVE in 2008 and 2009 (just like Greece and Italy) towards more normalization when it eventually returned to being positively sloped.

The x-axis is the Hedge Index Composite. I venture to guess this is the aggregate hedge that think they need to put on, related to the aggregate number on the extreme lower right hand side, the $158 .498 mil. They have a whole matrix of longs and shorts and that's the composite. As fear resided and rolling 10 yr minus rolling 5 yr returned to positive, they can reduce their total hedge. As Mike said, the REDS are which they are at now --- so their hedge is not that unreasonable, IF THE HEDGE AMOUNT DID HAVE THIS RELATIONSHIP TO THE SLOPE of 5yr to 10yr CDS

The sentence which is somewhat perplexing is "the relationship is bounded by the off-the-run HY shorts and the on-the-run IG shorts. Meaning that this is their core hedge?

[cid:image002.png@01CD3459.B17C27D0]

The whole scenario thing about convexity is talking their book/advertizing - in a panic situation, people will run to put protection in the short end and not the long end. So the curve FLATTENS again like in 2007. In other words, their hedge has analytical underpinning. Not only are they reducing their short risk hedge prudently according to the slope of the 5yr -10yr, as plotted on Bloomberg, the flattener would have been a safe bet because in case they were reducing their hedge too fast and the economy tanked against, the built in flattener would be there to help.

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EXHIBIT #27

From: Kirk, Mike
Sent: Thursday, May 17, 2012 4:51 PM
To: Crumlish, Fred; Hohl, James; Wong, Elwyn
Cc: Waterhouse, Scott
Subject: RE: CIO call with Mike Brosnan

Fred,

Happy to join you in your calls with Mike B.

In respect to your questions, in the order asked:

· The graph on page 7 shows the slippage of their portfolio compared to the hedge. The closer to the diagonal the more closely the hedge tracks the portfolio. The red highlighted area is recent period they were discussing where hedges were breaking down, and markets were not moving according to their modeled projections based upon historical correlations.

· To make the chart you would need two items. A targeted portfolio and a hedge portfolio. We could ask for this chart of the strategy prior to re working the hedge position to remove part of the hedge (why we were told they decided to sell IG with fallen angels). This request may be instructive and could settle the issue of whether the original portfolio was an effective hedge. P&L for previous 4 years, however, was fairly reasonable, so that would tend to support the banks statement that the hedge worked well for years. It went astray when they reduced the hedge.

· I think Matt Zames would likely have a different view of the choice of strategy with hindsight being a benefit. Position really went bad as shown in March/April, question is did the London desk continue selling in IG in April with the curve steepening and spreads widening and basis (to theoretical) trading rich. This is something we do not at this time know.

· You can give Mike B my cell phone number.

Please note Elwyn and James will likely have quality information to add so you may want to wait to hear from them before passing along.

Regards,
Mike

From: Crumlish, Fred
Sent: Thursday, May 17, 2012 4:22 PM
To: Kirk, Mike; Hohl, James; Wong, Elwyn
Cc: Waterhouse, Scott
Subject: CIO call with Mike Brosnan

Scott and I spoke to Mike Brosnan today about what we were doing now and going forward on the CIO book. We will likely have a call with him frequently, and, particularly with respect to the intricacies of the position, will need to include you.

A couple of things specific to the pre-April 16 interactions and some of the emails that are circulating:

- I told Mike B that the Joe Sabatini emails with selected position information were sent by the bank after initial OCC and FRB enquiries. We concluded that this information was pretty much useless, as it did not tell us what was happening risk wise. We also talked about a couple of those other emails, but I emphasized that the culmination was getting a meeting with Ina Drew and company on April 16.

- With respect to the April meeting, Mike B. is going through the "synthetic credit deck" and he had a few technical questions, not all of which I was able to fully answer since I didn't recall or had been focusing on other issues and didn't think of those questions. With respect to this presentation:

o Mikeand James: Please have a look at your notes for page 7 as I wasn't fully able to explain the graph on the bottom. Also if you have details on the scenario description on page 11, we should pass that along.

o It would be nice at some point if we could get a chart such as that on page 5 *before* the position was put on. Maybe we will request it, maybe not. Let's see if we need it after going through new reporting

o More to the point, I told Mike that the bank would likely not stand behind (aside from a statement that it was the best they knew at the time) this analysis at this point, as the position turned out to be far more problematic than presented and so the description of risk was missing.

o Mike Kirk - as usual, don't be surprised if Mike just calls you sometime.

- I told Mike that next Monday we will be going over current risk reporting and positions in more detail, as the reporting is evolving. He might want to speak with us shortly after. I'd expect to have Mike and Elwyn to help speak to technical details etc.

So, keep your notes current. All emails get circulated widely, and of course generate questions.

- apc

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EXHIBIT #28

Date	Distance	iTraxx	CDX.IG	CDX.HY	iTraxx.Main S9 10y	CDX.IG9 10y	CDX.HY
12-Mar-12	(202,543,647)	(59,050,049)	(90,077,977)	(53,415,621)	3.0	2.0	0.17
13-Mar-12	(206,639,426)	(61,372,979)	(89,698,506)	(54,687,653)	3.5	2.0	0.18
14-Mar-12	(268,984,074)	(82,396,799)	(136,202,780)	(58,279,879)	4.0	3.0	0.18
15-Mar-12	(292,470,549)	(83,045,952)	(181,254,945)	(37,635,855)	4.0	4.0	0.12
16-Mar-12	(498,717,231)	(100,525,860)	(158,706,386)	(107,356,237)	5.0	3.0	0.34
16-Mar-12	(432,348,435)	(130,119,511)	(143,345,094)	(107,356,237)	5.0	3.0	0.34

Distance YTD	iTraxx.Main S9 10y	CDX.IG9 10y
(426,488,692)	8.6	5.7
(430,584,471)	10.0	5.7
(492,929,119)	9.0	6.8
(516,415,593)	7.8	7.8
(722,662,276)	13.9	8.4
(656,293,479)	12.0	7.2

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Fri, 16 Mar 2012 18:12:42 GMT
o: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: update on Core PNL

From: Iksil, Bruno M
Sent: 16 March 2012 17:34
To: Martin-Artajo, Javier X
Subject: update on Core PNL

The divergence has increased to 300 now ; the rescap news is pushing the tranches and HY indices against us.

I worked on the IG9 ans main S9 a bit today. There is some size. Not large. But if I trade 2 bps tighter, I reckon there will be size.

Tactical starts being impacted despite the trading gains. Small though. But the hits show anywhere but the spots I tried to correct.

It has been like this since the start of the year and the drift keeps going. I reckon we get to 400 difference very soon.

:uno

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Fri, 23 Mar 2012 11:13:55 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject: Re: Synthetic Book - URGENT

You guys need to get irv and call hogan and explain. I can give him a heads up. Smart to involve ashley. More later

---

From: Martin-Artajo, Javier X
Sent: Friday, March 23, 2012 06:48 AM
To: Drew, Ina
Cc: Macris, Achilles O
Subject: Synthetic Book - URGENT

Ina ,

during the last week we have been trying to work on our best path for the Synthetic Book trying both to reduce our overall RWAs and get the book in a balanced way . The problem with this has been that we have engaged in a dialogue with Risk Management(Ashley Bacon) , QR (Venkat) and the IB (Guy America and Daniel Pinto) and this has resulted in a hightened alert about our positions in the IB and is really hurting us in various ways .

While we have been reducing the VAR and SVAR we have increased our overall RWAs because of the increase of the IRC (New to CIO given the problems that we highlighted with QR) and also we have worse marks against our current book .

We are left here with two options :

Option A : We do not settle with the IB : we do not change the current book and exceed the RWA that is going to be in the region of 44-47 Bln (this has to be confirmed by QR next week) . This option will have a bad month end mark P/L impact 0 to -150-200 MM . This is our favoured choice that gives us time to correct mistakes with QR , positive carry and upside on defaults . We would still need to reduce RWA by reducing our IRC or joining the IB with reducing the CRM outside . So this will be a mark to market P/L problem and we are left with a book that has positive carry and upside on defaults .

Option B :we settle with the IB : we close the extra long position with the IB and we will have a book that is not as well balanced will have a short bias , will reduce RWA by 10-15 Bln and have an impact on P/L that could be as large as - 350 MM . This loss will be permanent and would leave the book with a small negative carry and option on defaluts but a permanent loss for the book .

In any case it is very important that we need to let the IB know that we need to talk to them to stop this negative espiral that we are seeing in the market because we have disclosed too much information to them and we are severily affected by this . Specifically on the long IG 9 position that is getting the attention of the market .

I need to discuss this as soon as posible

regards

From: ACHILLES <macris@[redacted]
Sent: Fri, 06 Apr 2012 20:29:53 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: InaDrew <ina.drew@jpmorgan.com>
Subject: Re: Update

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

The issue remains; what is "fair value" for the IG9, as this will drive the marks.

As the IG9 is not "pure play" IG due to the risky HY names included, the regular IG participants are not likely to be supporting it. Therefore, relatively small selling (against single names etc) could drive the marks further.

In our case, we are ultimately secure on those risky names (as they are included in our HY short), however we must project what the possible negative marks may be resulting in P+L terms and what would be the exact market mechanism to stabilise the series absent an event.

From: Martin-Artajo, Javier X
Sent: Friday, April 06, 2012 07:59 PM
To: Drew, Ina
Subject: Update

Ina ,
I just had a conversation with Achilles and I would like to update you on two topics : one relates to compliance and another one relates to work I am doing on the book to estimate the worst case P/L for Q2 .

Redacted by the Permanent Subcommittee on Investigations

In terms of the worse case scenario for us for Q2 I am redoing the work once again to make sure that if we exclude very adverse marks to our book the potential loss due to market moves or any economic scenario including defaults would not exceed a number higher than - 200 MM USD at the end of Q2 with the current book as it is . I will have all the numbers ready on Sunday afternoon NY time and send it to you as soon as I have them .

I will send this information and an update from compliance too on Sunday .

Best regards

Javier

Call #5601530708350439469,

Julien: Bruno? It's Julien. I'm at minus 4 with a lot of effort, plus 2 points. I can do better but...

Bruno: No, don't waste your time, it won't help. Check the new trades because I don't think.there are as many winning trades. I did some "coquilles" in the booking.

J. There's 500mln de F9 10Y. I think that's BNP

B. No, 500 mln, I applied at 143 I think.

J. At what level on the 5Y?

B. 93.

J. Oh yes, OK, that's much tighter, you have 9, 9.50, you lose a lot. [discussion] It's logical.

B. Yes, yes.

J. Do you know what you did with nealia?

B. I went ahead at 30.

J. In fact it's flat, with the Delta, it's flat.

B. Yes.

J. 250 mln of 5Y, what level?

B. 121 and something.

J. 121?

B. 100,000, yes, there's about a million there.

J. Yes. The big items, 450 of...

B. yes, you mark 5/8, right?

J. No, I was obliged to mark at 3/8.

B. So that makes...that will [...] a lot.

J. you projected at what level?

B. 3/4

J. Yes, that makes 1.7 mln, 1.6 mln.

B. This makes no sense. Is [ ] still there?

J. Yes, he's locked away. But he seems relaxed, I don't know what you told him just now. He said not to worry, not to worry.

B. But there is no hope, these are contracts of "debils" (idiots). I'm in the middle of analysing something – at the end of the afternoon we did the book and it's much smaller than it is today, and if they had applied the RWA methodology that we are going to use, in fact this makes a huge difference.

J. Wait a second, can we send 2.1 on "tactico?"

B. Yes. [unintelligble – but I think he is saying something of the family of...I will take it up the as$]. 300 minimum, minimum.

J. Days like this are hard when you look at the basis that is narrowing...

B. No, there is no way, look at a class, we take 300 mln of new PnL

J. You did this today?

B. No, these are not real new trades, just exercise of options, there's a freakout, no one is able to explain what happened.

J. Did you speak to [...]

B. Yes, yes. He says nothing, I find that ridiculous. I'll send you the thing I sent.

J. You sent something to propose doing that?

B. Yes, that's what I sent when you said it was at 300. I can't keep this going, we do a one-off at the end of the month to remain calm. I think what he's expecting is a remarking at the end of the month, you can't do it unless it's monthend. It's clear that I'm the [ ]. He can't imagine a bank, a dealer, a hedge fund [unintelligible]. I don't know where he wants to stop, but it's getting idiotic. OK, go ahead with the commentary.

J. Yes, I agree. I think what he's expecting is some hope on the rolls.

B. No, but it's exactly that that he doesn't understand, he doesn't understand, there is no roll, there isn't, you see, that's all. And Monday we'll start with a $100 gap and end the week with a $300 gap. The market has done nothing, it's rallied.

J. And instead there has been movement on the [CLM] that could have justified some things.

B. No, I looked at that, it's not that clear. It's off by 50.

J. Where do you see the 50?

B. 30, 32.

J. That's before the marking.

B. Yesterday it was at 30 mid, today it's at 30 and a half mid, on the same quoter. Today it's almost normal. Once we get the feedback we need to ask what was the RWA now with your way of looking at the book at the beginning of the year, beginning of 2011 because in my opinion there is a huge mistake. The more I think about it, the more emotional I am, looking at the book in 2010, there was no reason to do work on the RWA at the time. When I see the DRE on the PnL, we had DRE on the PnL, there were aggressive movements on the book of the same type, but it was 3 times, maybe 4 times smaller. There's no use, it's ridiculous, it's ridiculous. I tried to call him but he didn't answer, I don't want to ruin his long weekend. Did you tell him that the difference was so high or not?

J. No, because it was before I did the estimates.

[unintelligible – difficult to understand]

B...Yes, but a marginal difference means we should have recouped ...now it's worse than before, I don't want to overstate it but it's worse than before, there's nothing that can be done. This is the first time I've ever seen this, there's nothing that can be done, absolutely nothing that can be done, there's no hope. There is no solution, the book continues to grow, more and more monstruous. Can you send me the prices of where you are? Send me the positions in advance so I can make my comments because I don't want to ruin my weekend on that. At this point we need to be lucid with the solutions. Someone is calling me...it's [ralia], ciao.

J.

03/16/2012 12:19:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 12:19:43 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i have the loss

03/16/2012 12:19:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
right?

03/16/2012 12:19:55 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the new trade pnl is f*ck up because the prices are stupid, have a look into new trade tab

03/16/2012 12:20:01 LUIS BURAYA, JPMORGAN CHASE BANK, says:
th call 1300

03/16/2012 12:20:29 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the FV should be 105.11, that it is where it is closed. I don't understand why they are still pricing it at 998.29

03/16/2012 12:21:06 LUIS BURAYA, JPMORGAN CHASE BANK, says:
same with the call 1350 and with the call 1160

03/16/2012 12:21:13 LUIS BURAYA, JPMORGAN CHASE BANK, says:
and 1320

03/16/2012 12:21:21 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the FV should equal the price

03/16/2012 12:21:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
how and when does this clear?

03/16/2012 12:21:29 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the ESDP is 1405.11

03/16/2012 12:21:39 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the reported pnl is correct

03/16/2012 12:21:43 LUIS BURAYA, JPMORGAN CHASE BANK, says:
or should be

03/16/2012 12:23:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
do you follow me?

03/16/2012 12:35:25 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
SX5E vol going very bid into the close, very squeezy, outperforming the rest of europe by 30bps across the curve.

03/16/2012 12:36:46 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room
03/16/2012 12:39:18 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 12:50:55 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room
03/16/2012 12:54:30 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 12:57:46 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
Bruno : Tactical pnl 1st draft -7.3M USD

03/16/2012 12:58:07 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
block 4 -8.4M divs +1.8M

03/16/2012 12:59:37 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
block 4 detail : 71 eur +3.5M / 71 USD - 5M / 75 USD -7M / 74 + 76 +0.6M (atlas is +1.3M)

03/16/2012 12:59:49 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Recovering from yesterday

03/16/2012 13:01:05 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
what do you want us to do Bruno ?

03/16/2012 13:06:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 13:06:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
is the atals pnl correct?

03/16/2012 13:07:22 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Reported pnl should be correct

03/16/2012 13:07:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
However

03/16/2012 13:07:27 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
with the option expiry I cannot guarantee that

03/16/2012 13:07:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
so new trade is correct

03/16/2012 13:07:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
?

03/16/2012 13:07:43 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
my reported pnl is wrong in the strats where I have expiring options

03/16/2012 13:08:24 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The options are misprice in atlas, I don;t know the situation in Scala.

03/16/2012 13:08:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
can you send me the positions eric?

03/16/2012 13:09:08 LUIS BURAYA, JPMORGAN CHASE BANK, says:
If there's pnl coming we will check if it is from those instruments

03/16/2012 13:09:46 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The cash is supposed to correctly reflect the pnl

03/16/2012 13:09:54 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
positions and predict in your mailbox bruno

03/16/2012 13:10:07 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The problem is as usual, the fair value concept

03/16/2012 13:11:45 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Eric, what is the pnl in equities only? In the option rewport

03/16/2012 13:12:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
In MT

03/16/2012 13:12:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
thx eric

03/16/2012 13:12:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
let me see

03/16/2012 13:12:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
where is core pnl here?

03/16/2012 13:14:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
julien?

03/16/2012 13:16:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
yes

03/16/2012 13:16:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
306

03/16/2012 13:16:45 JULIEN GROUT, JPMORGAN CHASE BANK, says:
hy taking a beating today actually, esp in tranches

03/16/2012 13:16:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 13:17:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
so the pnl in tactical is doen wiht thos eprices that brings up 306 in core right?

03/16/2012 13:17:34 JULIEN GROUT, JPMORGAN CHASE BANK, says:
correct

03/16/2012 13:17:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 13:17:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i think u should set ig9 levels as follows

03/16/2012 13:18:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
5 yr at 72

03/16/2012 13:18:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
7yr at 88

03/16/2012 13:18:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
10 yr at 110

03/16/2012 13:18:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
well rite now i am 70.25 86.25 109.75

03/16/2012 13:19:00 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ref 88.75

03/16/2012 13:19:17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
i will use your levels

03/16/2012 13:19:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i see ur levels

03/16/2012 13:19:34 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah ok

03/16/2012 13:19:37 JULIEN GROUT, JPMORGAN CHASE BANK, says:
one sec

03/16/2012 13:19:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
or u do the corrections ur self

03/16/2012 13:20:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i do not mmind

03/16/2012 13:20:04 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Be back in 15mins

03/16/2012 13:34:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
sent an Email to javier anouncing this is more 300 now

03/16/2012 13:34:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
that was 100 Monday

03/16/2012 13:34:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
it is 300 now

03/16/2012 13:34:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
1000 for month end?

03/16/2012 13:35:08 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
ouch

03/16/2012 13:35:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
well that is the pace

03/16/2012 13:45:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
any update JUlien?

03/16/2012 13:47:57 JULIEN GROUT, JPMORGAN CHASE BANK, says:
still working on this, sorry it's taking time

03/16/2012 13:48:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i am sorry too

03/16/2012 13:48:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
this is the end

03/16/2012 13:48:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
?

03/16/2012 13:48:18 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
hey hey

03/16/2012 13:48:24 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
no talk like that

03/16/2012 13:48:29 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
cheer up

03/16/2012 13:48:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes JP
will not lose a cent on this

03/16/2012 13:48:59 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
we'll see

03/16/2012 13:49:10 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
one day after the other

03/16/2012 13:49:20 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
like in 09

03/16/2012 13:49:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
no

03/16/2012 13:52:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok call me when u have something ready

03/16/2012 13:53:34 JULIEN GROUT, JPMORGAN CHASE BANK, says:
will do

03/16/2012 13:53:40 JULIEN GROUT, JPMORGAN CHASE BANK, says:
sorry it's taking so long again.

03/16/2012 14:04:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno 9m de new trade?

03/16/2012 14:04:38 JULIEN GROUT, JPMORGAN CHASE BANK, says:
currently -4m

03/16/2012 14:04:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
core

03/16/2012 14:06:21 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
tactical now +2.1M

03/16/2012 14:13:21 ERIC DE SANGUES, JPMORGAN CHASE BANK, has left the room
03/16/2012 14:55:50 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room
03/16/2012 14:58:47 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 15:00:36 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room
03/16/2012 15:17:02 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room

TRANSCRIPT OF AUDIO RECORDING PRODUCED TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Date: Undated (likely late April 2012) Telephone Call
Parties: Javier Martin-Artajo, Ina Drew, Gina Serpico
Identifier: JPMC Box 10\20120827_Audio Documents\20120827_PSI-A_WH\NATIVES\ JPM-CIO-PSI-A 0000076.wav

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Mr. Martin-Artajo: JP Morgan.

Ms. Serpico: Yes, may I please speak to Javier?

Mr. Martin-Artajo: Yeah, it's me.

Ms. Serpico: Oh, hi! I don't recognize your voice. It's Gina. Can you hold for Ina,please?

Mr. Martin-Artajo: Sure.

Ms. Serpico: Thank you. [Speaking to Ina] It's Jav-

Ms. Drew: Hi.

Mr. Martin-Artajo: Hi, Ina.

Ms. Drew: Excuse me. Just so you know, I tried to call Achilles. You might want to let him know.

Mr. Martin-Artajo: 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, and he needs to take the pressure off in terms of penciling in a number quickly.

Mr. Martin-Artajo: 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 brief update on, you know, what the P&L might look like. It looked like the curve, the forward curve was flattening a little.

Mr. Martin-Artajo: Yes. We are going to be showing a slight positive today. I just want to confirm that with Bruno. 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

Permanent Subcommittee on Investigations
EXHIBIT #32c

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. Martin-Artajo: 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, we don't know where the market is trading, so really –

Ms. Drew: I understand.

Mr. Martin-Artajo: Because the bid/offer spread is a little bit wide, it's getting better every day so we are within the bid offer spread. 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?

Ms. Drew: The curve that I put on, Manish put on the screen for me with Julien's help, that it was starting to, point upwards slightly.

Mr. Martin-Artajo: Yeah. Yeah, it is starting to get a little better. The only thing is I don't know how much it's trading and I don't want to, I, I, I don't want to show the P&L until these guys confirm. I mean we are normally quite conservative in that. And, and I, you know, you know, if, if, if the price gets outside the, the bid-offer spread, then we mark that, ok? So, so 3 bps as you know is 150 bucks.

Ms. Drew: Yeah.

Mr. Martin-Artajo: So the instruction to you that we have here is probably around $100 million, ok? 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 3bps move 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.

Ms. Drew: Here's my guidance. It's absolutely fine to stay conservative, but it would be helpful, if appropriate, to get, to start getting a little bit of that mark back.

Mr. Martin-Artajo: Exactly, I know.

Ms. Drew: If appropriate, so you know, an extra basis point you can tweak 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.] –

Mr. Martin-Artajo: 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. Martin-Artajo: 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. Martin-Artajo: 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. Martin-Artajo: Thank you, Ina. Thank you.

Ms. Drew: Call if you need me. Bye.

###

May 8, 2012

<u>Javier Martin-Artajo and Alistair Webster Conversation</u>

Javier: Hi Alistair

Alistair: Hey how are you?

Javier: I'm good man, tell me

Alistair: I have a very quick question for you. Apologies for pestering you on this.

Javier: Yeah, no no that's absolutely fine. Tell me..

Alistair: So I have, we've obviously been through a lot of detail on sort of pricing moves and how we got to where we got to at each position level.

Javier: Yeah.

Alistair: But there's just one sort of trend that I'm being asked for a sort of sense of how we think it happened from a trend perspective.

Javier: Right

Alistair: And that is if we look at the 18. You remember our famous population of 18?

Javier: The 18? What is the 18?

Alistair: The 18 positions that we reviewed with Doug.

Javier: Yeah.

Alistair: So if I look at those back in January, the front office marks were all either mid or somewhere close to mid.

Javier: Right.

Alistair: That..

Javier: In terms of conservative and aggressive. That's what you're asking?

Alistair: Well, it's subtly different, subtly different.

Javier: Okay.

Alistair: But they were, none of them were actually at the boundaries of the bid or offer.

Javier: Right.

A: So then when, if we roll forward to March, if the front office marks had migrated, not all of them, to the aggressive side, most of them, not all of them, to the aggressive side, but they've also migrated from either mid to somewhere close to being at the, you know, the bounds of the bid or offer.

J: Yeah, but I think that's because we were trading there. I think that's because we were trading them, quite heavily.

A: Um hmm. In March..?

J: Yeah, in March we were not trading as, I mean, we traded as I mean, to be honest with you, we traded a lot in March and we traded a lot in January. We didn't trade as much in February right? I mean, that that's kind of how it went for us. We traded a lot in January and we traded a lot in the middle of...towards the, I think, the peak of the trading was like the 20-23rd of March. That's when we traded a lot. So we were on one side of the market obviously because that's what we were doing.

A: But would that be, if you were trading would you, you would be on the conservative side of the market as opposed to the the aggressive side, right?

J: If you're trading, I don't understand your question.

A: I think that..

J: I mean are you saying that we had a trend at the end of the month to mark a little bit towards more one side of bid offer as opposed to the trend that we had at the beginning of the year. That's what you're saying right?

A: Yeah, cause before the beginning of the year you guys...

J: Okay two things. One is that at the end of March we really traded a lot and second, that, I don't think the traders have that bias to be honest with you. I don't think so. I mean, listen, you can have any interpretation you want, but,...

A: Agreed.

J: I don't think so. I do not think that they were, let's not forget that we stopped trading at the 28th of March, cause Ina just wanted us to stop trading, so maybe the last three days, I mean, if you're asking about the last three days we traded less. I don't think they changed the way they mark their books to be honest with you. I don't think that's what I would say happened.

A: Um hmm.

J: What I would say happened is that the most surprising thing to me that, and I told you before and I will tell you again Redacted Attorney Client Privilege

A: Um hmm.

J: The thing that I experienced that was incredibly strange to us, right, is not only that you're telling us about about mid offer spread, but we were actually finding very surprising is a move between the actual marks that we mark the book at the end of the month okay...

A: Um hmm.

J: and what we got from Markit and Totem three days later, okay.

A: Um hmm.

J: That is an incredibly surprising thing to me and to the traders. How much that difference was. So what my conspiracy theory is telling me is that there's information between when we close our books at the end of March and where they agreed where the market was three days later.

A: Um hmm.

J: That is very very difficult for me to explain and, to be honest with you, I still don't know, I mean I still don't know why that happened. I'm still looking into it and I will never give up until I find out what happened there. My guess is that they were already, Bloomberg and Wall Street Journal were already writing their story so so their story was ready then. I think they were ready to publish it. I think they only needed to confirm a few things and they just delayed it for one week. So I think that information was already in the dealers and the hedge funds to be honest with you. that is a big move for me, and when we look at the actual move of that and we look at how the difference of our book marks at the end of the month, and when I look at the IB marks at the end of the month that they gave us, and I look at Totem marks, what surprised me incredibly was the same amount that the IB would have priced our book at was actually the price that at which Totem would have marked it. Now, I think that is very very very interesting to look at that and compare to the quotes that we had from JPMorgan at the end of of March.

A: Um hmm.

J: and that is an amazingly, interesting thing for you as an auditor and as an accountant. I'd love you to help me with that once this is a little bit less critical, because...

A: Okay

J: I do not know, I don't understand how can it be that the quotes we get form our own IB and from the market that we trade on on the end of the month and during the day of the end of the month, which, you see the history of that ...

A: Um hmm.

J: You..then, you see what happened when the Totem numbers were published.

A: Um hmm.

J: This is an amazing thing for me and not only that, what is amazing to me is that the actual IB marks agree with Totem marks which is even more surprising to me, so this is what I would say is more than where the traders mark their book which I would like to, you know, I don't think they have a bias. I still don't think they have a bias now. I do think that on April 30th, I think you're going to see the same thing. I think, I mean Ashley was saying the same thing as your're telling me.

A: In April it would revert back to the norm in the sense that there's some mid, some, somewhere between bid and offer, and that there's two...

J: I know you're saying that, but let me tell you what Ashley told me. He says that we are not. He told me that I should be even more conservative than that, so, there's lots of opinions on this.

A: Oh no, I have to agree with that...

J: This is an OTC market. We trade in the markets. We have an interpretation. We are changing it into what you guys are guiding us that we should do and we're going to do it. I mean I will do what the Firm wants me to do. I just, you're asking me if I think that the traders had a change in the way they marked their books. I don't think so. To be honest with you, we traded less at the end of March, the very last three days of March, but, we were very alert on what the close would be because it was very material for us since we had been losing a lot of money that week. And the books experienced a very large drawdown that week. So obviously these guys were looking at the markets, you know, even more attention than ever. On Friday as you can see, the market was very volatile and also that explains quite a lot of things if you look at the spreadsheet I sent you.

A: Um hmm.

J: But I wouldn't say that we were aggressive or particularly aggressive in March. I wouldn't say that. I would say that it it was very difficult to mark books even though we didn't trade as much then and I don't think that. I don't feel that, I was aggressive to be honest with you. Doug's asked me that three times already.

A: Um hmm.

J: You're asking me twice, umm.

A: No no I'm not, I'm not.

J: And Ashley is already asking me. Ashley is asking me the same thing. Look, first of all, I wasn't aware that this was going to be an issue because I wasn't, I mean I don't, I don't, you know, mark books. You know we have a lot of valuation processes that you know very well.

A: Um hmm.

J: and you know, we contribute to the marking of the books. As you know, we do the estimates and the best estimates that we can. Today we still have issues because today, I was just before this meeting, trying to explain, you know again, you know, how we did it for last week. So it's not exactly like we are yet with a firm way to explain this. Unfortunately, it's difficult to to get to the right methodology. We differ from the IB--we trade at different times we have different different markets and, I know that the firm wants us to have one standard but you know that I think it's difficult to agree with that because you know I was still I'm still doing this in parallel to see what it means for our book, and I think we're going to get a lot of volatility if we do that so I think it's better if we actually get some tolerance which is lower and we try to price everything in ICE or Markit everyday. And then the tranches do what the guys are doing, which is give the best estimate based on the quote, so at least we align the indexes with ICE and or Markit. And I'd like to do that-- more than aligning that to the IB quotes. I really think that having the IB quotes is a problem and I don't want to be, you know, dealing with that. I think that the IB has a different business model and they are buyers on certain things and they don't trade quite a lot of the things that we own, so I think Markit or ICE is the reference we should use, or close to that, and then, you know, without interpretation of the traders, so no interpretation on that and then we do what we can on the tranches. I think this would remove some of the bias I think that you are referring to.

A: Um hmm, the possible bias, the possible bias.

J: I don't think there was a bias to be honest.

A: Understood.

J: Is that what you wanted from this call?

A: No, I mean, to be honest with you, I mean you you can interpret it any which way you want to and I'm not here to accuse you or anything like that. It was more, just a sort of, someone will ask that, you know, cause obviously we've documented everything you've done and you know we've been through the process, position by position, and well, they say, well they did this on that one and what they did with this on that one. I was just trying to catch if there was some sort of general trend you know and essentially what you articulate is look, you know, less trading at the end of the month, you know potentially the information is already out there so the banks are starting to move against us and there's volatility in the market.

J: That is basically what I am saying.

A: So that was very helpful.

J: Ok, you're welcome.

A: As always, Javier, I'm not certainly not trying to, you know, be an accuser. I'm just trying to get to a grip with everything. I'm just a simple guy.

J: Ok.

A: But I do certainly appreciate all the time and effort that you've put into helping me and you know...

J: I have to say the same Alistair. I, you have to understand, that I get probably, I'm getting between 100 and 150 calls a day. I don't know how many does Jamie Dimon get, but I am sure I get more, but, I'm the only one here, ok, thank you, man.

A: That's why I say I'm grateful...

J: Alrighty.

A: for the time. Thanks a lot.

J: Cheers.

From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Tue, 10 Apr 2012 19:02:01 GMT
To: CIO ESTIMATED P&L <CIO_CREDIT_P&L@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: CIO Core Credit P&L Predict [10 Apr]: -$5,711k (dly) -$626,834k (ytd)

Daily P&L: -$5,710,991
YTD P&L: -$626,833,772

	Daily P&L($)	YTD P&L($)
Europe Financials	-15,447,416	-70,109,112

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Europe High Grade	-72,418,493	-83,026,416

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Permanent Subcommittee on Investigations

Redacted By

Permanent Subcommittee on Investigations

US High Grade	-310,657,048	-178,547,277

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US HY & LCDX	410,592,536	281,987,487

Permanent Subcommittee on Investigations
EXHIBIT #33

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Permanent Subcommittee on Investigations

US ABX / TABX	-774	-26,312

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Permanent Subcommittee on Investigations

New Investments	6,522,635	-529,210,342

Redacted by the
Permanent Subcommittee on Investigations

Dead Books (Core)	-337	1,790

Redacted by the
Permanent Subcommittee on Investigations

Washbook/Costs	0	0
		0

Redacted by the
Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations

Big moves in credit index today. US credit had already taken a hit following Friday's poor NFP report. Today's sell off was amplified by further concerns in the European complex, with Spain (+21bp at 488bp) and Italy (+20bp at 438bp) leading the way wider. This is pushing financials and iTraxx.Main too, and credit is actually compressing in Europe, thus despite the worsening of the economic situation there. This compression is causing a 70M loss today. The loss however is partially compensated by decompression in US credit, with the CDX.HY complex underperforming.

Today saw a significant bear steepening in off the run CDX.IG9 and iTraxx.Main S9 index curves: for instance iTraxx.Main S9 jun18 is underperforming the on the run benchmark index by +3bp while the front end iTraxx.Main S9 Jun13 is outperforming by -2bp . It is difficult to find a catalyst for these moves - one would have expected some flattening in those; despite the substantial move in spreads (and in credit volatility in general) and some flattening seen in single name curves, the front end of these curves is still outperforming. Note that the moves happened in small volumes - if any, in iTraxx.Main S9.

No trade today.

	10-Apr-12	04-Apr-12	03-Apr-12	02-Apr-12	02-Apr-12	30-Mar-12
raxx.Main S17 Jun17						
iTraxx.Main S9 Jun18						
5/10 S9						
5y S9						
iTraxx.Xover S17						
OTE 5y CDS						
PORTEL 5y CDS						
BESPL 5y CDS						
DXNS 5y CDS						
CDX.IG18 Jun17						
CDX.IG9 Dec17						
IG9 5/10						
5y IG9						
RDN 5y CDS						
MBI 5y CDS						
FON 5y CDS						
SFI 5y CDS						
HY10						
HY11						
HY14						
HY15						
HY16						
HY18						
ESCAP 5y CDS						

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Permanent Subcommittee on Investigations

Again, a lot of prices are still being framed and we are providing our best estimate

From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Tue, 10 Apr 2012 20:30:42 GMT
To: CIO ESTIMATED P&L <CIO_CREDIT_P&L@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: CIO Core Credit P&L Predict [10 Apr]: -$394,735k (dly) -$1,015,858k (ytd)

Daily P&L: -$394,735,120
YTD P&L: -$1,015,857,902

	Daily P&L($)	YTD P&L($)
Europe Financials	-15,444,894	-70,106,589

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Europe High Grade	-189,451,352	-200,059,275

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US High Grade	-449,375,200	-317,265,429

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US HY & LCDX	346,055,097	217,450,048

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US ABX / TABX	-774	-26,312

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New Investments	-62,215,559	-597,948,537

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Dead Books (Core)	-343	1,784

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Washbook/Costs	0	0

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Big moves in credit index over the long week end. US credit had already taken a hit following Friday's poor NFP report. Today's sell off was amplified by further concerns in the European complex, with Spain (+21bp at 488bp) and Italy (+20bp at 438bp) leading the way wider. This is pushing financials and iTraxx.Main too, and credit is actually compressing in Europe (iTraxx.Xover outperforming by -9bp), thus despite the worsening of the economic situation there. This compression, along the directional moves in the index, is causing a 80M loss today. In the US the compression is less obvious, although CDX.HY has been outperforming equities.

Today saw a significant bear steepening in off the run CDX.IG9 and iTraxx.Main S9 index curves: for instance iTraxx.Main S9 Jun18 is +15.75bp wider while the on the run benchmark index S17 is +12bp and the front end iTraxx.Main S9 Jun13 is only +7.25bp, thus a steepening +8.5bp; similarly CDX.IG9 Jun17 is marked +12bp wider while the on the run CDX.IG18 is +9bp and the front end CDX.IG9 Dec12 is only +6bp, thus a +6bp steepening. It is difficult to find a catalyst for these moves - one would have expected some flattening in these curves; despite the substantial move in spreads (and in credit volatility in general) and some flattening seen in single name curves, the front end of these curves is still outperforming. Note that the moves happened in small volumes - if any, in iTraxx.Main S9. These moves are causing a loss of 160M in CDX.IG and 140M in iTraxx.Main.

trade today.

	10-Apr-12	04-Apr-12	03-Apr-12	02-Apr-12	02-Apr-12	30-Mar-12
iTraxx.Main S17 Jun17						
iTraxx.Main S9 Jun18						
5/10 S9						
5y S9						
iTraxx.Xover S17						
OTE 5y CDS						
PORTEL 5y CDS						
BESPL 5y CDS						
DXNS 5y CDS						
CDX.IG18 Jun17						
CDX.IG9 Dec17						
IG9 5/10						
5y IG9						
RDN 5y CDS						
MBI 5y CDS						
FON 5y CDS						
SFI 5y CDS						
HY10						
HY11						
HY14						
HY15						
HY16						
HY18						

Redacted By
Permanent Subcommittee on Investigations

From: Hughes, Jason LDN <Jason.LDN.Hughes@jpmorgan.com>
Sent: Fri, 20 Apr 2012 19:07:35 GMT
To: Kastl, Edward R <kastl_edward@jpmorgan.com>
Subject: RE: Credit Index and Tranche Book

Exactly. Marked within bid offer except for the positions where you see an adjustment

Instrument	Tolerance
ITRAXX MN S09 10Y 22-100	5 bps
CDX HY S10 05Y 15-25	0.5 price points
CDX HY S11 05Y 15-25	0.5 price points
CDX IG S09 10Y 00-03	1.5bps
CDX HY S08 05Y 10-15	1 price points
CDX IG S09 05Y 00-03	1bps
ITRAXX MN S09 07Y 22-100	0.75 bps
ITRAXX MN S09 07Y	6bps
CDX HY S10 07Y 10-15	1.5 price points
ITRAXX MN S09 10Y 00-03	0.75 bps
CDX IG S09 10Y 30-100	0.5 bps
CDX HY S11 05Y 10-15	2 price points
CDX IG S09 07Y 30-100	0bps.75
ITRAXX MN S16 05Y	2bps
ITRAXX MN S09 05Y 00-03	0.5 bps
CDX LCDX S10 05Y 12-15	1 price points
CDX HY S11 07Y	0.5 price points
CDX LCDX S10 05Y 15-100	0.5 price points
CDX HY S08 07Y 15-25	2 price points

Regards,

Jason Hughes
CIO Europe
020 7777 3301

From: Kastl, Edward R
Sent: 20 April 2012 19:52
To: Hughes, Jason LDN
Cc: Wilmot, John
Subject: RE: Credit Index and Tranche Book

When you say "most advantageous" you mean within Bid/Offer tolerances, correct? Only the $17mm at the bottom would be outside of tolerance and that is where we posted an adjustment.

Generally speaking, what are the tolerances for these 19 positions?

Ed

From: Hughes, Jason LDN

Sent: Friday, April 20, 2012 2:41 PM
To: Kastl, Edward R
Subject: Credit Index and Tranche Book

Ed, At March month end the CIO FO marked their book at the most advantageous levels based on the positions they held in specific indices and tranches. CIO VCG price tested the positions initially mid versus mid and that resulted in the following adjustments

Global	Differences (Ccy)	Differences ($)
S4 FIN SUB	-18,443,604	-24,560,425
S6_EU	-4,268,031	-5,683,523
S12_EU	0	0
S14_EU	-27,536,181	-36,668,556
S6_US	3,466,609	3,466,609
S18_US	-80,183,976	-80,183,976
S11B_US	2,223,732	2,223,732
S11C_US	5,371,007	5,371,007
S15B	26,090,038	26,090,038
S15C	9,122,647	9,122,647
S15D	-37,088,552	-37,088,552
S9_US	0	0
S27A_US	5,178,854	5,178,854
S27B_EU	-2,285,717	-3,043,776
S27C_US	-61,254,250	-61,254,250
S27D_US	5,492,713	5,492,713
Core Credit Total	**-174,114,711**	**-191,537,457**
Tactical 14_EU	0	0
Tactical 32_EU	-89,449	-119,115
Tactical 70_EU	-19,890	-26,487
Tactical 70_USD	-7,689	-7,689
Tactical 71_EU	-1,067,544	-1,421,595
Tactical 71_USD	0	0
Tactical 75_USD	0	0
Tactical Total	**-1,184,572**	**-1,574,886**
Credit Total	**-175,299,284**	**-193,112,343**

However, based on our normal practice we then applied market derived thresholds to each of the individual positions. If a position was within tolerance then no adjustment was required and if a position was outside tolerance an adjustment was passed to bring it back within tolerance. After applying these tolerances the adjustment became

Global	Differences (Ccy)	Differences ($)
S4 FIN SUB	-2,757,552	-3,672,094
S6_EU	-987,157	-1,314,547
S12_EU	0	0
S14_EU	-2,920,748	-3,889,415
S6_US	2,218,438	2,218,438
S18_US	0	0
S11B_US	0	0
S11C_US	0	0
S15B	0	0

S15C	0	0
S15D	0	0
S9_US	0	0
S27A_US	0	0
S27B_EU	-6,028,625	-8,028,018
S27C_US	0	0
S27D_US	0	0
Core Credit Total	**-10,475,644**	**-14,685,636**
Tactical 14_EU	0	0
Tactical 32_EU	-89,449	-119,115
Tactical 70_EU	-505,906	-673,690
Tactical 70_USD	-7,689	-7,689
Tactical 71_EU	-1,067,544	-1,421,595
Tactical 71_USD	0	0
Tactical 75_USD	0	0
Tactical Total	**-1,670,588**	**-2,222,089**
Credit Total	**-12,146,232**	**-16,907,725**

The difference between the 2 numbers highlights the size of the positions CIO hold and the difference that can result from marking within a normal market bid/offer spread.

Liquidity Reserve

Our policy has been to exclude Series 9 of the ITAXX and CDX IG based on the liquidity of these series as they are still very liquid for the correlation markets. The following table shows the changes we have been able to make to our positions in these indices and tranches during 2012 (Positions are in local currency)

	Dec-31	Jan-31	Feb-29	Mar-31
ITRAXX MN S09 05Y	25,376,375,000	19,682,625,000	13,748,375,000	17,304,875,000
ITRAXX MN S09 05Y 00-03	-2,480,000,000	-2,595,000,000	-2,615,000,000	-2,950,000,000
ITRAXX MN S09 05Y 03-06	35,000,000	-5,000,000	-300,000,000	-360,000,000
ITRAXX MN S09 05Y 06-09	-15,000,000	280,000,000	340,000,000	340,000,000
ITRAXX MN S09 05Y 09-12	25,000,000	165,000,000	280,000,000	280,000,000
ITRAXX MN S09 05Y 12-22	-1,075,000,000	-375,000,000	-175,000,000	-125,000,000
ITRAXX MN S09 05Y 22-100	7,300,000,000	11,300,000,000	7,500,000,000	7,100,000,000
ITRAXX MN S09 07Y	3,855,000,000	3,837,000,000	4,353,250,000	5,016,250,000
ITRAXX MN S09 07Y 00-03	-480,000,000	-480,000,000	-490,000,000	-590,000,000
ITRAXX MN S09 07Y 03-06	-10,000,000	-10,000,000	-140,000,000	-160,000,000
ITRAXX MN S09 07Y 06-09	10,000,000	-25,000,000	-25,000,000	-25,000,000
ITRAXX MN S09 07Y 09-12	230,000,000	180,000,000	180,000,000	180,000,000
ITRAXX MN S09 07Y 12-22	-950,000,000	-750,000,000	-450,000,000	-450,000,000
ITRAXX MN S09 07Y 22-100	6,575,000,000	6,675,000,000	9,975,000,000	10,950,000,000
ITRAXX MN S09 10Y	7,892,750,000	10,573,750,000	10,339,750,000	12,957,600,000
ITRAXX MN S09 10Y 00-03	1,425,000,000	1,415,000,000	1,445,000,000	1,270,000,000
ITRAXX MN S09 10Y 03-06	-220,000,000	-100,000,000	-140,000,000	5,000,000
ITRAXX MN S09 10Y 06-09	160,000,000	270,000,000	270,000,000	380,000,000
ITRAXX MN S09 10Y 09-12	-30,000,000	235,000,000	235,000,000	235,000,000
ITRAXX MN S09 10Y 12-22	-1,015,000,000	-495,000,000	180,000,000	155,000,000
ITRAXX MN S09 10Y 22-100	5,100,000,000	7,775,000,000	12,070,000,000	15,810,000,000
CDX IG S09 05Y	-30,569,500,000	-40,103,500,000	-49,563,000,000	-32,722,500,000
CDX IG S09 05Y 00-03	-2,580,000,000	-2,725,000,000	-2,995,000,000	-3,570,000,000

CDX IG S09 05Y 03-07	-1,090,000,000	-1,355,000,000	-1,395,000,000	-1,395,000,000
CDX IG S09 05Y 07-10	-1,435,000,000	-2,045,000,000	-2,045,000,000	-2,045,000,000
CDX IG S09 05Y 10-15	-2,905,000,000	-2,905,000,000	-2,905,000,000	-2,905,000,000
CDX IG S09 05Y 15-30	-12,215,000,000	-12,215,000,000	-12,215,000,000	-12,215,000,000
CDX IG S09 05Y 30-100	-270,000,000	-270,000,000	-270,000,000	-270,000,000
CDX IG S09 07Y	30,253,500,005	28,885,000,005	33,546,000,005	33,847,000,005
CDX IG S09 07Y 00-03	-705,000,000	-555,000,000	-370,000,000	-405,000,000
CDX IG S09 07Y 03-07	165,000,000	165,000,000	-190,000,000	-215,000,000
CDX IG S09 07Y 07-10	-345,000,000	-345,000,000	-410,000,000	-365,000,000
CDX IG S09 07Y 10-15	-925,000,000	-1,195,000,000	-1,820,000,000	-1,970,000,000
CDX IG S09 07Y 15-30	-4,940,000,000	-5,340,000,000	-6,290,000,000	-6,965,000,000
CDX IG S09 07Y 30-100	10,380,000,000	10,980,000,000	10,780,000,000	11,430,000,000
CDX IG S09 10Y	37,219,500,000	54,764,500,000	67,790,500,000	80,343,500,000
CDX IG S09 10Y 00-03	3,300,000,000	3,290,000,000	3,370,000,000	2,805,000,000
CDX IG S09 10Y 03-07	-20,000,000	60,000,000	-120,000,000	60,000,000
CDX IG S09 10Y 07-10	155,000,000	345,000,000	265,000,000	775,000,000
CDX IG S09 10Y 10-15	-785,000,000	-1,730,000,000	-1,900,000,000	-1,980,000,000
CDX IG S09 10Y 15-30	-1,345,000,000	-2,075,000,000	-2,750,000,000	-3,800,000,000
CDX IG S09 10Y 30-100	11,975,000,000	16,625,000,000	15,875,000,000	16,725,000,000

These moves only show the changes month on month and do not show the significant volumes we have been able to trade intr-month.

Regards,

Jason Hughes
CIO Europe
020 7777 3301

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Fri, 20 Apr 2012 10:27:58 GMT
'o: Bates, Paul T <paul.t.bates@jpmchase.com>
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

---

thx Paul. We can address that partly because it is possible here that BofA and MS are not in line with other market participants.

From: Bates, Paul T
Sent: 20 April 2012 11:23
To: Iksil, Bruno M
Cc: Grout, Julien G; Martin-Artajo, Javier X; O'neill, Rory H; Hughes, Jason LDN
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

Hi Bruno,

The file we were sent only had the top 15 trade breaks with either BOA or MS in it. They were not complete trade lists therefore I do not know the complete valuation difference with each of these Cp's.

Here are the two summary pivots based on the trades we were given:

BOA:

MS:

As you can see the bigger differences are on the Itraxx S9 22% - 100%.

have attached the files with these pivots so you can drill down to look at the underlying .rades.

If you need more details please let me know.

`anks

Paul

-----Original Message-----
From: Iksil, Bruno M
Sent: 20 April 2012 11:00
To: Bates, Paul T
Cc: Grout, Julien G; Martin-Artajo, Javier X
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

thx Paul. Could you help us "decipher" in plain words what we should look at and come back to you on the issues raised here?

-----Original Message-----
From: Bates, Paul T
Sent: 20 April 2012 10:58
To: Grout, Julien G; Iksil, Bruno M
Cc: O'neill, Rory H; Coombes, Hema S; Hughes, Jason LDN
Subject: FW: URGENT ::: Huge Difference for iTraxx & CDX trades

Here are the detailed files we were sent from the collateral guys.

---Original Message-----
From: Hughes, Jason LDN
Sent: 20 April 2012 10:31
To: O'neill, Rory H
Cc: Enfield, Keith; Bates, Paul T; Coombes, Hema S
Subject: FW: URGENT ::: Huge Difference for iTraxx & CDX trades

Rory, Can you liase with Julien on this

Regards,

Jason Hughes
CIO Europe
020 7777 3301

-----Original Message-----
From: Iksil, Bruno M
Sent: 20 April 2012 10:30
To: Hughes, Jason LDN
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

I would like to know the detail of the instruments and the counterparties claiming this. Please `form Julien and Javier about this.

-----Original Message-----
From: Hughes, Jason LDN

Sent: 20 April 2012 10:13
To: Iksil, Bruno M; Grout, Julien G
bject: FW: URGENT ::: Huge Difference for iTraxx & CDX trades

Bruno/Julien, We've had some queries from the collateral group around some of our tranche marks. Major query seems to be on Itraxx Series 9 10year 22-100 tranche. I've had a quick look at some data and my thoughts are shown in the mail below and just wondered if there was anything else you wanted to add (or if I got anything wrong) of if you had any further evidence for the prices.

I'm working from home today but happy to speak on phone if required

Regards,

Jason Hughes
CIO Europe
020 7777 3301

-----Original Message-----
From: Hughes, Jason LDN
Sent: 20 April 2012 09:51
To: O'neill, Rory H; Bates, Paul T; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Coombes, Hema S; Enfield, Keith
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

I've quickly looked into ITRAXX Series 9 10year 22-100 tranche which seems to form the majority of e issues in both files.

AS of 30th March 2012 for this tranche CIO were marked at 33 versus an independent price of 34.75. Considering that the bid offer seen in the market is anything between 3 and 6 bps we considered the position to be marked within tolerance and therefore at fair value. For the same date Dataquery (JPM data but independent of CIO) shows a level of 35.

For 18th April, the date that these files refer to, CIO is marked at 45.75 Dataquery has a price of 48. Even using the tolerances we applied at last month end (which are now probably too tight) we would still fall within tolerance and so from my perspective we still look to be well marked.

It is probably worth confirming with Bruno/Julian but I'm sure with all the sensitivity around the book they are going to be very sure of all their marks.

Any questions let me know

Regards,

Jason Hughes
CIO Europe
020 7777 3301

-----Original Message-----
om: O'neill, Rory H
ent: 20 April 2012 09:23
To: O'neill, Rory H; Hughes, Jason LDN; Bates, Paul T; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Coombes, Hema S; Enfield, Keith

Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

›oth files attached)

-----Original Message-----
From: O'neill, Rory H
Sent: 20 April 2012 09:14
To: Hughes, Jason LDN; Bates, Paul T; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Coombes, Hema S; Enfield, Keith
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

-----Original Message-----
From: Hughes, Jason LDN
Sent: 20 April 2012 08:59
To: Bates, Paul T; O'neill, Rory H; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Coombes, Hema S; Enfield, Keith
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

Paul, Valuations were OK as of March month end. I can't do an intra-month valuation as we don't get sufficient market data especially around tranche positions

Regards,

·son Hughes
.IO Europe
020 7777 3301

-----Original Message-----
From: Bates, Paul T
Sent: 20 April 2012 08:46
To: Hughes, Jason LDN; O'neill, Rory H; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Coombes, Hema S; Enfield, Keith
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

Rory, Can you and James check all the trades are ok and they are getting the correct MTM fed down. Have they sent us the full population? Do we know the size of the difference?

Jason, Can you look in detail at these valuation differences and check that you are happy with our current marks on these instruments.

Thanks

Paul

-----Original Message-----
From: Hughes, Jason LDN
nt: 20 April 2012 08:27
.o: O'neill, Rory H; Green, James E; CIO EMEA MO; CIO P&L Team
Cc: Bates, Paul T; Coombes, Hema S
Subject: RE: URGENT ::: Huge Difference for iTraxx & CDX trades

Rory, Assuming you meant end of March and not April. There were differences between the desk and
'e independent marks at month end. The desk marked the book at the boundary of the bid/offer
pread 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. We had a small number of positions where they fell outside these tolerances and hence the adjustment that was passed. With the volatility seen around month end and the size of our positions even small price differences would be expected.

Regards,

Jason Hughes
CIO Europe
020 7777 3301

-----Original Message-----
From: O'neill, Rory H
Sent: 20 April 2012 06:22
To: Green, James E; CIO EMEA MO; CIO P&L Team; Hughes, Jason LDN
Cc: Bates, Paul T; Coombes, Hema S
Subject: Re: URGENT ::: Huge Difference for iTraxx & CDX trades

Jason,

Can you confirm the 30Apr VCG result on these instruments? Do we have any known discrepancies with the mkt?

.ianks,
Rory
------Original Message------
From: Vaz, Daniel X
To: Green, James E
To: CIO EMEA MO
To: CIO P&L Team
Cc: IBOD Collateral Project Team
Cc: Miller, Charles R
Cc: Demo, Mark
Cc: Daryanani, Nilam I
Subject: URGENT ::: Huge Difference for iTraxx & CDX trades
Sent: 20 Apr 2012 01:43

Hi James, CIO,

Can you please validate the marks for the CDS trades booked with ref entity as iTraxx Europe s9 22%-100% or CDX.NA.IG.8 30%-100%? We are seeing huge differences in these trades when we compare our marks with CP marks. I took a sample of 15 trades from MSCS & BOA portfolio with greater MTM differences. Can you please investigate & advice why we would have such huge differences at a trade level which is impacting our margin calls?

CP
'tal portfolio diff
ample trade count
Comments
Internal Collateral tracking number

MSCS
USD 36.2 MM
15
All trades are booked with ref entity as iTraxx Europe s9 22%-100% cart=351950 BOA USD 46 MM
15
Trades are booked with ref entity as iTraxx Europe s9 22%-100% or
CDX.NA.IG.8 30%-100%
·t=351952

Daniel Vaz | Team Leader | Collateral & Derivatives Confirms | Investment Bank | J.P. Morgan | T: +912261260408 | daniel.x.vaz@jpmorgan.com | jpmorgan.com | JPMC Internal use only

From: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Sent: Fri, 20 Apr 2012 15:31:33 GMT
To: Hogan, John J. <John.J.Hogan@jpmorgan.com>
Subject: Re: Collateral Disputes

Is this the first time this has happened

From: Hogan, John J.
Sent: Friday, April 20, 2012 11:24 AM
To: Braunstein, Douglas
Subject: Fw: Collateral Disputes

This isn't a good sign on our valuation process on the Tranche book in CIO. I'm going to dig further.

From: Goldman, Irvin J
Sent: Friday, April 20, 2012 11:21 AM
To: Hogan, John J.
Subject: FW: Collateral Disputes

-----Original Message-----
From: Lewis, Phil
Sent: Friday, April 20, 2012 11:20 AM Eastern Standard Time
To: Goldman, Irvin J; Weiland, Peter
Cc: Kastl, Edward R; Bates, Paul T
Subject: RE: Collateral Disputes

Yes we are – we have collateral disputes from a number of counterparties (obviously on positions that aren't novated to ICE, so the tranches and ICE ineligible indices). Biggest are with MS and GS. First we heard of these was this morning (collateral process is done at a Legal entity level – when differences become big enough they reach out to MO & VCG). MO are checking all bookings and flows, with the desk and VCG (Jason Hughes/Ed Kastl) are checking marks. We are also trying to get some granularity by product

I'll forward you a note from the collateral guys.

This table shows differences by cpty and the Gross Absolute PV across all outstanding trades with each cpty

CP	Sum of ABS (Local)	Sum of MTM_DIFF	%
BBVASA	856,948	-141,471	-17%
BNPP	1,427,575,108	17,698,254	1%
BOA	3,135,860,802	72,455,626	2%
BPLC	1,078,123,886	-427,385	0%
CA	28,737,306	2,032,294	7%
CGML	49,019,323	-667,742	-1%
CITI	4,417,744,863	60,630,170	1%
CSI	421,675,999	27,289,077	6%
CSX	474,311,803	15,227,896	3%
DBKAG	3,080,139,893	56,005,118	2%
GSI	4,701,978,454	89,576,979	2%

HSBCEU	100,908,403	121,569	0%
HSBCUS	35,801,766	6,027,808	17%
MLI	6,244,692	-156,884	-3%
MSCS	4,124,528,028	114,910,670	3%
MSIL	222,395,628	1,724,699	1%
NOMURAIP	258,811,944	-2,974,037	-1%
RBSPLC	81,168,415	-2,667,779	-3%
SGCIB	3,004,157,922	16,658,449	1%
UBSAG	2,576,649,497	46,660,667	2%
Grand Total	29,226,690,681	519,983,977	2%

From: Goldman, Irvin J
Sent: Friday, April 20, 2012 11:00 AM
To: Lewis, Phil
Subject: FW: Collateral Disputes

Please let me know.

-----Original Message-----
From: Hogan, John J.
Sent: Friday, April 20, 2012 10:22 AM Eastern Standard Time
To: Goldman, Irvin J; Weiland, Peter
Subject: Collateral Disputes

Are you having any in the tranche (or index) positions?

Table of Contents

This memo summarizes the Firm's review of the valuation of its CIO EMEA credit portfolio in light of the current market conditions and dislocation that occurred in April 2012.

I. Background

The CIO EMEA credit portfolio is made up of Investment and Core Credit portfolios[1]. The Investment portfolio consists of available-for-sale investment securities, while the Core Credit Portfolio primarily consists of synthetic credit positions -- credit derivative positions on various credit indices and tranches of those indices (the index and tranche credit derivatives portfolio). These synthetic positions were entered into to manage the market value deterioration in a potential stress scenario associated with investment securities held in the available-for-sale portfolio; the positions have changed over time depending on the Firm's view of credit risk.

CIO has a substantial presence in the financial markets, and the breadth and depth of its activity has generally given CIO a good sense of the market, with strong market contacts and market intelligence. In particular in these credit products, CIO executed a significant volume in the market and therefore had deep access to market pricing and color.

During January, February and through the first few weeks of March, CIO was buying, to add to existing positions, the risk of (i.e. selling credit protection) the following indices and tranches to reduce the short high yield credit risk position in the portfolio:

- CDX Investment Grade North America Series 9, 10 year and 7 year.
- ITraxx Main Series 9, 10 year and 7 year.

In addition, on April 6, the business press began reporting on certain of these positions, providing other market participants with some level of information regarding the Firm's positions and activity.

[1] CIO also has a North America credit portfolio, but that portfolio does not include synthetic credit positions and therefore is not subject to this review.

In April[1], market activity and market prices for these credit derivatives changed significantly and a number of unusual trends were observed, including:

- The difference between cost of protection on investment grade indices and high yield indices in Europe and North America reduced significantly.
- The difference between cost of protection on short dated risk and long dated risk in a number of indices increased significantly. For a number of indices the cost of protection on the index moved inconsistently with the prices of protection on various tranches of the index. For example, for the iTRaxx Main Series 9 10 year during April:
  - Spread moves for the index itself implied some increase in losses due to increased correlation within the index.
  - Price moves in the super senior tranche implied losses due to very much larger increases in correlation within the index.
  - Price moves in the more junior tranches implied limited increases in correlation.

[1]These trends began to emerge in late March, but developed and became much more significant in April.

These changes have been unusual compared to the historical relationship between investment grade and high yield indices, as well as the relationship between index and tranche exposures. Due to the complexity and the size of the Firm's positions, the effect of these changes, in conjunction with other market factors, on the estimated fair value of the Firm's positions has been significantly negative during April. As noted throughout this memo, relatively small variations in price can have a relatively large impact on the estimated fair value of the entire portfolio, given the size of the Firm's positions.

Size of Position Data

The following table provides the absolute notional amounts (in USD) of these positions at various dates.

Table 1: Notional amount of CIO positions

Notional ($)	31-Dec-11	21-Jan-12	28-Feb-12	30-Mar-12	19-Apr-12
ITRAXX MN	63,877,901,370	76,235,846,930	97,848,010,020	118,982,003,490	118,505,911,681
CDX IG	(15,328,527,939)	(8,446,686,524)	6,220,451,026	54,767,087,520	56,054,146,920
CDX HY	8,123,572,169	4,810,808,419	(1,016,924,933)	(7,739,557,433)	(7,557,874,933)
ITRAXX XO	(5,207,601,000)	(4,371,339,000)	(7,017,111,000)	(8,869,969,500)	(6,736,455,500)
ITRAXX FINSUB	(2,324,580,000)	(2,191,630,000)	(3,078,320,000)	(2,112,040,000)	(2,080,280,000)
CDX LCDX	1,856,414,686	1,826,651,611	1,796,888,575	1,796,888,575	1,796,888,575
ITRAXX FINSEN		(79,910,000)	(140,700,000)	73,150,000	100,706,250
SOVX WE				46,665,000	46,665,000
Total	50,997,179,286	67,783,741,435	94,611,293,688	156,944,227,652	158,129,707,994

Table 2: CIO's share of market volume

The following table compares the absolute notional amount of CIO's transactions in selected indices and to the absolute notional of street-wide transactions, in order to provide a sense of the relative size of CIO's activity in the market for the first four months of 2012. This data, as well as similar data from 2011, demonstrates two key points: 1) prior to late March 2012, CIO was a substantial participant in these credit markets, and 2) even without CIO's involvement (throughout these periods and in April after CIO substantially reduced its activity), the remaining street volume was substantial.

ITRAXX SERIES 9 7Y

Month	CIO Notional Traded	Street Volume	CIO %
Jan-12	$ 993,000,000	$ 6,181,250,000	16%
Feb-12	4,751,750,000	9,754,250,000	49%
Mar-12	775,000,000	8,325,375,000	9%
Apr-12	487,500,000	5,004,150,000	10%
Total	$ 7,007,250,000	$ 29,265,025,000	

ITRAXX EUROPE SERIES 9 10Y

Month	CIO Notional Traded	Street Volume	CIO %
Jan-12	$ 11,769,250,000	$ 26,758,710,300	44%
Feb-12	7,244,900,000	15,205,250,000	48%
Mar-12	6,601,250,000	13,806,250,000	48%
Apr-12	338,750,000	5,570,925,000	6%
Total	$ 25,954,150,000	$ 61,341,135,300	

ITRAXX EUROPE SERIES 16 5Y

Month	CIO Notional Traded	Street Volume	CIO %
Jan-12	$ 26,440,500,000	$ 206,771,511,713	13%
Feb-12	36,359,500,000	216,991,196,801	17%
Mar-12	26,075,000,000	199,058,170,509	13%
Apr-12	25,000,000	13,785,754,578	0%
Total	$ 88,900,000,000	$ 636,606,633,601	

CDX.NA.IG.9 7Y

Month	CIO Notional Traded	Street Volume	CIO %
Jan-12	$ 7,091,500,000	$ 55,936,345,841	13%
Feb-12	8,387,000,000	48,791,460,000	17%
Mar-12	2,017,000,000	41,738,540,328	5%
Apr-12	256,000,000	23,310,200,000	1%
Total	$ 17,751,500,000	$ 169,776,546,169	

CDX.NA.IG.9 10Y

Month	CIO Notional Traded	Street Volume	CIO %
Jan-12	$ 28,528,000,000	$ 83,065,700,000	34%
Feb-12	20,032,000,000	48,049,133,456	42%
Mar-12	9,819,500,000	72,016,977,456	14%
Apr-12	677,000,000	31,722,763,000	2%
Total	$ 59,056,500,000	$ 234,854,573,912	

Note: April data extends to April 26, 2012.

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Given the size of the Firm's portfolio and the nature of the positions, the portfolio is sensitive to small changes in credit spreads. At March 31, 2012, the sensitivity to a 1 basis point move in credit spreads across the investment grade and high yield spectrum was approximately ($84) million, including ($134) million from long risk positions, offset by $50 million from short risk positions.

II. JPMorgan Chase Fair Value Measurement Policy

General

Fair value is the price to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability (an exit price). The sale or transfer assumes an orderly transaction between market participants.

Data Sources and Adjustments

Valuation techniques used to measure the fair value of an asset or liability maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Valuations consider current market conditions and available market information and will, therefore, represent a market-based, not firm-specific, measurement.

Where available, quoted market prices are the principal reference point for establishing fair value. Market quotations may come from a variety of sources, but emphasis is given to executable quotes and actual market transactions (over indicative or similar non-binding price quotes). In certain circumstances valuation adjustments (such as liquidity adjustments) may be necessary to ensure that financial instruments are recorded at fair value.

Bid – offer spread and position size

As further described in US GAAP Accounting Standards Codification Topic 820 Fair Value Measurement ("ASC 820"'), the objective of a fair value measurement is to arrive at an appropriate exit price within the bid – offer spread, and ASC 820 notes that mid-market pricing may (but is not required to) be used as a practical expedient.

> 820-10-35-36C "If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (that is, Level 1, 2, or 3). The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required."
>
> 820-10-35-36D "This Topic does not preclude the use of mid-market pricing or

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other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread."

Effective Q1 2012, size-based adjustments are explicitly not allowed for cash instruments held by a firm. However, US GAAP continues to permit size-based adjustments for derivatives portfolios if an election is made to do so. Under its current business and risk management strategy, the Firm has not made such a portfolio election for this CIO portfolio, and so evaluates the value of its positions without specific consideration of their overall size.

Cut-off and Timing

US GAAP is not prescriptive regarding market close and timing of valuation. As an operational matter, the Firm allows desks in different regions to mark their books as of the close in that region, and requires that these cut-off practices be applied consistently.

III. CIO Valuation Process

Background

CIO's valuation process reflects how and to whom CIO would exit positions by typically seeking price quotes from the dealers with whom CIO would most frequently transact and with whom CIO would seek to exit positions, rather than looking for more broad based consensus pricing from a wide variety of dealers not active in these credit markets. In that regard, CIO's valuation process is consistent with that of a non-dealer investor/manager.

CIO necessarily uses judgment to identify the point within the bid-offer spread that best represents the level at which CIO reasonably believes it could exit its positions, considering available broker quotes, market liquidity, recent price volatility and other factors.

As noted below, CIO's evaluation of valuation adjustments has been based on market liquidity for the positions, rather than on the absolute size of CIO's positions. In the normal course of business, CIO will continue to review its valuation practices in light of its current risk management and exit strategies to ensure its valuation practices continue to represent CIO's estimate of exit price.

Front Office Mark Process

The main source of information for pricing comes from the Bloomberg messages (pricing runs distributed by the dealers). Where available the desk collects them for all indices and tranches.

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Then depending on the product and availability of information the following processes are followed:

- For index products:
  - "On the run" indices (i.e. most recent series, 5y point): as these are the most liquid instruments, the front office typically uses the dealer runs.
  - "Off the run" indices: Front office looks at bid-offer spreads, volumes, recent price changes and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.
- For tranche products:
  - For liquid tranches: front office computes the best-bid/best-ask using the dealers' runs - the tranche is then marked using the mid of this 'best' market.
  - For illiquid tranches: front office looks at bid-offer spreads, volumes, recent price changes, relevant index prices, and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.

Timing of Valuation

CIO's valuation policy, consistent with the Firm's policy, is to value its positions as of the close of business in the relevant region. Although the broker quotes CIO receives are generally consistent with that timing, other data sources may provide data using different timing, as follows:

Source	Timing
Broker quotes	As received
Markit/Totem – NA indices and tranches	New York close
Markit/Totem – EMEA indices and tranches	London close
ICE – NA indices	30 minutes before New York close
ICE – EMEA indices	30 minutes before London close

VCG Independent Process

VCG independently price tests the front office marks at each month end and determines necessary adjustments to arrive at fair value for the purposes of the US GAAP books and records. The remainder of this section describes this process.

A. Pricing data sources

CIO VCG obtains prices from third parties as follows:

- Markit/Totem[2] – an independent service that provides prices for a wide range of products derived from the inputs provided by a number of financial institutions.

[2] Markit and Totem are within the same group. Markit provides data the credit derivative indices, while Totem provides data for the tranche risk of those indices.

- Dealer Quotes – Prices from major broker dealers for specific indices and tranches of those indices.
- VCG must approve the sources for all market prices and other parameters as being reliable and applicable.

CIO VCG also looks to actual prices at which CIO has executed recent transactions as an additional source of market information.

The following is a list of the dealers CIO VCG obtains quotes from on a regular basis for indices and tranches in which they have a reasonable level of activity:

- Citi
- Deutsche Bank
- Credit Suisse
- HSBC
- Goldman Sachs
- JPMorgan (IB)
- Royal Bank of Scotland
- Barclays
- Morgan Stanley
- BNP Paribas
- Nomura
- BofA/Merrill Lynch

These dealer quotations are received from a standing solicitation for price estimates for index and tranche positions. The number of dealer quotes received in any particular month generally ranges from 1-4, and is based primarily on which dealers choose to provide quotes that period.

B. Deriving the best estimate of mid-market price (VCG mid-market price) for price testing purposes

Indices:

- For the more liquid indices, typically the on the run indices, VCG utilizes Markit as its primary source for the CIO VCG mid-market price. VCG will also look to broker quotes, but generally finds there to be limited differences to Markit data.
- For the less liquid indices, CIO VCG again uses Markit data as the primary source of independent data. However, given the reduced liquidity of these indices dealer quotes sourced by the front office are also used. Differences between the Markit data and the broker quotes are investigated, for example by reviewing actual levels of trading activity. The CIO VCG mid-market price is determined using the combination of the Markit data, broker quotes and actual trades executed by CIO.

Tranches:

- CIO VCG uses broker quotes as the primary source of data for determining the CIO VCG mid market prices for the tranches positions. CIO VCG also obtains consensus prices from Totem from the Investment Bank[3] (JPM IB). However, CIO VCG uses the

[3] The Investment Bank obtains these as it contributes as a dealer to the Totem consensus prices.

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broker quotes, with less reliance on TOTEM data, due to the Firm's experience that the tranches tend to be less liquid than the indices and for any given position, only 2-3 dealers tend to be active in that tranche. Therefore, CIO VCG believes that the broker quote process is appropriately focused on the more active dealers for those tranches. This emphasis on broker quotes also reflects CIO's likely exit strategy, which is more likely to be with specific dealers active in these tranches. Where there are significant differences between broker quotes and TOTEM, CIO VCG will investigate the reasons for such differences, for example, by looking at the levels at which CIO has actually executed transactions, to validate the integrity of the broker quotes received.

C. Estimating the range of fair value utilizing price testing thresholds

- Price testing thresholds are commonly used in valuation to account for reasonable degrees of variance between valuation data obtained from different sources.
- These thresholds are generally established to represent normal bid-offer spreads for each product, with the goal of ensuring that the final mark used by the Firm is within the range of bid-offer spread after applying these thresholds.
- Price testing thresholds may be determined on a variety of bases (e.g., volatility of parameter, market depth and liquidity and pricing service spreads).
- CIO VCG is responsible for establishing the price testing thresholds used. The tolerance thresholds were consistent from 12/31/11 to 3/31/12.

D. Determining a book price

- The CIO VCG mid-market price plus/minus the price testing threshold set by CIO VCG per instrument (the VCG valuation range) is compared to the front office mark. If the front office mark is outside the VCG valuation range, the position mark is adjusted to the outer boundary of the range. Within the VCG valuation range front office marks may be used without adjustment.
- Irrespective of threshold levels, any difference between front office mark and the mid-market price may be adjusted, at CIO VCG's discretion.
- CIO VCG has not historically adjusted front office marks directly to Markit/Totem spreads/prices for the less liquid indices and tranches because:
    - Given its level of activity in the market, CIO has large amounts of specific transaction data that should be considered in determining fair value.
    - CIO has observed that broker quotes are indicative prices that are relevant to the valuation process, in addition to the consensus prices provided by Markit/Totem.
        - Based on CIO experience, CIO believes that the broker quotes received better reflect executable prices, and therefore represent

important market data that should be given priority where available.
    - CIO's experience is that not all dealers participating in the Totem process are active in the relevant products and that obtaining direct dealer quotes from the more active dealers for a particular product may better reflect executable prices.
  - Markit/Totem prices are based on quotes by market makers acting in that capacity. CIO, like other non-dealer investors/managers, is not a market-maker and it does not contribute to the Markit/Totem service. Furthermore, in the case of Totem the resulting data is accessible only to market makers who contribute to that service.
  - CIO has observed that the business valuation cut-off time may differ from the data provided by Markit/Totem. The combination of intra-day price moves on the last day of the month and the difference between the time when Markit/Totem fixes and the time when CIO closes its books can result in pricing differences that while small from a price perspective, could be significant for such a large portfolio.

- As additional analysis, CIO estimated that as of March 31, 2012, the sum total of the differences between the front office marks and the CIO VCG mid market estimates was $512 million before adjustment to the boundary of the VCG valuation range (considering price testing thresholds) and $495 million after adjustment.

E. Apply necessary valuation adjustments
- CIO applies valuation adjustments as appropriate for positions deemed to be less liquid. Generally, any on the run index (typically, the four most recent series) and associated tranches have been viewed to be liquid based on market activity, and appropriate front office and CIO VCG judgment. In addition, other indices and tranches continued to have sufficient market activity to be deemed liquid as of March 31, 2012 (for example, ITRAXX Main Series 9 indices and the CDX IG Series 9 indices).
- As of March 31, CIO recorded liquidity valuation adjustments of $188 million for the following:
  - High yield - series 11 and prior indices and tranches.
  - Investment grade - series 12 and prior, excluding series 9 index.
    - CIO believes that the investment grade Series 9 index has generally traded similar to on the run positions because it is viewed as a market benchmark by investors.
- The liquidity adjustments for the series 9 tranches (both high yield and investment grade) were recorded as of March 31, 2012 to reflect the decline in market liquidity

by the end of the first quarter. The incremental liquidity reserve of $155 million for series 9 investment grade tranches was applied for the first time at March 31 as a result of this decline in market activity.

- The liquidity reserve was calculated using CIO's standard liquidity reserve methodology and using spread volatility provided by JPM IB. This volatility varies by position in the capital structure, and is highest for equity tranches and lowest for super senior tranches: = [CS01] x square root [holding period] x [spread volatility
    - CS01 is the credit spread sensitivity to a 1 bps change in market spreads relative to position size
    - Holding period – JPM IB suggested max 120 days was used
    - Spread volatility – provided by JPM IB; varies by position in the capital structure, and is highest for equity tranches and lowest for super senior tranches.
- As of March 31 a liquidity valuation adjustment was not recorded for the CDX North America Investment Grade and Itraxx Main Series 9 indices as each was viewed to be liquid. As noted in Table 2 above, trading volume in the Series 9 index continued to be relatively robust, including through April, without CIO activity in the market, and the volume of market activity excluding CIO has been substantial.
- Details of all adjustments taken to arrive at the fair value for US GAAP books and records are included in Appendix A.

F. Comparison to Industry Practice

The Firm believes that its valuation practices in CIO are consistent with industry practices for other non-dealer investors/managers. CIO, like other non-dealer investors/managers, relies more heavily on transaction-level data available through its own market activity, and its valuation process reflects its exit market and the participants in that market. In the normal course, the Firm evaluates its own business and risk management practices, and makes appropriate refinements to reflect its best estimates of fair value.

G. Review of CIO Q1 pricing information

- CIO analyzed its pricing data as compared to other available market sources and the results are included in Appendix B.
- As of the January, February and March month ends CIO compared its front office marks and final US GAAP book price for reasonableness to a combination of the Markit/Totem data, broker quotes and actual transaction data around the month end date.
- There was evidence that actual transactions and broker quotes diverged from Markit/Totem prices in some cases.
- CIO book marks on individual positions were generally within the bid offer spread.

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- As additional analysis, CIO estimated the aggregate difference in the front office marks and the CIO VCG mid-market estimates. This difference ($512 million), less the price testing threshold adjustment of $17mm and less the liquidity reserve of $188mm, was approximately $307 million as of March 31, 2012, compared to the gross value of derivative receivables and payables of approximately $8 billion.

IV. Conclusions

- CIO believes that its marks as of March 31, 2012 represents CIO's estimate of its exit price as of that date.
- In the context of its gross marks (approximately $8 billion of derivative receivables and $8 billion of derivative payables across CIO's portfolio), intra-day price volatility, and CIO's transaction data, CIO believes that it has made reasonable judgments regarding the prices within in the bid-offer spread that best represent CIO's exit price.
- The CIO valuation process is documented and consistently followed period to period.
- Market-based information and actual traded prices serve as the basis for the determination of fair value.
- CIO's book value, including the valuation adjustments, at March 31 2012 for the index and tranche credit derivatives portfolio is within the range of reasonable fair values for such instruments.

We have shared this memo with PricewaterhouseCoopers; they concur with the conclusions reached herein.

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Appendix A – March 31, 2012 Position Marks

The following table provides the notional amount and fair values of the Firm's positions as of March 31, 2012, including the following: $17 mm tolerance level adjustments, $33 mm liquidity adjustment, and $155 incremental liquidity adjustment.

(Note: subsequent CIO analysis noted that the required tolerance adjustment should have been $12 million, but the following schedule provides detail of the original $17 million estimate.)

					VCG Adjustments			
	Instrument	Sum of Abs Notl	Sum of Factored Notional	Sum of MTM USD	Threshold	Liquidity	Incremental Liquidity	Total
	ABX HE 6.1 A	184,655,864	0	(0)				(0)
	ABX HE 6.1 AAA	64,627,195	0	0				0
	ABX HE 6.2 AAA	28,036,361	0	(0)				(0)
	ABX HE 6.2 BBB	5,075,000	200,000	184,727				184,727
	ABX HE 6.2 BBB-	39,325,000	(11,875,000)	(11,047,091)				(11,047,091)
	ABX HE 7.1 A	47,742,773	(0)	0				0
	ABX HE 7.1 AAA	334,760,632	0	(0)				(0)
	ABX HE 7.1 BBB 35-100	6,346,154	6,346,154	6,120,712				6,120,712
	ABX HE 7.1 BBB- 40-100	43,958,337	43,125,003	41,691,525				41,691,525
	CDX HY S07 07Y	294,000,000	0	(962)				(962)
	CDX HY S07 07Y 15-25	620,000,000	0	25,494,631				25,494,631
	CDX HY S07 07Y 25-35	140,000,000	0	610,410				610,410
	CDX HY S07 07Y 35-100	754,123,080	0	6,280,655				6,280,655
	CDX HY S08 05Y	24,279,864,000	(15,429,924,000)	61,182,958		(1,392,677)		59,790,281
1	CDX HY S08 05Y 10-15	895,275,000	812,235,000	83,829,224		(73,307)		83,755,917
	CDX HY S08 05Y 15-25	4,560,000,000	1,410,000,000	(11,361,307)		(134,009)		(11,495,316)
	CDX HY S08 05Y 25-35	2,853,000,000	(653,000,000)	10,182,681		(57,979)		10,124,702
	CDX HY S08 05Y 35-100	13,159,563,878	94,469,231	9,154,335		(8,254)		9,146,081
	CDX HY S08 07Y	5,796,420,000	179,760,000	(151,048)		(153,401)		(304,449)
	CDX HY S08 07Y 10-15	326,970,000	(46,710,000)	(26,672,697)		(28,053)		(26,700,750)
	CDX HY S08 07Y 15-25	1,556,000,000	(225,000,000)	37,211,343		(192,407)		37,018,936
	CDX HY S08 07Y 25-35	902,000,000	(282,000,000)	37,704,466		(247,147)		37,457,319
	CDX HY S08 07Y 35-100	1,242,270,388	(108,859,519)	10,626,032		(86,917)		10,539,115
	CDX HY S09 05Y	12,701,075,000	(6,586,500,000)	66,922,108		(1,638,258)		65,283,850
	CDX HY S09 05Y 10-15	772,800,000	70,840,000	41,445,079		(14,406)		41,430,673
	CDX HY S09 05Y 15-25	3,225,000,000	1,055,000,000	9,798,678		(318,353)		9,480,325
	CDX HY S09 05Y 25-35	1,215,000,000	(575,000,000)	33,600,243		(244,862)		33,355,381
	CDX HY S09 05Y 35-100	3,239,503,082	(3,550,610,774)	117,453,529		(855,668)		116,597,861
	CDX HY S10 05Y	21,259,098,000	9,234,582,000	(276,711,230)		(4,429,312)		(281,140,542)
	CDX HY S10 05Y 10-15	504,750,000	(232,185,000)	(158,332,601)		(65,922)		(158,398,523)
3	CDX HY S10 05Y 15-25	3,663,000,000	(2,083,000,000)	(48,805,732)		(1,025,216)		(49,830,948)
	CDX HY S10 05Y 25-35	1,845,000,000	(555,000,000)	44,425,075		(320,873)		44,104,202
5	CDX HY S10 05Y 35-100	14,352,199,627	(3,808,161,157)	272,290,710		(1,788,826)		270,501,884
	CDX HY S10 07Y	16,438,590,000	2,048,550,000	(65,694,727)		(2,421,944)		(68,116,671)
2	CDX HY S10 07Y 10-15	1,359,628,250	(1,359,628,250)	(1,167,383,982)		(718,165)		(1,168,102,147)
	CDX HY S10 07Y 15-25	1,605,000,000	(385,000,000)	(47,125,229)		(414,753)		(47,539,982)
	CDX HY S10 07Y 25-35	1,015,000,000	(285,000,000)	37,819,202		(340,567)		37,478,635
	CDX HY S10 07Y 35-100	5,268,225,581	(1,452,477,117)	151,846,470		(1,722,255)		150,124,215
6	CDX HY S11 05Y	5,606,580,000	(594,140,000)	33,242,983		(659,617)		32,583,366
	CDX HY S11 05Y 10-15	432,402,500	(405,692,500)	(319,887,998)		(130,937)		(320,018,935)
4	CDX HY S11 05Y 15-25	1,125,000,000	(1,015,000,000)	(141,568,696)		(650,044)		(142,218,740)
	CDX HY S11 05Y 25-35	790,000,000	(250,000,000)	22,357,928		(171,061)		22,186,867
	CDX HY S11 05Y 35-100	987,492,693	(508,127,208)	40,578,565		(315,996)		40,262,569
	CDX HY S11 07Y	3,931,200,000	(3,702,720,000)	77,631,118		(5,048,903)		72,582,215
	CDX HY S11 07Y 10-15	16,825,000	(16,825,000)	(14,810,264)		(8,532)		(14,818,796)
	CDX HY S11 07Y 15-25	30,000,000	30,000,000	10,632,380		(34,976)		10,597,404
	CDX HY S11 07Y 35-100	95,873,077	(95,873,077)	11,500,379		(128,292)		11,372,087
	CDX HY S14 03Y	72,750,000	72,750,000	(1,748,247)				(1,748,247)
7	CDX HY S14 05Y	12,558,590,000	12,073,590,000	(192,010,741)				(192,010,741)
8	CDX HY S15 05Y	9,982,270,000	9,520,550,000	(62,200,365)				(62,200,365)
	CDX HY S16 05Y	8,308,050,000	6,707,560,000	14,917,661				14,917,661
	CDX HY S16 10Y	48,500,000	0	0				0
	CDX HY S17 05Y	9,270,775,000	8,022,385,000	153,219,438				153,219,438
	CDX IG HVOL S08 05Y	100,000,000	0	0				0
	CDX IG S07 07Y	1,484,560,000	703,720,000	5,665,292	414,812	(423,021)		5,657,083
	CDX IG S07 07Y 07-10	250,000,000	(110,000,000)	2,073,690		(75,651)		1,998,039
	CDX IG S07 07Y 15-30	1,050,000,000	0	(5,019,497)				(5,019,497)
	CDX IG S07 07Y 30-100	3,657,595,440	0	23,291,618				23,291,618
	CDX IG S08 05Y	968,000,000	0	(0)				(0)
	CDX IG S08 07Y	858,616,000	(433,884,000)	(8,543,315)	1,803,627	(333,428)		(7,073,116)
	CDX IG S08 07Y 03-07	60,000,000	0	(410,867)				(410,867)
	CDX IG S08 07Y 07-10	1,290,000,000	0	(7,308,074)				(7,308,074)

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					VCG Adjustments			
	Instrument	Sum of Abs Notl	Sum of Factored Notional	Sum of MTM USD	Threshold	Liquidity	Incremental Liquidity	Total
	CDX IG S08 07Y 10-15	200,000,000	0	3,752,951				3,752,951
	CDX IG S08 07Y 15-30	525,000,000	375,000,000	(1,029,937)		(322,093)		(1,352,030)
	CDX IG S08 07Y 30-100	3,375,746,010	0	13,842,410				13,842,410
	CDX IG S09 05Y	116,298,890,477	31,675,380,000	25,177,866				25,177,866
9	CDX IG S09 05Y 00-03	6,009,760,374	2,719,245,188	497,344,882			(739,081)	496,605,800
	CDX IG S09 05Y 03-07	6,715,000,000	1,395,000,000	(19,251,820)			(406,787)	(19,658,607)
	CDX IG S09 05Y 07-10	10,587,000,000	2,045,000,000	(11,807,222)			(546,683)	(12,353,905)
	CDX IG S09 05Y 10-15	5,675,000,000	2,905,000,000	(15,607,521)			(818,770)	(16,426,290)
	CDX IG S09 05Y 15-30	30,245,000,000	12,215,000,000	(86,032,933)			(2,442,778)	(88,475,711)
	CDX IG S09 05Y 30-100	36,342,317,045	260,414,692	17,001,964			(73,210)	16,928,753
11	CDX IG S09 07Y	51,472,432,005	(32,783,836,006)	(151,132,031)				(151,132,031)
	CDX IG S09 07Y 00-03	3,469,513,118	308,485,799	142,230,554			(237,065)	141,993,489
	CDX IG S09 07Y 03-07	2,045,000,000	215,000,000	50,233,428			(231,404)	50,002,024
	CDX IG S09 07Y 07-10	6,325,000,000	365,000,000	119,476,524			(390,332)	119,086,192
	CDX IG S09 07Y 10-15	2,790,000,000	1,970,000,000	(8,791,310)			(1,887,017)	(10,678,327)
	CDX IG S09 07Y 15-30	13,845,000,000	6,965,000,000	(124,254,073)			(7,311,359)	(131,565,432)
	CDX IG S09 07Y 30-100	30,927,620,445	(11,024,221,970)	306,212,949			(11,468,335)	294,744,614
12	CDX IG S09 10Y	92,607,592,000	(77,772,509,000)	(1,252,560,557)				(1,252,560,557)
10	CDX IG S09 10Y 00-03	4,147,420,182	(2,136,549,781)	(1,341,370,979)			(2,534,116)	(1,343,905,094)
	CDX IG S09 10Y 03-07	2,590,000,000	(30,000,000)	(6,249,420)			(116,202)	(6,365,622)
	CDX IG S09 10Y 07-10	3,495,000,000	(775,000,000)	24,782,107			(1,585,840)	23,196,267
	CDX IG S09 10Y 10-15	3,510,000,000	1,980,000,000	117,037,861			(4,098,728)	112,939,133
	CDX IG S09 10Y 15-30	5,400,000,000	3,800,000,000	(30,828,804)			(7,701,059)	(38,529,863)
	CDX IG S09 10Y 30-100	20,423,263,361	(18,131,243,434)	773,069,596			(33,970,414)	739,099,182
	CDX IG S10 05Y	9,916,663,474	0	(4,327)				(4,327)
	CDX IG S10 05Y 00-03	517,951,464	0	(0)				(0)
	CDX IG S10 05Y 03-07	250,000,000	0	(1,950,364)				(1,950,364)
	CDX IG S10 05Y 07-10	90,000,000	0	2,044,489				2,044,489
	CDX IG S10 07Y	265,232,000	0	0				0
	CDX IG S10 10Y	1,548,800,000	0	11,639				11,639
	CDX IG S12 05Y	5,560,068,409	0	98,999				98,999
	CDX IG S13 05Y	4,862,784,000	0	(48,645)				(48,645)
	CDX IG S14 05Y	8,699,000,000	7,657,000,000	(78,705,085)				(78,705,085)
	CDX IG S14 10Y	1,243,000,000	(257,000,000)	(857,420)				(857,420)
	CDX IG S15 03Y	604,000,000	0	(0)				(0)
	CDX IG S15 03Y 00-03	40,000,000	0	0				0
	CDX IG S15 05Y	23,298,500,000	17,520,500,000	(154,991,384)				(154,991,384)
	CDX IG S15 05Y 00-03	235,000,000	195,000,000	54,924,827	(7,689)			54,917,138
	CDX IG S15 05Y 03-07	20,000,000	(20,000,000)	(1,970,385)				(1,970,385)
	CDX IG S15 05Y 15-100	100,000,000	(100,000,000)	6,539				6,539
	CDX IG S15 10Y	254,000,000	54,000,000	377,531				377,531
	CDX IG S16 05Y	24,206,250,000	18,478,750,000	(138,028,195)				(138,028,195)
	CDX IG S16 10Y	1,398,000,000	(352,000,000)	(3,131,595)				(3,131,595)
	CDX IG S17 05Y	27,717,200,000	(11,492,500,000)	77,306,796				77,306,796
	CDX IG S18 05Y	15,191,000,000	(15,191,000,000)	65,505,418				65,505,418
	CDX LCDX S10 05Y	5,750,874,000	1,164,996,000	(28,961,012)		(566,320)		(29,527,332)
	CDX LCDX S10 05Y 05-08	5,750,000	0	0				0
	CDX LCDX S10 05Y 12-15	1,050,000,000	(110,000,000)	23,965,359		(53,544)		23,911,815
	CDX LCDX S10 05Y 15-100	4,002,708,111	(2,651,684,675)	221,670,056		(1,339,504)		220,330,552
	CDX XO S08 05Y	47,143,000	0	(1)				(1)
	ITRAXX FINSEN S10 05Y	87,886,897	0	(794)				(794)
	ITRAXX FINSEN S12 05Y	106,531,996	0	6,340				6,340
	ITRAXX FINSEN S13 05Y	119,848,496	0	(575)				(575)
	ITRAXX FINSEN S14 05Y	1,302,353,651	0	(1,484)				(1,484)
	ITRAXX FINSEN S15 05Y	2,604,041,478	0	(10,754)				(10,754)
	ITRAXX FINSEN S16 05Y	2,893,675,342	(0)	24,823				24,823
	ITRAXX FINSEN S17 05Y	573,941,129	(73,240,747)	(2,073,499)				(2,073,499)
	ITRAXX FINSUB S06 10Y	66,582,498	0	2,474				2,474
	ITRAXX FINSUB S07 05Y	177,109,443	123,843,445	1,176,365	(842,303)	(11,123)		322,939
	ITRAXX FINSUB S07 10Y	266,329,990	0	(11,083)				(11,083)
	ITRAXX FINSUB S08 05Y	1,574,010,241	703,111,174	11,686,696		(201,846)		11,484,850
	ITRAXX FINSUB S08 10Y	133,164,995	0	(40,023)				(40,023)
	ITRAXX FINSUB S09 05Y	3,385,054,174	2,253,151,716	8,276,439	(2,260,482)	(1,075,287)		4,940,670
	ITRAXX FINSUB S09 10Y	199,747,493	0	(20,922)				(20,922)
	ITRAXX FINSUB S10 05Y	2,587,395,853	1,471,473,195	26,048,211	(157,879)	(977,048)		24,913,284
	ITRAXX FINSUB S10 10Y	332,912,488	0	(1,316)				(1,316)
	ITRAXX FINSUB S11 05Y	303,329,972	0	6,736				6,736
	ITRAXX FINSUB S12 05Y	2,010,983,182	1,033,360,361	62,100,561		(1,055,500)		61,045,061
	ITRAXX FINSUB S13 05Y	5,086,902,810	(0)	334,752				334,752
	ITRAXX FINSUB S14 05Y	4,973,712,564	(1,737,893,185)	(143,450,682)	(1,065,850)			(144,516,532)
	ITRAXX FINSUB S15 05Y	3,495,581,119	605,900,727	57,695,601	654,421			58,350,022
	ITRAXX FINSUB S16 05Y	5,254,690,704	(1,392,895,849)	82,140,503				82,140,503
	ITRAXX FINSUB S17 05Y	985,420,963	(945,471,486)	64,496,190				64,496,190
	ITRAXX HV S07 05Y	128,730,601	0	0				0
	ITRAXX MN S06 10Y	9,980,378,798	(106,909,989)	(5,129,028)	(1,314,547)	(178,833)		(6,622,408)
	ITRAXX MN S06 10Y 00-03	712,432,723	153,139,744	93,141,390		(146,330)		92,995,060
	ITRAXX MN S06 10Y 03-06	892,205,467	(199,747,493)	(74,489,371)		(309,472)		(74,798,843)
	ITRAXX MN S06 10Y 06-09	3,142,693,883	(26,837,989)	101,848,841		(45,839)		101,803,002
	ITRAXX MN S06 10Y 09-12	506,026,981	0	5,240,180		0		5,240,180
	ITRAXX MN S06 10Y 12-22	2,396,969,910	0	47,943,520		0		47,943,520

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					VCG Adjustments			
	Instrument	Sum of Abs Notl	Sum of Factored Notional	Sum of MTM USD	Threshold	Liquidity	Incremental Liquidity	Total
	ITRAXX MN S06 10Y 22-100	2,635,984,005	0	25,776,827		0		25,776,827
	ITRAXX MN S07 05Y	3,521,777,337	0	0				0
	ITRAXX MN S07 10Y	2,870,074,158	0	7,468				7,468
	ITRAXX MN S07 10Y 00-03	48,045,930	0	7,147				7,147
	ITRAXX MN S07 10Y 06-09	479,393,982	(0)	4,039,422		0		4,039,422
	ITRAXX MN S07 10Y 09-12	239,696,991	0	3,036,633		0		3,036,633
	ITRAXX MN S07 10Y 12-22	1,065,319,960	0	653,326		0		653,326
	ITRAXX MN S07 10Y 22-100	6,879,658,746	0	(4,803,298)		0		(4,803,298)
	ITRAXX MN S08 05Y	4,263,277,316	0	146				146
	ITRAXX MN S08 05Y 00-03	346,228,987	0	(1,934)				(1,934)
	ITRAXX MN S08 05Y 03-06	969,441,164	(0)	2,956,675		0		2,956,675
	ITRAXX MN S08 05Y 06-09	372,861,986	0	237,708		0		237,708
	ITRAXX MN S08 05Y 09-12	159,797,994	0	770,086		0		770,086
	ITRAXX MN S08 05Y 12-22	1,131,902,458	0	1,386,232		0		1,386,232
	ITRAXX MN S08 10Y	5,124,189,007	(1)	(2,274)				(2,274)
	ITRAXX MN S08 10Y 00-03	625,875,477	(0)	226,681				226,681
	ITRAXX MN S08 10Y 03-06	905,521,966	0	2,278,173		0		2,278,173
	ITRAXX MN S08 10Y 06-09	1,025,370,462	(0)	9,125,128		0		9,125,128
	ITRAXX MN S08 10Y 09-12	439,444,484	(0)	16,046,944		0		16,046,944
	ITRAXX MN S08 10Y 12-22	4,037,562,649	(0)	22,835,178		0		22,835,178
	ITRAXX MN S08 10Y 22-100	12,384,344,537	0	70,810,712		0		70,810,712
	ITRAXX MN S09 05Y	125,284,750,038	(23,944,036,533)	207,439,231				207,439,231
	ITRAXX MN S09 05Y 00-03	11,180,676,800	3,928,367,353	1,024,601,825			(1,672,955)	1,022,928,870
	ITRAXX MN S09 05Y 03-06	8,842,155,670	479,393,982	50,970,087			(242,448)	50,727,638
	ITRAXX MN S09 05Y 06-09	8,429,344,185	(452,750,893)	96,588,364			(221,205)	96,367,159
	ITRAXX MN S09 05Y 09-12	6,431,869,260	(372,861,988)	13,441,538			(174,860)	13,266,678
	ITRAXX MN S09 05Y 12-22	13,056,827,762	166,456,244	(21,836,991)	(57,163)		(74,609)	(21,968,763)
	ITRAXX MN S09 05Y 22-100	67,381,487,482	(3,454,714,847)	(12,568,331)			(4,449,790)	(17,018,121)
16	ITRAXX MN S09 07Y	35,784,430,375	(9,579,888,063)	108,869,714	(8,304,788)			100,564,926
	ITRAXX MN S09 07Y 00-03	2,250,486,416	785,673,471	399,622,088			(668,238)	398,953,850
	ITRAXX MN S09 07Y 03-06	692,457,974	213,063,992	22,980,195			(256,151)	22,724,044
	ITRAXX MN S09 07Y 06-09	3,668,695,613	33,291,249	63,295,546			(42,354)	63,253,192
	ITRAXX MN S09 07Y 09-12	852,255,968	(739,686,581)	(6,472,945)			(298,846)	(6,771,791)
	ITRAXX MN S09 07Y 12-22	2,996,212,388	699,242,478	(1,134,458)			(729,128)	(1,863,586)
14	ITRAXX MN S09 07Y 22-100	14,581,566,955	(14,581,508,958)	73,844,633			(17,686,367)	56,158,266
17	ITRAXX MN S09 10Y	66,222,479,490	(17,254,337,395)	303,088,246	(2,111,576)			300,976,670
13	ITRAXX MN S09 10Y 00-03	6,469,688,118	(1,891,195,437)	(1,163,058,161)			(2,003,223)	(1,165,061,384)
	ITRAXX MN S09 10Y 03-06	3,335,783,125	(6,659,250)	1,445,527			(12,725)	1,432,802
	ITRAXX MN S09 10Y 06-09	3,275,858,878	(508,028,881)	(41,486,591)			(1,092,573)	(42,579,164)
	ITRAXX MN S09 10Y 09-12	3,828,493,607	(312,937,739)	(35,784,229)			(685,626)	(36,469,855)
	ITRAXX MN S09 10Y 12-22	10,200,438,619	(209,406,742)	(39,184,119)			(458,505)	(39,642,624)
15	ITRAXX MN S09 10Y 22-100	59,578,018,774	(21,053,385,713)	(126,609,454)			(46,933,988)	(173,543,442)
	ITRAXX MN S10 05Y	15,508,571,098	0	(91)				(91)
	ITRAXX MN S11 05Y	4,335,698,507	0	9,088				9,088
	ITRAXX MN S12 05Y	5,122,191,534	0	(116)				(116)
	ITRAXX MN S13 05Y	10,941,501,816	0	1,692				1,692
	ITRAXX MN S14 05Y	19,772,338,461	(26,832,893)	(205,932)				(205,932)
	ITRAXX MN S15 03Y	5,272,002,153	3,740,604,710	(6,307,017)				(6,307,017)
	ITRAXX MN S15 03Y 00-03	93,215,497	93,215,497	32,188,065				32,188,065
	ITRAXX MN S15 03Y 03-06	13,316,500	(13,316,500)	(200,215)				(200,215)
	ITRAXX MN S15 03Y 22-100	1,930,892,428	(399,434,985)	1,822,606				1,822,606
	ITRAXX MN S15 05Y	23,173,705,347	(4,940,754,328)	(42,415,291)				(42,415,291)
	ITRAXX MN S15 05Y 00-03	332,912,488	332,912,488	175,486,448				175,486,448
	ITRAXX MN S15 05Y 22-100	2,596,717,403	(2,596,717,403)	13,929,469				13,929,469
	ITRAXX MN S15 07Y	2,390,311,661	(1,178,510,208)	(25,935,517)				(25,935,517)
	ITRAXX MN S15 07Y 00-03	392,836,735	392,836,735	235,003,815				235,003,815
	ITRAXX MN S15 07Y 03-06	259,671,740	259,671,740	63,563,224				63,563,224
	ITRAXX MN S15 07Y 22-100	2,663,299,900	(2,663,299,900)	(9,788,512)	(1,421,595)			(11,210,107)
	ITRAXX MN S15 10Y	3,619,158,235	2,173,519,049	82,791,564				82,791,564
18	ITRAXX MN S16 05Y	62,106,822,029	(19,220,388,557)	(179,290,526)				(179,290,526)
	ITRAXX MN S16 10Y	2,390,311,661	1,764,436,184	61,800,127				61,800,127
	ITRAXX MN S17 05Y	7,921,985,554	(7,908,473,686)	(63,917,630)	(2,137,575)			(66,055,205)
	ITRAXX SOVXWE S03 05Y	24,265,800	0	3,103				3,103
	ITRAXX SOVXWE S06 05Y	46,665,000	(46,665,000)	(2,435,375)				(2,435,375)
	ITRAXX XO S07 05Y	147,014,155	0	(107)				(107)
	ITRAXX XO S08 05Y	59,924,248	(0)	(51)				(51)
	ITRAXX XO S09 05Y	239,696,991	0	(584)				(584)
	ITRAXX XO S10 05Y	198,469,109	0	(0)				(0)
	ITRAXX XO S11 05Y	155,248,012	0	4,046				4,046
	ITRAXX XO S12 05Y	469,806,102	0	579				579
	ITRAXX XO S13 05Y	39,150,509	0	140				140
	ITRAXX XO S14 05Y	1,483,804,274	6,525,085	(30,728)	(115,115)			(145,843)
	ITRAXX XO S15 05Y	2,346,034,300	1,740,133,572	12,315,943				12,315,943
	ITRAXX XO S16 05Y	9,971,394,827	6,953,876,040	177,863,391				177,863,391
	ITRAXX XO S17 05Y	1,651,245,938	119,848,496	5,043,322				5,043,322
	Grand Total	1,553,488,019,329	(157,092,843,786)	(45,820,055)	(16,507,722)	(32,878,725)	(156,262,771)	(250,869,273)
	Assets		(82,656,090,014)	7,987,328,315	(12,616,484)	(20,966,293)	(72,771,712)	7,879,974,825
	Liabilities		(74,436,753,772)	(8,033,148,370)	(4,292,238)	(11,912,431)	(51,491,059)	(8,130,844,098)
	Net		(157,092,843,786)	(45,820,055)	(16,507,722)	(32,878,725)	(156,262,771)	(250,869,273)

Appendix B - CIO Price Testing Data

The following tables set out valuation estimates of various sources, as well as the final CIO price recorded books and records for the most significant positions within the portfolio. The table also includes notionals for the positions and whether CIO is long or short the risk of the index/tranche (i.e. whether it has sold or purchased credit protection respectively).

The following observations were noted:

- For all selected positions the front office marks were within the bid offer spread indicated by the broker quotes except for the iTraxx Main IDX S09 07Y.
    - This was a result of a front office data input error that was identified and adjusted by VCG to the outer boundary, in accordance with the VCG price testing protocol. (The value difference between the original front office mark and the intended mark was approximately $20 million, and the difference between the CIO book value and the intended mark was less than $15 million).
- CIO VCG spreads/prices correspond to Markit/Totem data for the liquid indices and reflect the broker mids for illiquid indices and tranches.
- There are a number of instances where the broker-mid spreads/prices diverge from the Markit/Totem data.
- There are a number of instances where the CIO transaction data in appendix C show that actual traded spreads/prices diverge from Markit/Totem data in similar time periods. For example: iTraxx Main IDX Series 16 5 year at February month end, and CDX High Yield Series 10 7 year 10-15% tranche at January month-end.
- Average traded prices in the few days surrounding month-end are directionally consistent with the point in the bid offer spread in which the positions have been marked by CIO, as shown by Appendix C. In general, the front office marks, subject to liquidity adjustments, used for CIO books and records reflect information derived from numerous data sources available to CIO front office, rather than relying solely on any one single factor. For example:
    - Recent transaction data (same-day and recent day actual trades) may in some cases be viewed to provide more relevant and reliable information regarding current exit prices (see additional observations below).
    - In some cases, differences between CIO book values and other market information such as Totem/Markit are created because of timing differences between the close of CIO's books and the close of the Totem/Markit data (see additional observations below).
- In certain cases, CIO executed trades on the last day of the month at a price that is different than Totem (and in several cases, was between the Totem value and the CIO book price). See table below for information as of March 31, 2012 (including average traded prices on March 30, 2012):

	Totem	CIO Books	Avg. Traded
CDX.NA.HY 15-25% S10 05Y	92.607	93.326	93.125
CDX.NA.HY 15-25% S11 05Y	83.108	83.685	83.375
CDX.NA.HY IDX S11 07Y	101.250	101.866	101.750
CDX.NA.IG 0-3% S09 10Y	63.219	62.869	63.250
iTraxx.Main 0-3% S09 10Y	66.202	65.993	66.313
iTraxx.Main IDX S09 07Y	129.000	122.657	129.000 *
iTraxx.Main IDX S09 10Y	149.000	144.250	149.000 *

* executed tranche reference trades, not stand-alone traded prices

- The difference between the various data points (FO, Broker prices, and Totem) are relatively insignificant on a price basis, when evaluated in context of:
  - Daily price volatility - the following table shows that for most of the tested positions, the price difference between the Totem price and the CIO book price is less than the average daily price change during recent months.

	March price difference Totem - CIO	Average daily price change			
		Jan	Feb	Mar	Apr
CDX.IG Main Series 9 (7Yr)	2.00	2.85	2.00	1.98	2.06
CDX.IG Main Series 9 (10Yr)	2.25	2.87	1.73	2.00	2.26
CDX.HY 100 Series 11 (7Yr)	0.62	0.35	0.31	0.29	0.29
CDX.HY 100 Series 14 (5Yr)	0.25	0.30	0.30	0.28	0.28
CDX.HY 100 Series 15 (5Yr)	0.25	0.30	0.33	0.32	0.33
iTraxx.Main IDX S16 5Y	1.88	3.74	3.22	3.08	4.05
iTraxx.Main IDX S09 07Y	6.34	4.42	3.29	3.22	4.31
iTraxx.Main IDX S09 10Y	4.75	4.24	3.17	3.54	4.24

  - Intraday price volatility – the following table shows three representative series and the maximum, minimum and mean prices during the day on March 31, 2012.

	max	min	mean	variation	% of mean
CDX IG Series 18 5 Y	93.000	90.750	91.910	2.250	2.4%
CDX.HY Series 18 5Y	97.188	96.750	96.950	0.438	0.5%
iTraxx.Main Series 17 5Y	127.625	122.750	125.115	4.875	3.9%

  - Potential timing differences – CIO EMEA closes its books at the close of business in London, while some of the comparative market data is as of the close of business in New York. This timing difference may result in differences in reported prices.
    - For example, the market price on March 31, 2012 at 4 pm London time for the CDX IG Series 18 5 year was 92.88, and the market price at 9 pm (NY close) was 91.25, a 1.75% difference from the London close.

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	APRIL	TOTEM	ICE	FO	Broker Bid	Broker Mid	Broker Offer	VCG Price	CIO Books (GAAP)	Notional (- Long Risk + Short Risk)	Risk	Basis	Benefit
1	CDX.NAHY 10-15% S08 05Y			95.375	95.000	95.375	95.750	95.563	95.384	1565	short	Price	lower price
2	CDX.NAHY 10-15% S10 07Y	9.763		10.625	8.125	9.625	11.125	9.583	10.572	-4041	long	Price	higher price
3	CDX.NAHY 15-25% S10 05Y	95.710		96.000	95.625	95.875	96.125	95.708	95.951	-2083	long	Price	higher price
4	CDX.NAHY 15-25% S11 05Y	85.350		85.500	84.750	85.500	86.250	85.375	85.435	-1015	long	Price	higher price
5	CDX.NAHY 35-100% S10 05Y	105.572		105.688	105.375	105.563	105.750	105.542	105.640	-3905	long	Price	higher price
6	CDX.NAHY IDX S11 07Y	101.506		101.500	101.063	101.313	101.563	101.506	101.370	-4408	long	Price	higher price
7	CDX.NAHY IDX S14 05Y	102.039	102.125	101.500	101.500	101.688	101.875	102.039	101.539	12447	short	Price	lower price
8	CDX.NAHY IDX S15 05Y	101.060	101.093	100.625	100.563	100.750	100.938	101.060	100.625	9915	short	Price	lower price
9	CDX.NAIG 0-3% S09 05Y	14.846		14.813	14.625	14.813	15.000	14.733	14.785	3570	short	Upfront	higher price
10	CDX.NAIG 0-3% S09 10Y	62.842		62.875	62.375	62.625	62.875	62.797	63.001	-2650	long	Upfront	lower price
11	CDX.NAIG IDX S09 07Y	91.958	91.750	91.000	90.500	92.000	93.500	91.958	94.650	-34193	long	Spread	lower spread
12	CDX.NAIG IDX S09 10Y	118.839	119.250	119.000	118.750	119.500	120.250	118.839	122.650	-80989	long	Spread	lower spread
13	iTraxx.Main 0-3% S09 10Y	67.302		67.375	67.125	67.375	67.625	67.406	67.509	-1495	long	Upfront	lower price
14	iTraxx.Main 22-100% S09 07Y	19.292		18.250	17.500	18.500	19.500	18.750	22.098	-14962	long	Spread	lower spread
15	iTraxx.Main 22-100% S09 10Y	46.083		45.000	44.000	45.000	46.000	45.375	48.848	-21841	long	Spread	lower spread
16	iTraxx.Main IDX S09 07Y	148.682		146.000	143.000	145.000	147.000	148.682	149.528	-7078	long	Spread	lower spread
17	iTraxx.Main IDX S09 10Y	171.893		170.000	166.000	168.000	170.000	171.893	174.331	-17177	long	Spread	lower spread
18	iTraxx.Main IDX S16 05Y	139.539	139.400	139.000	137.750	138.500	139.250	139.539	139.000	-18724	long	Spread	lower spread

	MARCH	TOTEM	ICE	FO	Broker Bid	Broker Mid	Broker Offer	VCG Price	CIO BOOKS (GAAP)	Notional (- Long Risk + Short Risk)	Risk	Basis	Benefit
1	CDX.NAHY 10-15% S08 05Y	92.309		91.500	91.500	92.000	92.500	92.000	91.509	1565	short	Price	lower price
2	CDX.NAHY 10-15% S10 07Y	11.337		13.125	10.625	11.875	13.125	11.875	13.072	-4641	long	Price	higher price
3	CDX.NAHY 15-25% S10 05Y	92.607		93.375	92.875	93.125	93.375	93.125	93.326	-2083	long	Price	higher price
4	CDX.NAHY 15-25% S11 05Y	83.108		83.750	82.875	83.313	83.750	83.313	83.685	-1015	long	Price	higher price
5	CDX.NAHY 35-100% S10 05Y	105.628		106.000	105.625	105.813	106.000	105.813	105.953	-3970	long	Price	higher price
6	CDX.NAHY IDX S11 07Y	101.250		102.000	101.250	101.625	102.000	101.511	101.866	-4408	long	Price	higher price
7	CDX.NAHY IDX S14 05Y	101.633	101.688	101.438	101.438	101.688	101.813	101.633	101.438	12447	short	Price	lower price
8	CDX.NAHY IDX S15 05Y	100.750		100.500	100.500	100.688	100.875	100.723	100.500	9815	short	Price	lower price
9	CDX.NAIG 0-3% S09 05Y	17.714		18.375	17.750	18.063	18.375	18.063	18.348	3570	short	Upfront	higher price
10	CDX.NAIG 0-3% S09 10Y	63.219		62.750	62.750	63.125	63.500	63.125	62.869	-2805	long	Upfront	lower price
11	CDX.NAIG IDX S09 07Y	90.000	89.880	88.000	88.000	89.500	91.000	89.671	88.000	-33847	long	Spread	lower spread
12	CDX.NAIG IDX S09 10Y	113.000	112.380	110.750	110.750	112.250	113.750	112.243	110.750	-80344	long	Spread	lower spread
13	iTraxx.Main 0-3% S09 10Y	66.202		65.875	65.750	66.250	66.625	66.250	65.993	-1691	long	Upfront	lower price
14	iTraxx.Main 22-100% S09 07Y			12.000	12.000	13.300	14.500	13.333	15.848	-14509	long	Spread	lower spread
15	iTraxx.Main 22-100% S09 10Y			33.000	33.000	34.700	36.750	34.708	36.848	-20948	long	Spread	lower spread
16	iTraxx.Main IDX S09 07Y	129.000		119.750	123.250	127.250	131.250	130.657	122.657	-6680	long	Spread	lower spread
17	iTraxx.Main IDX S09 10Y	149.000	150.500	144.250	144.250	147.750	151.250	150.659	144.250	-17255	long	Spread	lower spread
18	iTraxx.Main IDX S16 05Y	123.435	123.630	121.750	121.250	121.750	122.250	123.435	121.750	-18814	long	Spread	lower spread

	FEBRUARY	TOTEM	ICE	FO	Broker Bid	Broker Mid	Broker Offer	VCG Price	CIO BOOKS (GAAP)	Notional (- Long Risk + Short Risk)	Risk	Basis	Benefit
1	CDX.NAHY 10-15% S08 05Y	89.832		89.750	89.500	90.000	90.500	89.750	89.750	1450	short	Price	lower price
2	CDX.NAHY 10-15% S10 07Y	15.875		17.000	15.160	16.245	17.330	40.750	17.000	-4041	long	Price	higher price
3	CDX.NAHY 15-25% S10 05Y	95.076		95.375	94.660	95.120	95.580	95.292	95.375	-1833	long	Price	higher price
4	CDX.NAHY 15-25% S11 05Y	86.208		86.250	85.660	86.330	87.000	86.333	86.250	-815	long	Price	higher price
5	CDX.NAHY 35-100% S10 05Y	-		106.188	106.000	106.145	106.290	107.792	106.188	-3905	long	Price	higher price
6	CDX.NAHY IDX S11 07Y	101.495		102.000	101.063	101.563	102.063	101.495	102.000	-4308	long	Price	higher price
7	CDX.NAHY IDX S14 05Y	101.427	101.594	101.375	101.250	101.500	101.750	101.427	101.375	12457	short	Price	lower price
8	CDX.NAHY IDX S15 05Y	100.500		100.563	100.313	100.500	100.688	100.503	100.563	8215	short	Price	lower price
9	CDX.NAIG 0-3% S09 05Y	24.034		24.188	23.830	24.060	24.290	24.063	24.188	2995	short	Upfront	higher price
10	CDX.NAIG 0-3% S09 10Y	59.871		59.875	59.625	59.853	60.080	59.864	59.875	-3370	long	Upfront	lower price
11	CDX.NAIG IDX S09 07Y	94.756	95.810	92.000	89.813	91.813	93.813	93.756	92.000	-33546	long	Spread	lower spread
12	CDX.NAIG IDX S09 10Y	114.987	115.750	112.500	111.063	113.313	115.563	113.987	112.500	-67791	long	Spread	lower spread
13	iTraxx.Main 0-3% S09 10Y	65.918		66.125	65.875	66.138	66.400	65.969	66.125	-1445	long	Upfront	lower price
14	iTraxx.Main 22-100% S09 07Y	-		15.500	15.250	16.125	17.000	15.750	15.500	-9975	long	Spread	lower spread
15	iTraxx.Main 22-100% S09 10Y	-		34.500	34.400	35.116	35.830	34.938	34.500	-12070	long	Spread	lower spread
16	iTraxx.Main IDX S09 07Y	135.475		131.750	130.750	132.750	134.750	135.476	131.750	-4353	long	Spread	lower spread
17	iTraxx.Main IDX S09 10Y	150.033	150.750	146.750	144.250	146.250	148.250	150.033	146.750	-10340	long	Spread	lower spread
18	iTraxx.Main IDX S16 05Y	128.870	128.940	128.250	128.000	128.250	128.500	128.876	128.250	-9230	long	Spread	lower spread

	JANUARY	TOTEM	ICE	FO	Broker Bid	Broker Mid	Broker Offer	VCG Price	CIO BOOKS (GAAP)	Notional (- Long Risk + Short Risk)	Risk	Basis	Benefit
1	CDX.NAHY 10-15% S08 05Y	70.716		70.000	69.625	70.313	71.000	70.000	70.000	1140	short	Price	lower price
2	CDX.NAHY 10-15% S10 07Y	19.911		20.750	19.700	20.538	21.375	20.542	20.750	-4031	long	Price	higher price
3	CDX.NAHY 15-25% S10 05Y	93.156		93.375	92.875	93.313	93.750	103.792	93.375	-1668	long	Price	higher price
4	CDX.NAHY 15-25% S11 05Y	86.392		86.250	85.438	86.063	86.688	86.063	86.250	-530	long	Price	higher price
5	CDX.NAHY 35-100% S10 05Y	106.245		106.313	106.170	106.315	106.460	106.300	106.313	-3705	long	Price	higher price
6	CDX.NAHY IDX S11 07Y	101.125		101.000	100.688	101.000	101.313	101.125	101.000	-3633	long	Price	higher price
7	CDX.NAHY IDX S14 05Y	100.761	100.890	100.625	100.375	100.625	100.875	100.761	100.625	11857	short	Price	lower price
8	CDX.NAHY IDX S15 05Y	100.030		100.125	99.938	100.125	100.313	100.031	100.125	6915	short	Price	lower price
9	CDX.NAIG 0-3% S09 05Y	26.579		26.813	26.460	26.680	26.900	26.667	26.813	2725	short	Price	lower price
10	CDX.NAIG 0-3% S09 10Y	60.901		60.750	60.563	60.813	61.063	60.792	60.750	-3290	long	Price	higher price
11	CDX.NAIG IDX S09 07Y	103.614	104.880	102.000	101.500	103.500	105.500	103.614	102.000	-28885	long	Spread	lower spread
12	CDX.NAIG IDX S09 10Y	120.944	121.250	119.500	119.000	120.750	122.500	120.944	119.500	-54765	long	Spread	lower spread
13	iTraxx.Main 0-3% S09 10Y	66.673		66.563	66.290	66.620	66.950	66.625	66.563	-1415	long	Price	higher price
14	iTraxx.Main 22-100% S09 07Y	-		19.750	18.160	19.495	20.830	19.500	19.750	-6675	long	Spread	lower spread
15	iTraxx.Main 22-100% S09 10Y	-		40.000	39.400	40.600	41.800	40.500	40.000	-7775	long	Spread	lower spread
16	iTraxx.Main IDX S09 07Y	150.764		148.500	146.750	148.750	150.750	150.764	148.500	-3837	long	Spread	lower spread
17	iTraxx.Main IDX S09 10Y	160.840	162.000	158.000	156.500	158.500	160.500	158.250	158.000	-10574	long	Spread	lower spread
18	iTraxx.Main IDX S16 05Y	143.700	143.690	143.000	142.500	143.000	143.500	143.703	143.000	1387	long	Spread	lower spread

Data sourced from CIO; validated by CIO VCG - New York and London

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.

Appendix C - CIO Transaction Data

The following tables set out the following:

- 'SIZE (week ending)' - The average traded volume for the relevant week.
- 'AVG PRICE (week ending)' – The average price at which CIO executed its transactions during the relevant week.

For relevant observations, please refer to appendix B.

	SIZE (week ending)	6-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	3-Feb-12	10-Feb-12	17-Feb-12	24-Feb-12	2-Mar-12	9-Mar-12	16-Mar-12	23-Mar-12	30-Mar-12	Avg
1	CDXNAHY 10-15% S08 05Y	20	60	20	-	30	200	-	-	45	30	120	-	-	40
2	CDXNAHY 10-15% S10 07Y	280	-	130	300	10	-	-	-	-	-	-	-	-	55
3	CDXNAHY 15-25% S10 05Y	10	80	25	30	70	15	20	-	140	10	20	50	30	38
4	CDXNAHY 15-25% S11 05Y	70	110	-	20	85	25	175	-	20	20	130	10	20	53
5	CDXNAHY 35-100% S10 05Y	-	-	-	-	-	200	-	-	-	-	-	-	-	15
6	CDXNAHY IDX S11 07Y	100	-	-	1,350	300	-	-	-	-	-	-	-	100	142
7	CDXNAHY IDX S14 05Y	250	300	725	175	-	150	225	-	85	-	-	-	25	149
8	CDXNAHY IDX S15 05Y	350	200	450	150	-	300	625	325	550	-	900	-	200	312
9	CDXNAIG 0-3% S09 05Y	30	105	-	55	10	120	75	-	90	60	280	-	145	75
10	CDXNAIG 0-3% S09 10Y	60	-	-	110	30	-	-	-	-	-	200	235	130	59
11	CDXNAIG IDX S09 07Y	598	2,120	-	3,584	826	374	3,799	2,421	1,965	-	1,431	405	10	1,349
12	CDXNAIG IDX S09 10Y	5,988	10,228	958	10,031	2,226	2,399	1,041	4,833	11,686	721	3,859	3,995	841	4,508
13	iTraxxMain 0-3% S09 10Y	30	-	20	20	10	10	-	-	-	-	-	20	155	20
14	iTraxxMain 22-100% S09 07Y	-	100	-	-	-	500	1,925	500	975	-	-	250	125	337
15	iTraxxMain 22-100% S09 10Y	-	1,625	50	-	-	2,645	250	1,275	215	1,000	1,525	1,000	125	747
16	iTraxxMain IDX S09 07Y	-	88	135	631	-	1,980	1,094	590	887	-	-	153	363	455
17	iTraxxMain IDX S09 10Y	1,673	5,412	1,662	3,027	520	3,268	1,024	1,796	2,185	988	3,678	1,151	484	2,067
18	iTraxxMain IDX S16 05Y	6,339	4,928	7,292	9,384	6,521	10,905	10,575	6,583	10,383	1,043	5,900	8,800	-	6,819

	AVERAGE PRICE (week ending)	6-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	3-Feb-12	10-Feb-12	17-Feb-12	24-Feb-12	2-Mar-12	9-Mar-12	16-Mar-12	23-Mar-12	30-Mar-12	3/31/12 TOTEM Prices
1	CDXNAHY 10-15% S08 05Y	63.25	62.75	60.38	-	71.06	67.14	-	-	89.75	90.38	88.55	-	-	92.38
2	CDXNAHY 10-15% S10 07Y	16.75	-	15.38	16.93	20.75	-	-	-	-	-	-	-	-	11.31
3	CDXNAHY 15-25% S10 05Y	75.00	82.31	85.63	89.25	92.88	90.25	93.00	-	95.13	92.50	93.00	93.50	92.56	92.88
4	CDXNAHY 15-25% S11 05Y	69.66	74.28	-	82.50	85.92	83.50	85.25	-	86.25	82.50	83.67	83.63	83.38	83.25
5	CDXNAHY 35-100% S10 05Y	-	-	-	-	-	106.25	-	-	-	-	-	-	-	-
6	CDXNAHY IDX S11 07Y	97.31	-	-	100.39	101.00	-	-	-	-	-	-	-	101.75	101.51
7	CDXNAHY IDX S14 05Y	97.63	97.58	98.65	100.86	-	101.19	100.63	-	101.47	-	-	-	101.88	101.63
8	CDXNAHY IDX S15 05Y	97.04	96.89	98.33	99.82	-	100.86	99.84	100.23	100.60	-	100.57	-	100.94	100.72
9	CDXNAIG 0-3% S09 05Y	38.00	32.67	-	27.56	26.88	26.30	28.30	-	23.84	24.33	22.11	-	17.18	17.88
10	CDXNAIG 0-3% S09 10Y	70.00	-	-	62.80	61.25	-	-	-	-	-	62.31	60.74	62.53	63.31
11	CDXNAIG IDX S09 07Y	136.60	124.05	-	110.16	106.44	102.00	106.90	103.88	96.51	-	91.23	84.42	90.00	89.67
12	CDXNAIG IDX S09 10Y	145.67	138.25	133.75	125.44	120.92	122.12	123.60	120.45	115.89	119.33	115.33	106.70	111.20	112.24
13	iTraxxMain 0-3% S09 10Y	69.96	-	68.63	67.13	66.63	65.50	-	-	-	-	-	63.13	65.29	66.75
14	iTraxxMain 22-100% S09 07Y	-	36.75	-	-	-	17.50	20.18	17.63	17.85	-	-	15.00	12.75	-
15	iTraxxMain 22-100% S09 10Y	-	59.88	58.00	-	-	36.48	40.50	37.93	37.88	35.25	34.13	31.45	33.63	-
16	iTraxxMain IDX S09 07Y	-	189.50	179.83	163.14	-	136.18	145.31	138.60	137.13	-	-	113.00	125.00	130.66
17	iTraxxMain IDX S09 10Y	194.37	195.71	181.42	168.27	159.79	150.28	157.94	154.07	149.69	152.57	147.18	136.30	144.88	150.66
18	iTraxxMain IDX S16 05Y	175.22	175.04	164.98	147.32	140.44	131.11	139.27	132.24	129.62	138.75	126.59	113.06	-	123.44

Data sourced from CIO; validated by CIO middle office

MARKET RISK LIMITS

March 2012

STRICTLY PRIVATE AND CONFIDENTIAL

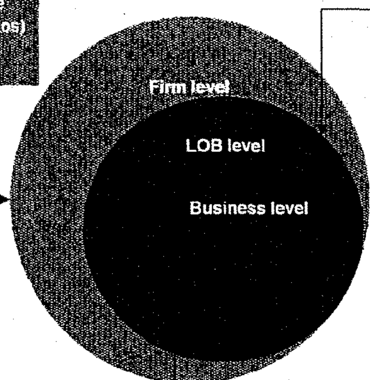
J.P.Morgan

A: Market Risk Limits Overview

Multi-level limit framework

Firm level (JPMC)
- VaR and stress loss (Firmwide Stress scenarios)

LOB level (eg IB, CIO, RFS)
- VaR and stress loss, stop loss or P&L drawdown

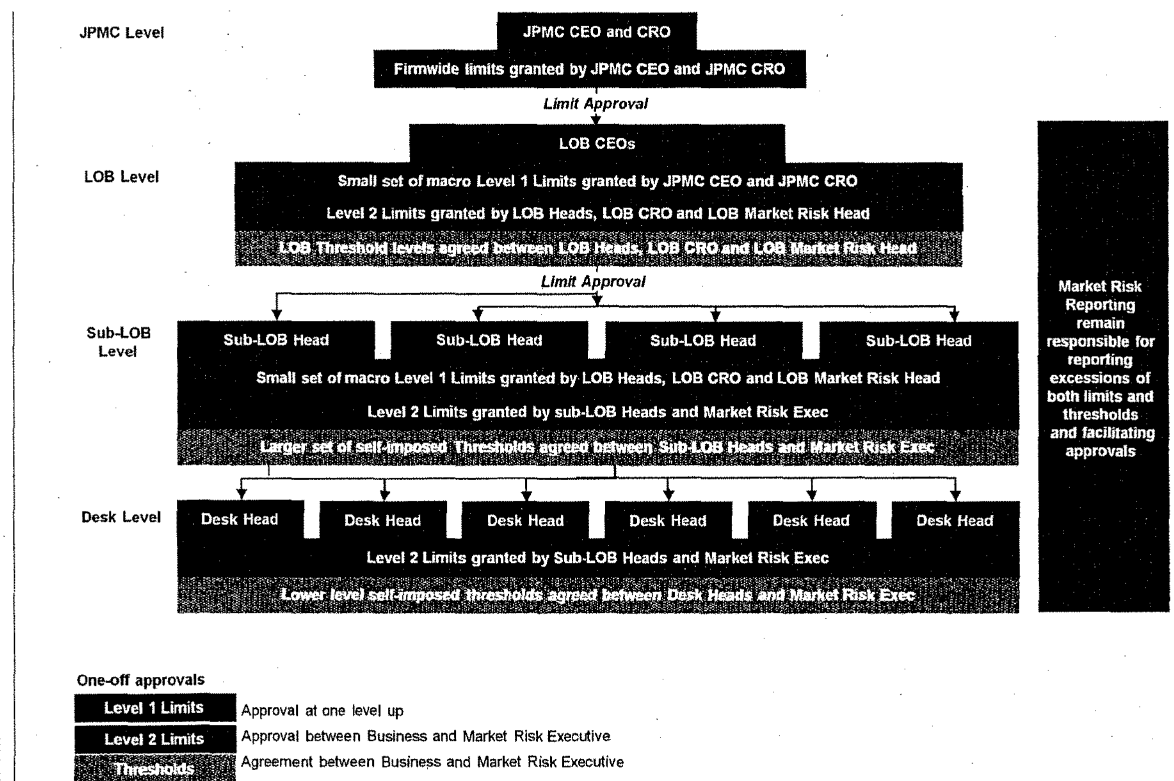


Business level (eg Equity Markets)
- VaR; stress loss; non-statistical

Limit structure
- Limits aligned with management risk appetite
- Limits are reviewed on an ongoing basis
- Non-statistical limits are business-specific

Limit excession resolution process
- Daily monitoring of position vs. limit
- Daily excess and loss reporting to head of relevant business level, depending on excess
- Business in excession must
  - Reduce risk within limit, or
  - Agree to follow-up action plan, or
  - One-off approvals may be granted to accommodate large client transactions or market conditions

A: Market Risk Limits Control Structure



APPENDIX

J.P.Morgan

A: Market Risk Governance of Level 1 and 2 Limits and Thresholds

	Level 1 limits	Level 2 limits	Thresholds
Levels	■ Firm, LOB, Sub-LOB	■ LOB, Sub-LOB, Desk	■ LOB, Sub-LOB, Desk
Initial Limit Approval	■ Limit requestor and corresponding Market Risk Executives, plus one level up in organization approve; approval documented	■ Limit requestor and corresponding Market Risk Executives approve; approval documented	■ Limit requestor and corresponding Market Risk Executives agree; no documented approval required
Excession actions	■ Business Unit must take immediate steps toward reducing its exposure to be within the limit, unless a One-off Approval is granted by all Grantors and Grantees of limits	■ Business Unit must take immediate steps toward reducing its exposure to be within the limit, unless a One-off Approval is granted by all Grantors and Grantees of limits	■ Not required to take action to bring utilization within Threshold, no documented one-off approvals required
Excession notification	■ Reported in Friday Risk pack and Limit/Threshold excession report, and to all approvers via email	■ Reported in Friday Risk pack and Limit/Threshold excession report, and to all approvers via email	■ Reported in Limit/Threshold excession report
Number in place	■ Approximately 100	■ Approximately 270	■ Over 4,200

APPENDIX

J.P.Morgan

21/12/2011 13h23

Ina requests a exercise whereby we try to reduce further the RWA by the end of Q1 2012

To Javier

Hello
Just talked to julien
It is holiday time in london yet not in ny may be. Thus, noone in the london office today.
So best I can say is that the execution cost for unwinding the book are proportionnal to what julien computed ie 400m if I remember well.

Adjusted for the expiry t
And the duration shortening this gives 200-300m depending on the speed.

Julien should drop you a quick em

12/1/2012

The short risk is covered and official Var blows up

From: Martin-Artajo, Javier X
Sent: 12 January 2012 10:36
To: Iksil, Bruno M; Hagan, Patrick S
Subject: VAR high compared to IB . Need to discuss .

Need to get the new VAR model asap Pat .

Interesting how much we diversify the IB !!!!!! on VAR terms . How can it not be the case for CRM will remain one of the great mysteries until we get deeper into the results of t

18/1/2012
Var increases a lot : I keep selling protection in main, buying protection in xover and US HY

I think I will need to have this number daily... so that I am not be made responsible for this in the future. I reckon the group var will increase subsequently to my own var reduction.

Please let me know your thoughts on the matter.

Permanent Subcommittee on Investigations

EXHIBIT #38

Bruno

From: Martin-Artajo, Javier X
Sent: 18 January 2012 15:31
To: Iksil, Bruno M; Hagan, Patrick S
Subject: FW: VaR limit breach

18/1/2012
meeting with Ina on RWA reduction plan

From: Perryman, Andrew X
Sent: 18 January 2012 15:57
To: Serpico, Gina
Cc: Iksil, Bruno M; Martin-Artajo, Javier X; Macris, Achilles O; Hagan, Patrick S
Subject: Meeting materials for 11am meeting
Importance: High

Hi Gina,

Please find attached a copy of the meeting materials for Ina's 3pm meeting with Javier, Achilles and Bruno. Any questions please do not hesitate to g

Post the conf call with Ina, a big issue is raised around the cost of trading the book down in RWA and the potential carry.

I prepared a new presentation with the different options.....

20/1/2012
The Var keeps increasing as I add the decompression trade in order to flatten the HY exposure and I add to the xover-main trade

Where is this coming from ?

I have the qualitative explanation.. not the numbers in detail

From: Martin-Artajo, Javier X
Sent: 20 January 2012 11:00
To: Hagan, Patrick S; Iksil, Bruno M
Subject: FW: Breach of firm var

Can we please write about this a quick note , Fast please .

From: Goldman, Irvin J
Sent: 20 January 2012 03:08
To: Stephan, Keith; Weiland, Pe

From: Martin-Artajo, Javier X
Sent: 20 January 2012 11:00
To: Hagan, Patrick S; Iksil, Bruno M
Subject: FW: Breach of firm var

Can we please write about this a quick note , Fast please .

From: Goldman, Irvin J
Sent: 20 January 2012 03:08
To: Stephan, Keith; Weiland, Peter
Cc: Macris, Achilles O; Martin-Artajo, Javier X; Kalimtgis, Evan
Subject: Breach of firm

23/1/2012
The Var keeps explodes and shows up at the top of the firm. ...

We will sort this out in the coming days starting today. This is embarrassing I know. To say the least..
I need the marginals in cases like this. The marginals are the effect that a marginal change on one instrument has on the whole risk number. It is different from the contribution of one line or one position to the total. Because the measure is non linear. We did not have the marginals last wee

From: Martin-Artajo, Javier X
Sent: 23 January 2012 15:25
To: Iksil, Bruno M
Cc: Buraya, Luis C
Subject: FW: Aggregate Credit VaR

Bruno ,

please read . You need to reduce the VAR for tactical too until the new VAR model is operational . Want to discuss your limits until we sort the problem we currently *have .*

rgds

From: Lee, Janet X
Sen

I move the Var down on Tactical

the var in tactical is back below 10m

I will see if I can do more.. Not sure at all about the impact on total Var though

From: Chandna, Sameer X
Sent: 24 January 2012 16:30
To: Iksil, Bruno M; De Sangues, Eric; Buraya, Luis C; Grout, Julien G
Cc: Stephan, Keith; Lee, Janet X
Subject: Core Tactical var 23rd Jan

Bruno,

Total Tactical Var is $8.6mm as of 23rd. Reducti

24/1/2012
The books starts to lose money in an uncontrollable way.... I prepare slides for the ISMG meeting

I sent slides for review to Andrew Perryman and Javier

I will have some slides for the meeting in the morning.. not the one for the afternoon.

From: Perryman, Andrew X
Sent: 24 January 2012 09:14
To: Iksil, Bruno M; Brown, Anthony M; Uzuner, Tolga I; Polychronopoulos, George H; berner, andy X

Cc: Martin-Artajo, Javier X; Kalimtgis, Evan
Subject: Weekly SAA Topics 26th January 2012

Please can you let me know if you have any discuss

Here is the message

From: Enfield, Keith
Sent: 26 January 2012 08:00
To: Macris, Achilles O; Martin-Artajo, Javier X; Polychronopoulos, George H; Kalimtgis, Evan; Chan, Chris S.; Chung, Rayson KK; Stephan, Keith; Douglas, Jamie P; Iksil, Bruno M; Uzuner, Tolga I; Bradley, John C.; Brown, Anthony M; berner, andy x; Fleming, Lorraine M
Cc: Bates, Paul T; Lee,

Attachments:
120126 Credit Highlights Presentation-ppt.zip (671 KB)

26/1/2012

ISMG meeting, I explain the loss coming in the book mostly from Series (underperformance vs the market rally

The new Var model is is the process of being approved but I cannot use it officially yet

From: Martin-Artajo, Javier X
Sent: 26 January 2012 10:57
To: Iksil, Bruno M; Hagan, Patrick S
Subject: FW: New methodology for Var jump - IMPORTANT

FYI

From: Martin-Artajo, Javier X
Sent: 26 January 2012 10:56
To: Goldman, Irvin J; Drew, Ina
Cc: Macris, Achilles O; Weiland, Peter
Subject: New methodology for Var jump

Irv/Ina ,

the New Var Met

Attachments:

VAR CIO review DRAFT-doc.zip (251 KB)

JanVarFinalModel.xls (21 KB)

I ask Keith when I can use this new Var model

Thx keith.

Please let me know as soon as possible whether I have to take action on the old methodology var number. So far I understand I should wait and favour the new methodology as far as the core book is concerned..
All I do is I make sure that the var for the tactical book remains within the limit, which it does although I had no confirmation of today's result.

I tested today the margi

27/1/2012

I request to Javier an increase in the CS01 because, after Kodak filing statement, I need to cover some default risks and thus I need to sell more protection on IG and Main to balance the directionality of the book. I here hit the limit in CS01

To Javier I write at 9h09

I will need an increase in the CS01 limit in order to reduce further the notionals and set the book for a smoother P&L path.

I am currently contrained by this limit of 10M CS01 that prevents me from having a decent convexity if spreads tighten mostly.

This is due to the current exposure we have now on defaults in US HY (we may lose money on defaults now because i cannot add flatte

Keith finds out that we allow the IB to benefit of an RWA that is below their regulatory floor. I suspect this is why my own RWA is so high

yes quite convenient to sit on the floor... I can tell ....being stuck to the roof

From: Martin-Artajo, Javier X
Sent: 27 January 2012 13:04
To: Hagan, Patrick S; Iksil, Bruno M
Subject: FW: Revised Floor calc with y/e data

interesting split

From: Stephan, Keith
Sent: 27 January 2012 13:01
To: Martin-Artajo, Javier X
Subject: FW: Revised Floor calc with y/e data

30/01/2012

I increase the CS01 and this causes worries although the x%CS01 is very bening

To Javier at 11h57...

the CS01 has reached 13.5M USD while the book is only marginally up in 10% CS01 tighetning

in the meantime the book still provide 1bln protection in the worst case for the group on a spread widening.

I just wanted to tell you how it looks like. I reckon this is close to where the book should be to be neutral with markets.

Bruno

30/01/2012 : Month end and I have to report a loss : I highlight my inability to neatly prevent the series 9 forwards to drift against us

To Javier at 16h42

We have to report a loss in the widening today, much less because the book has a long 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 ne

Message to Evan where I highlight the material drawdown 17h52..

I know this.

Now I see the reply from Tolga and I see how different and alien this book is in the current setup. Not that I "discover" that, and I see that you try to remove the ambiguities here.

I just provide my thoughts on this matter, all the more so as the book has a material drawdown which in my view should only be cured in a run-off mode. I guess I have a responsibility here and

Attachments:

image001.png (27 KB)

Again to Javier for Month end 18h24

so the whole street here is framing and I tried.... same story all over the book parts.

To Javier soon after....18h30

are you available for a call?

From: Martin-Artajo, Javier X
Sent: 30 January 2012 18:29
To: Iksil, Bruno M
Subject: Re: so the whole street here is framing and I tried.... same story all over the book parts.

Let's keep trying tomorrow and wed then ; Patience is going to be needed once again .

From: Iksil, Bruno M

Sent: Monday, January 30, 2012 06:23 PM
To: Martin-Ar

Late in the day 30/01/2012 21h02

To Javier

there is more loss coming in core credit book

I reckon we have another 50M coming from CDX IG9 exposure. The guys have a huge skew trade on and they will defend it as much as we do. I think I should take the pain fast over to next month. I have tried but it will ot move : they have moved some of those trades out at BOA but BNP, CSFB and BARCLAYS go for the fight. It is pointless in my view to go for a fight. We will roll down and recover the

21h13

ok they really push against our positions here everywhere. there is more pain to come in HY too : a lot of capital comes back into basis and skew trades. I can see a bad scenario here where spreads widen and guys do not go long risk but make basis arbs with a bearish view on weak names. Here we should stop adding and take full pain : i see 50m coming in IG9 as I mentionned and another 50m in HY.

21h48 I explain a bit more what I see and understand

They use the differential between single names and indices : usually, single names trades wider than indices in bullish mode.

This is even more the case on the forward spread we have a long risk exposure simply because we have sold protection all the way since last year.

Take the case of IG9 curve :

In IG9, because of RADIAN and MBIA presence that have both high upfront single nam

23h18... a different subject .. apparently

Henry KIM is running the HY index trading here in JP IB New York and he would like to know whether there is some opportunity for him here at CIO be it New York or London.

I thought may be he could try to meet with you while you are in New York even informally.

He is very young and very talented.

Let me know if you can find some spare time for him and he will get in contac

31/01/2012 : official month end,, the pain is showing up and I try to explain to Javier and Achilles what is going on

Fw: Core book p&l drawdown and main exposures

I sent this memo to achilles ahead of the ismg meeting, I am travelling back to london today.

----- Original Message -----
From: Iksil, Bruno M
Sent: Tuesday, January 31, 2012 06:30 AM
To: Macris, Achilles O; 'macris@[redacted]
Subject: Fw: Core book p&l drawdown and main exposures

----- Original Message -----
From: Iksil Bruno [mailto:biksil2@[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The book currently conveys a short risk exposure in us hy and a long risk exposure in ig indices series 9 (both CDx and itraxx). This exposure balances the jump to default risk of the book : we would lose money now on a default in us hy and make money if the default occurs in ig world. One can summarize the net exposure as : the book has a bullish flatteners in ig and a bearish steepeners in us h

31/01/2012.. update.. things get worse again

ok they keep playing games in itraxx now.. I will show up for small in the hope we can limit the pain.

as to IG9, things look much better, not that we are imune but we can show that we are not at mids but on realistic level.

I wait for Hy and will keep you in the loop when I have a final number.

I went I to ISMG and advised that we set the book for long risk carry the time

1/2/2012 ... we work out the PNL breakdown and start investigating what we can do

To Javier ...22h08...

1- P&L breakdown

We broke down the P&L per block and item (carry, new trade, directionality, compression, forwards, fin sub and rates)

The loss in directionality comes from the rally in HY. The improvement in new trades is due to the fight and some additional long risk in main.

You will notice the loss in fin sub, where we also have a forward trade funding a good upside in

2/2/2012 : I send to Javier and updated Pres where I highlight to potential further loss of 300M from a current loss of 100M

TO Javier 12h50

here is the latest version of the presentation

This message has been archived.

Attachments:

3feb2012 Credit Highlights Presentation-ppt.zip (2.4 MB)

3/2/2012 : conf call with Ina.. the text slides are removed and the focus is put on the risk management and the trade attractiveness at Javier's request

you will see that the number of slide is a bit higher than expected. I thought the presentation should have some annex still. I comment on the skew on the last 2 slides, difficult to summarize.

Attachments:

3feb2012 Credit Ina conf call-ppt.zip (688 KB)

10/2/2012.. the new rwa figures are out for month end and there is an increase.. I try to explain that the decompression trade HY Xover versus IG adds notionals and therefore capital consumption.. That most of this is due to RESCAP and KODAK defaults

To Pat Hagan and Javier 10h12

hello Pat

Here is what is happening here, happy to have quantitative data on it :

since Rescap event, we had a new drawdown... here is what I did since then with Julien :

I sold risk in HY on the runs (HY17 and HY16) and bought risk in IG17 and itraxx main 16, maintaining our 10%CS01 and 50% CS01 almost flat to slightly flat. PLease notice that the crude CS01 (that assumes all

13/2/2012.. rescao officially files, we take a hit again in our longs while the market rallies overall in HY and we take another hit from that...

To the whole ISMG committee and INA Drew12h50

From: Iksil, Bruno M
Sent: 13 February 2012 12:49
To: Drew, Ina
Subject: Core credit book P&L drivers over the last week..

Rescap : last Wednesday, ALLY announced they were preparing a pre-packaged banruptcy for Rescap. The 5yr CDS moved up from 40pts to 58 pts and the market bull flattened, ie we lost on our short risk positions (HY14 to hy17) and we lost on our long risk ...

To Javier 17h49...the problems worsen

we report a loss today due to compression of hy and xover spreads versus IG spreads (europe mostly bu US too).

We are converging towards a balanced P&L. I think but we may wobble until *month end downward.*

The carry starts having an effect but it is too small (the basic daily carry is 1-2m while the compression move hit us 50m today just in itraxx)

Now the wilde tightening

14/2/2012.. the drift against our positions continue

we keep acknowledging losses without fighting..Today this is the us hy equity tranche group marked down 1 pcts out of any specific news or single name move.

Also someone is pushing the index spreads wider into the London close, especially financial spreads.

The curves tended to flatten but the series 9 rolls changes made sure the forwards did not tighten while the whole market wi

15/2/2012.. same issue,. different face 17h56

very interesting session,.., again we record a loss but this is really due to another market weird move : the ote cds went up to 42 pts upfront (up 12pts on the day), and is in the xover index. UBS issued a coco bond that was oversubscribed and barely sold off in the widening. As a summary, fins widened a lot due to greece headline and xover outperformed despite the greece headline and OTE.

16/2/2012.. I try to reduce RWA and Var as much as I can in a bleeding book

to Javier 8h56

I am working now on var stress var and crm, ie on rwa marginals based on pat's model. This is the first set of numbers I can use.

I am making progress in the sense that I can use now Pat's work to figure out *whether we have good balance.*

As of now I just have to buy protection to reduce rwa, not big sizes but across the board.

I use tranches to improve the whole risk profile

Reply from Javier

From: Martin-Artajo, Javier X
Sent: 16 February 2012 08:58
To: Iksil, Bruno M
Subject: Re: core credit book PnL comment for the 15th Feb 2012

Let's review on monday with Pat too then to see what gets reported on the actuals .

From: Iksil, Bruno M
Sent: Thursday, February 16, 2012 08:55 AM
To: Martin-Artajo, Javier X
Subject: RE: core credit book PnL comment for th

20/2/2012 : I plan to update the ISMG meeting about the core book as PNL drift keeps sinking

To Andrew Perrymwn 11h27

RE: SAA Weekly Topics: Thursday 23rd February 2012

yes I have some update from ina's presentation to the ismg

but I need to gather some updates ...

From: Perryman, Andrew X
Sent: 20 February 2012 11:17
To: Brown, Anthony M; Iksil, Bruno M; berner, andy x; Uzuner, Tolga I; Polychronopoulos, George H
Cc: Martin-Artajo, Javier X; Kalimtgis, Evan
Subject: SAA Weekly Topics: Thursday 23rd February 2012

Please can you let me know

21/2/2012 : new presentation .. I stress upon the potential that I see coming and some features of the book to dimension all these events..like the book is huge but the market move is not huge while the hit is very large

to Javier and Andy...21h50

here is the updated presentation for next ISMG

I tried to make 3 new points from last pres for Ina :

1- the P&L drift in February is focussed on forwards and show up in the "investment" block of the book

2- the loss for February is spread across the book by clips of 40-50m with only slight drifts overall in a stable market

3- I highlighted the default profile and the carry profile of the book in detail

22/2/2012 : latest version... I highlight the potential path followed into quarter end

To Javier, Andy Berner, Andrew Perryman 12h15

core credit latest version

This message has been archived.

Attachments:
120222 Core Credit Book PNL Review Bruno Update-ppt.zip (1.9 MB)

27/2/2012 : I added some summary slides that show the equivalent main positions of the book in simple indice form

to Javier, 15h24

latest slides for core credit

This message has been archived.

I added slides 4 and 5 that help "view" what the book is in BP sensitivity and strategic positioning..

Attachments:
120223 Core Credit Book PNL Review Bruno Update-ppt.zip (2.7 MB)

28/2/2012.. month end ,, more bleeding.. I completed the position by addin approx 6-7 Bln ig9 10yr where I thought he pb was,,,still think so btw

Keith needs to explain what happens wrt the larger PNL loss,,,13h58,, to Javier too

bullet points on core credit book

This message has been archived.

what the Core credit book is :

1- AN OPTION with positive convexity, positive carry on large and wild spread widening AND upside on default waves (similar to 2008-2009)

2- the VIEW is always based on Macro analysis (not targeting any specific name) : currently, we have a decompression trade on to pre-empt either an equity sell-off or a further rally in IG space.

3- the FORECAST !

14h14 To Andrew Perryman,,, we have to provide some update on the book

FW: Synthetic Credit Slide (text draft) --

This message has been archived.

From: Martin-Artajo, Javier X
Sent: 28 February 2012 13:42
To: Stephan, Keith
Cc: Iksil, Bruno M
Subject: RE: Synthetic Credit Slide (text draft) --

Very similar to what I just told Bruno to share with you . Lets get Andy Perryman/Bruno to put on a slide and lets then review .

tks

From: Stephan, Keith

Sent: 28 February 2012 13:40
To: Martin-Artajo, Ja

29/2/2012 , Month end shenanigans...

To Javier .. I highlight the trades I had to do to keep the PNL hit under control 22h28

This message has been archived.

I have sold important amounts of protection in ig9 10yr (close to 7bln all day or 3.5m cs01) and this will push the cs01 beyond the 25m limit. This is related to month end price moves that were all adverse although we could limit the damage.

I reckon the cs01 will jump to 28m (I bough protection for approx 500k in hy and xover) from 25m this morning. I went back inside the 25m limit this morn

1/3/2012...the day after the hit

The Risk guys are aware of it .. to Keith Stefan 5h44

This message has been archived.

-----Original Message-----
From: Iksil, Bruno M
Sent: Wednesday, February 29, 2012 10:27 PM
To: Martin-Artajo, Javier X
Subject: Core credit book update

I have sold important amounts of protection in ig9 10yr (close to 7bln all day or 3.5m cs01) and this will push the cs01 beyond the 25m limit. This is related to month end price moves that were all adverse although we could limit the d

this trading blows up the CS01 limit and I have to come back into it as I do not have yet the extension...

to Keith and Javier 13h02

This message has been archived.

I reduced 1.75M USd on itraxx this morning.

This is half of what is need to get back into the 25m limit..

I will work on it now...

18h07 ...to keith and Javier.. I came back in line...not quite under 25m cs01

This message has been archived.

The cs01 has been reduced by 2.5m usd today. So that puts the cs01 back to 25.5m.

I bought protection on main (2.7bln) and xover (750m). I bought some ig 17 (300m) and us hy (650m).

I bought in the spread tightening. Now that it has stopped tightening I do not chase unless you advise me to do so. I will finish tonight I hope with ig and hy mostly if the rally resumes.

Otherwise I will fi

6/3/2012 : Ashley Bacon comes in the loop now to collapse the risks between CIo and the IB.. he comes from the IB as most of the other guys do...

I reply to Javier 15h29

Re: Need to talk to you about a presentation of the Book to Ashley Bacon

This message has been archived.

Ok will do

From: Martin-Artajo, Javier X
Sent: Tuesday, March 06, 2012 02:42 PM
To: Iksil, Bruno M
Subject: Need to talk to you about a presentation of the Book to Ashley Bacon

Bruno ,

If you can call me around 4.30 PM today (5.30 PM your time) that would suit me well . Need around 15 mins from you .

regards

I called Julien (because I was on Holiday) so that he prepares this meeting....18h51

This message has been archived.

I asked him to work on 3 things
1- for thursday : update the pnl breakdown (forwds, directional, new trades, defaults etc..) And the pnl history chart
2- for monday : look at all the presentations we did with andy to compile a new set of slides describing the risks of the book. Andy and Julien should send you a draft version in order to get your feedback (what is good, not good, missing)
3- t

8/3/2012 17h55... important that I attend the meeting.. Achilles was in

To Javier

This message has been archived.

Yes I think I may have 30m late at the most.

----- Original Message -----
From: Martin-Artajo, Javier X
Sent: Thursday, March 08, 2012 05:32 PM
To: Iksil, Bruno M
Subject: RE: Monday meeting.

Bruno ,

Try to make the meeting as early as posible , It is important . I will start but you need to be part of the discussion . It will be a long meeting around 2 Hours , It will be only about R.

12/3/2012 : new presentation that provides a compact and synthetic view of the book and its issues.. to mention that so far the decompression as worked but not a lot yet...the roll will trigger the decompression and additional losses on the book...I start losing sleep..

to Javier and Andy..2h37

hello, following our last phone call, last week, please have a second look to this presentation I prepared with Andy for the ISMG meeting of the 23rd Feb 2012

This message has been archived.

I think the 5 first slides describe very well the book. The slide 4 in particular display the notionals and gives a clue of the scale of the moves. This shows quickly how the book can actually lose 200M and possibly another 200M while being range bound. The connection with last year gain is really a coincidence : the AMR move was really exceptional and the spread moves this year have also been exc

Attachments:
120223 Core Credit Book PNL Review Bruno Update-ppt.zip (2.7 MB)

15/3/2012 . the roll approaches and we start getting more losses...

To Javier 18h45

The divergence increases between crude mid prices and our estimate. Julien will send a small spreasheet recording the breadown of the divergence per blocks.

The ig9 10yrs lags another bp today. The hy market struggles to keep the rally pace with the sp500. Rescap curve is now flat at 65pts upfront. The equity tranches are fully impacted now. Yet the hy indices keep performing well.

Since month end, despite rescap event and greece, xover in itraxx and hy in cdx have maintained their ratio versus ig rally. That is 4bps tighter for ig17, 5 bps for main s16, 21 bps for xover and 20-25 bps for hy (if one adds the loss in rescap that is prices as certain now ie 75cts in price). In that regard, we keep the ig9 10 as performing like the market beta adjusted.

The whole ig9 curve should have outperformed actually if we look at the performance of radian and mbia or sfi. This is reflected in the ig9 5yr that has tightened 10bps, but not in ig9 10yr that has tightened less than 1 bps by the quotes we receive. What is really puzzling here is that the skew quotes have not changed! The cds outperformance and index underperformance should have tightened the skew.

We look at what we could do the reduce the difference while not growing the positions especially in ig9. The solutions are very limited : some main s9 trades could help, some hy trades too but the principal lag is where we do not want to add.

What I do right now is buying 0-3 7yr and 10yr in order to smooth the extinction of the book. This will be may be the solution : let the book run off. So I prepare it for this outcome. So far I did not show up in the index market. Just testing waters. I may not find size but the trading cost is high, not only the bid ask but the almost infinite ability of the dealers to twist their runs.

Best regards

Bruno

16/3/2012 „I try to help designing a "sleep" mode for the book as I doubt we can expect any improvement in the short term ,,,,

To Javier 6h42

I thought this night that we should consider putting some skew trades on both in ig9 10yr and itraxx mains9 10yr :
we could lock 60cts over good size I think.
This would maintain the upside on default, improve the carry and basically offset the loss we have now.

As I mentionned yesterday, despite the rally in Radian, MBIA and SFI, despite the lag in the IG9 10yr index, the skew has barely changed.
It shows to me a puzzling obstination on dealer side to keep it like that. Because this cannot be the result of a HF holding the market on its own alone.

This trade is not perfect of course but if the book goes in run-off mode as far as tranches are concerned, that is an interesting option. This money is obtained from a downgrade in the liquidity of the portfolio. Yet, it looks a much better option than collapsing or unwinding the trades with the street or any dealer or counterparty in block trades.

The trades could be booked on a standalone basis from one cash quote, so this would be easy to mark (with an increased issue here I agree).
The liquidity injection we would operate might also be favorable for us to reduce some tranche lines, especially the 0-3 10yr in that regard.

As a summary :
Negatives
- added dependency on dealers quotes
- downgraded profile if the book remains a tail risk book in credit derivatives
- slight overload in operations due to the single name booking
- we may have to increase RWA in the process first hand

positives
- we lock a PNL in form of carry forward that offsets the current unrealized loss
- does not alter the tail profile in terms of defaults upside
- likely helps us reduce some remaining large positions once we have traded sizes on skew
- once booked, very simply to mark and maintain.
- allows us to pay the trading costs to set the book for run off mode

The real choice to make is whether the book should be on run-off mode, ie we lightly manage it with a long risk bias ; we would allow for P&L swings and we would just prepare for default risk looking forward. To be sure, this is the case already but the book is not in run off mode. If the book steps in run-off, the skew trade would make sense because we would not plan to unwind agressively as we did last year.

Let me know

Bruno

To Javier 15h37

I explain the book structure as it is

we have 3 blocks : itraxx, IG and HY

IG is the largest one and the most difficult one ;

trade ideas.....
- swap index IG9 10yr for single names with full upfront skew trades
- buy protection in 0-3, sell protection in 7-10 in both 7yr and 10yr
- buy outright protection in 7yr vs sell protection in on the run IG

Main is the least difficult one
- we should do the same kind of trades as the problem is the same

US HY is the trickiest one
trade ideas.....
- buy the HY 10 hy11 15-25 and 25-35 tranches to roll down and shelter from the first defaults
- leave the equity tranches as they are almost deleted
- add some flatteners in HY14 HY15 HY16 and HY17 as time passes by

IG trades will improve the carry, reduce liquidity a bit but allow for a smooth roll down. The target is to be buyer of protection on all equity tranches : thus the delat increasing over time, the long position will switch to neutral fast without us trading more. Now the best profile is to keep the long risk bias to start.

Itraxx is the same theme as IG with a size much smaller.

HY : the problem is the upside on default. Some names are still a bit problematic (TXU and realogy). I think the number of defaults is limited in these series(HY11 and HY10) where we have the downside on defaults. The flatteners will need to be funded over time. Hence the long risk in IG and Main blocks.

All this would not change materially the profile of the book. Over the rest of its life, we would simply stick to these trades and do nothing more. We have to define the optimal exposure in long risk terms to ensure we have a decent carry.

Bruno

From March 21st till April 16th 2012-04-16

I sold 2-3 billion more in IG and Main to finish the book balance ; the P&L explanation showed a shortage of carry dues to maturity extension. Now the book looks balanced till the end of the year, losing "only " 175m at worse

The first 2 weeks of April were devastating due to the press articles that showed the line of blood. May be that was a mistake to let the book in run off right at this moment. It should have been done earlier but it would have implied no forced reduction in RWA, increased Var, less diversification in stress and more P&L potential drawdowns.

Now all the issue is about the availability of liquidity to keep the book with upside on P&L when credit events occur. The book is put to sleep.

Iksil, Bruno M

From: Iksil, Bruno M
Sent: 12 March 2012 02:37
To: Martin-Artajo, Javier X; Perryman, Andrew X; Grout, Julien G
Subject: hello, following our last phone call, last week, please have a second look to this presentation I prepared with Andy for the ISMG meeting of the 23rd Feb 2012
Attachments: 120223 Core Credit Book PNL Review Bruno Update-ppt.zip

I think the 5 first slides describe very well the book. The slide 4 in particular display the notionals and gives a clue of the scale of the moves. This shows quickly how the book can actually lose 200M and possibly another 200M while being range bound. The connection with last year gain is really a coincidence : the AMR move was really exceptional and the spread moves this year have also been exceptional but in very different moves.

In addition I would like to add another slide to describe how the IG9 trade requires possibly capital spot to allow for a quicker and smoother capital reduction: the focus would be on radian where there is a risk that, should radian file for chapt 11, it may only be in 2013 or later.
In that case we should right now buy protection on IG9 0-3 7yr and 10yr, and sell protection on 7-10 7yr and 10yr tranches. This might increase the RWA first hand, not sure about Var and stress var. As time passes by, the delta would increase and reduce smotthly the net long exposure.

This would be the best trade we could do as of today : this will not impact the carry at first (instead we would sell the implied long temr spread volatility) but will reduce the positive convexity of the book. Yet this will make the profile of core closer to tactical. Now tactical is approx 10 to 20 times smaller than core and has a "natural" P&L noise of 2-3M daily. So, we should expect a higher daily P&L noise in core of up to 20-40M while totday it is much smaller out of market moves described in the past.

In order to highlight different order of magnitudes, I think I should add two other slides :
1- how really the market prices defaults of their way to appearance (what is prices in vs what is not yet). This will help understand the slide 3 that details the default exposure breakdown
2- how IG9 has moved versus a regression modelled spread coming from, IG15, HY17, and Radian 5yr CDS : this would help explain how and why the IG move is so peculiar.

Let me know Your thoughts

Best regards

Bruno IKSIL

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Bruno IKSIL

Iksil, Bruno M

From:	Iksil, Bruno M
Sent:	15 March 2012 18:45
To:	Martin-Artajo, Javier X
Subject:	Update on core

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Iksil, Bruno M

From: Iksil, Bruno M
Sent: 16 March 2012 06:42
To: Martin-Artajo, Javier X
Cc: Grout, Julien G; Hagan, Patrick S
Subject: trade ideas on core

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Let me know

ino

Iksil, Bruno M

From:	Iksil, Bruno M
Sent:	16 March 2012 15:37
To:	Martin-Artajo, Javier X; Grout, Julien G
Subject:	strategy for core

we have 3 blocks : Itraxx, IG and HY

IG is the largest one and the most difficult one :
trade ideas.....
- swap index IG9 10yr for single names with full upfront skew trades
- buy protection in 0-3, sell protection in 7-10 in both 7yr and 10yr
- buy outright protection in 7yr vs sell protection in on the run IG

Main is the least difficult one
- we should do the same kind of trades as the problem is the same

US HY is the trickiest one
trade ideas....
- buy the HY 10 hy11 15-25 and 25-35 tranches to roll down and shelter from the first defaults
- leave the equity tranches as they are almost deleted
- add some flatteners in HY14 HY15 HY16 and HY17 as time passes by

IG trades will improve the carry, reduce liquidity a bit but allow for a smooth roll down. The target is to be buyer of protection on all equity tranches : thus the delat increasing over time, the long position will switch to neutral fast without us trading more. Now the best profile is to keep the long risk bias to start.

Itraxx is the same theme as IG with a size much smaller.

HY : the problem is the upside on default. Some names are still a bit problematic (TXU and realogy). I think the number of defaults is limited in these series(HY11 and HY10) where we have the downside on defaults. The flatteners will need to be funded over time. Hence the long risk in IG and Main blocks.

All this would not change materially the profile of the book. Over the rest of its life, we would simply stick to these trades and do nothing more. We have to define the optimal exposure in long risk terms to ensure we have a decent carry.

Bruno

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Bruno

Iksil, Bruno M

From: Iksil, Bruno M
Sent: 16 March 2012 17:34
To: Martin-Artajo, Javier X
Subject: update on Core PNL

The divergence has increased to 300 now ; the rescap news is pushing the tranches and HY indices against us.

I worked on the IG9 ans main S9 a bit today. There is some size. Not large. But if I trade 2 bps tighter, I reckon there will be size.

Tactical starts being impacted despite the trading gains. Small though. But the hits show anywhere but the spots I tried to correct.

It has been like this since the start of the year and the drift keeps going. I reckon we get to 400 difference very soon.

Bruno

Iksil, Bruno M

From: Iksil, Bruno M
Sent: 19 March 2012 11:45
To: Martin-Artajo, Javier X
Cc: Grout, Julien G
Subject: Core Book analysis and proposed strategy

Book position

- The book has positive carry, P&L upside on defaults and positive convexity if spreads gap wider. It is relatively neutral directionally overall at current market spread levels>
- To obtain this profile, the book receives the forward credit spreads. When markets are caught in squeeze like this one, the P&L volatility can become very large : this is what is happening since the beginning of this year in CDX IG9 and Main ITRAXX S9 series. The hit amounts to 5-10 Bps lag in those forwards versus the 50-60Bps rally.
- The book incurred a loss of 100m usd IN us hy from KODAK default and RESCAP almost certain default : this weakness have been corrected now and offers decent upside in any new default in HY indices

Market behaviour

- The CDX IG9 and ITRAXX Main S9 are the series where index tranches still trade. This is where the street owns some protection especially in the longer tenors for capital relief reason and uncertainty about the timing of defaults.
- some large Hedge funds have some "skew trades" where they buy protection on the series 9 10yr indices versus the single names
- in the rally, those series (where the book is long risk and the street is short risk) have lagged consistently : by trading and trying to correct the lag, we could retrieve 1-2bps but then we met strong resistance either with size or bid-ask widening.
- this year the tranche market depth has vanished : we can trade but small size each time with an appetite from dealers to load protection on the longest tenors.

- in US HY, in addition to the 2 defaults, we face a flattening trend advertized by dealers saying that either we have defaults or we rally : either ways, the curve flattens and we have a steepener on.

- as a summary, the book is a very visible player and holds a trade that the street wants to have now : ie a protection against unpredictable defaults. At the same time, they still own their "no default" trades from last year. So the street systematically steepens the series 9 curves and maintain the longest tenors wider than anything else.

Proposed strategy : **let the P&L fluctuate while not defending, just maintaining the upside on defaults over time**

- CDX IG and ITRAXX MAIN : over the next 18 months
  - buy back the protection in 0-3 10yr to reverse the profile (3Bln in main, 6bln in IG)
  - buy some 0-3 in 7yr tenors (1bln main-2 bln in IG)
  - sell protection over time on widenings to maintain the carry (5-10 Bln Main and IG)
- CDX US HY : over the next 18 months
  - put flatteners on in HY14-hy15-hy16-hy17 series while we own the protection on the 5yr now
  - let the longs in HY10-hy11 series live as they have lost already 18 names out of 100 and look safer than hy 14 to hy17 series.

P&L possible range : the loss is likely to range between 100m to 300m

- main reason is the CDX IG9 lag (2-3bps or 100-150m)
- second next is CDX HY : the hit is another 100m spread within the tranche and index bid-ask. Typical here, you cannot really trade but the mid does not change.
- third is Main itraxx : the curve in S9 steepened by 5bps pushing the forward back up while the other curves steepened 1 bp in the rally. The hit here is 80-100m.
- the estimated bid-ask on the book grossly amounts to 500m all-in (200m for IG, 100m for Itraxx main, 200m for CDX HY).

Conclusion

- the book has very useful features and should be maintained with its upside on defaults as much as possible.

- the market is very small now and we are too visible with likely some of our trades creating a concern among dealers : this affects us both in the bid-ask cost and the Mark_To_market because the street owns the long term protection to cover their legacy, ie "no default" trades mostly held in form of steepeners and long risk in short term equity tranches.
- there is a trap that is building : if we limit the Mark-To_Market we risk increasing the notionals further and weaken our position versus the rest of the market. One solution would be to let the book be really long risk, yet this would not be in a liquid market and may increase the P&L noise especially in corrections.
- the solution proposed amounts to be longer risk and let the book expire carrying the upside on default : I think we own here a very good position for a size that is also significant. This would involve some mechanical trading, ie buy protection on 10yr equity tranches, put flatteners in HY 14-17 and SELL protection on spread wdidening.

The PNL breakdwon and bid-ask analysis will come soon after. Julien is on it.

Bruno

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Bruno

From: Goldman, Irvin J
Sent: Fri, 04 May 2012 18:14:15 GMT
To: Weiland, Peter <peter.weiland@jpmchase.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Lee, Elizabeth M <elizabeth.m.lee@jpmorgan.com>
Subject: FW: Information needed
Importance: High

-----Original Message-----
From: Nase, Angjela X
Sent: Thursday, May 03, 2012 11:54 AM
To: Goldman, Irvin J
Cc: Surtani, Lavine; Lynch, Matthew A; Chen, Ted C; Doyle, Robin A.
Subject: RE: Information needed
Importance: High

Hi Irv,

Per your request to Matt, please find the CIO excessions attached. Please let us know if you need anything else.

Regards,
Angjela

-----Original Message-----
From: Lynch, Matthew A
Sent: Wednesday, May 02, 2012 9:56 PM
To: MRM External Reporting
Cc: Surtani, Lavine
Subject: Fw: Information needed

Fyi please see this high priority request from Irv. I committed to getting something to him by mid day tomorrow. Given that we have sent several such emails over the last few months with excession summaries we should be able to pull this together.

----- Original Message -----
From: Goldman, Irvin J
Sent: Wednesday, May 02, 2012 06:44 PM
To: Lynch, Matthew A
Cc: Doyle, Robin A.
Subject: Information needed

Matt,
I need a summary for a specific workstream john hogan requested of all CIO excessions, breach's reported by mrm from 9/30/2011 to today. This is high priority. Please let me know estimated delivery of request.
Thanks
Irv

Permanent Subcommittee on Investigations
EXHIBIT #39

Limit ID	Limit Description	COB	Limit level	VaR Limit	Utilization	Excession	%
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/3/2011	Level 2 Limit	4,500,000	9,383,544	4,883,544	109
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/3/2011	Other Threshold	6,000,000	10,944,809	4,944,809	82
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/3/2011	Level 2 Limit	2,000,000	5,137,153	3,137,153	157
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/4/2011	Level 2 Limit	2,000,000	5,795,328	3,795,328	190
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/4/2011	Other Threshold	6,000,000	12,410,248	6,410,248	107
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/4/2011	Level 2 Limit	250,000,000	282,526,829	32,526,829	13
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/4/2011	Level 2 Limit	4,500,000	10,148,186	5,648,186	126
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/5/2011	Level 2 Limit	4,500,000	6,784,321	2,284,321	51
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/5/2011	Level 2 Limit	2,000,000	6,131,575	4,131,575	207
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/5/2011	Other Threshold	6,000,000	8,402,985	2,402,985	40
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/6/2011	Level 2 Limit	4,500,000	6,784,015	2,284,015	51
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/6/2011	Level 2 Limit	2,000,000	6,131,575	4,131,575	207
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/6/2011	Other Threshold	6,000,000	8,400,292	2,400,292	40
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/10/2011	Level 2 Limit	4,500,000	9,916,512	5,416,512	120
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/10/2011	Level 2 Limit	250,000,000	365,955,712	115,955,712	46
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/10/2011	Level 2 Limit	2,000,000	6,369,090	4,369,090	218
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/10/2011	Other Threshold	6,000,000	14,555,062	8,555,062	143
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/11/2011	Level 2 Limit	2,000,000	6,369,090	4,369,090	218
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/11/2011	Other Threshold	6,000,000	15,873,100	9,873,100	165
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/11/2011	Level 2 Limit	250,000,000	366,005,214	116,005,214	46
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/11/2011	Level 2 Limit	4,500,000	10,798,353	6,298,353	140
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/12/2011	Other Threshold	6,000,000	15,245,349	9,245,349	154
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/12/2011	Level 2 Limit	250,000,000	316,845,981	66,845,981	27
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/12/2011	Level 2 Limit	4,500,000	10,208,081	5,708,081	127
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/12/2011	Level 2 Limit	2,000,000	6,542,608	4,542,608	227
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/13/2011	Other Threshold	6,000,000	15,916,235	9,916,235	165
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/13/2011	Level 2 Limit	4,500,000	10,389,307	5,889,307	131
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/13/2011	Level 2 Limit	2,000,000	6,849,919	4,849,919	242
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/13/2011	Level 2 Limit	250,000,000	346,317,852	96,317,852	39
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/14/2011	Level 2 Limit	250,000,000	346,317,852	96,317,852	39
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/14/2011	Level 2 Limit	2,000,000	6,849,919	4,849,919	242
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/14/2011	Other Threshold	6,000,000	7,024,024	1,024,024	17
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/14/2011	Level 2 Limit	4,500,000	6,387,190	1,887,190	42
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/17/2011	Level 2 Limit	4,500,000	10,394,315	5,894,315	131
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/17/2011	Level 2 Limit	2,000,000	6,980,778	4,980,778	249
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/17/2011	Other Threshold	6,000,000	15,912,420	9,912,420	165
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/18/2011	Level 2 Limit	2,000,000	7,412,455	5,412,455	271
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/18/2011	Other Threshold	6,000,000	16,636,813	10,636,813	177
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/18/2011	Level 2 Limit	4,500,000	10,711,630	6,211,630	138
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/19/2011	Level 2 Limit	4,500,000	10,729,493	6,229,493	138
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/19/2011	Level 2 Limit	250,000,000	250,476,143	476,143	0
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/19/2011	Other Threshold	6,000,000	16,623,938	10,623,938	177
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/19/2011	Level 2 Limit	2,000,000	7,419,334	5,419,334	271
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/20/2011	Level 2 Limit	4,500,000	10,797,382	6,297,382	140
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/20/2011	Level 2 Limit	2,000,000	7,517,794	5,517,794	276
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/20/2011	Level 2 Limit	250,000,000	250,811,801	811,801	0
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/20/2011	Other Threshold	6,000,000	17,047,449	11,047,449	184
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/21/2011	Level 2 Limit	2,000,000	7,512,352	5,512,352	276
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/21/2011	Level 2 Limit	4,500,000	10,898,802	6,398,802	142
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/21/2011	Other Threshold	6,000,000	17,205,881	11,205,881	187
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/21/2011	Level 2 Limit	250,000,000	404,516,784	154,516,784	62
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/24/2011	Level 2 Limit	2,000,000	7,209,023	5,209,023	260
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/24/2011	Level 2 Limit	4,500,000	10,250,609	5,750,609	128
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/24/2011	Other Threshold	6,000,000	17,138,102	11,138,102	186
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/24/2011	Level 2 Limit	250,000,000	333,970,976	83,970,976	34
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/25/2011	Level 2 Limit	2,000,000	7,071,078	5,071,078	254
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/25/2011	Level 2 Limit	250,000,000	263,380,999	13,380,999	5
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/25/2011	Level 2 Limit	4,500,000	10,095,418	5,595,418	124
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/25/2011	Other Threshold	6,000,000	16,939,228	10,939,228	182
40097	CIO - Int l - Global Equities - Aggr - Top Tier Delta	10/26/2011	Level 2 Limit	250,000,000	286,861,046	36,861,046	15
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/26/2011	Other Threshold	6,000,000	17,982,555	11,982,555	200
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/26/2011	Level 2 Limit	4,500,000	10,956,067	6,456,067	143

40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/26/2011	Level 2 Limit	2,000,000	7,848,459	5,848,459	292
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/27/2011	Other Threshold	6,000,000	17,660,153	11,660,153	194
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/27/2011	Level 2 Limit	2,000,000	7,864,020	5,864,020	293
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/27/2011	Level 2 Limit	4,500,000	10,715,067	6,215,067	138
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/28/2011	Other Threshold	6,000,000	17,344,231	11,344,231	189
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/28/2011	Level 2 Limit	2,000,000	7,328,548	5,328,548	266
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/28/2011	Level 2 Limit	4,500,000	9,864,208	5,364,208	119
32404	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/31/2011	Level 2 Limit	4,500,000	8,701,231	4,201,231	93
40098	CIO - Int l - Global Equities - Aggr - Top Tier Vega	10/31/2011	Level 2 Limit	2,000,000	6,155,446	4,155,446	208
32403	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/31/2011	Other Threshold	6,000,000	16,034,376	10,034,376	167
38588	CIO - Global - Aggregate - Combined CIO & MSR VAR	11/14/2011	Level 1 Limit	145,000,000	145,931,456	931,456	1
38588	CIO - Global - Aggregate - Combined CIO & MSR VAR	11/15/2011	Level 1 Limit	145,000,000	148,316,192	3,316,192	2
38599	CIO - Int'l - Aggregate - Equity VAR	11/30/2011	Level 2 Limit	12,000,000	13,208,411	1,208,411	10
38602	CIO - Int'l - 10Q - Equity VAR	11/30/2011	Level 2 Limit	12,000,000	13,208,411	1,208,411	10
38599	CIO - Int'l - Aggregate - Equity VAR	12/1/2011	Level 2 Limit	12,000,000	12,877,700	877,700	7
38602	CIO - Int'l - 10Q - Equity VAR	12/1/2011	Level 2 Limit	12,000,000	12,877,700	877,700	7
38602	CIO - Int'l - 10Q - Equity VAR	12/2/2011	Level 2 Limit	12,000,000	13,429,773	1,429,773	12
38599	CIO - Int'l - Aggregate - Equity VAR	12/2/2011	Level 2 Limit	12,000,000	13,429,773	1,429,773	12
38599	CIO - Int'l - Aggregate - Equity VAR	12/5/2011	Level 2 Limit	12,000,000	13,251,517	1,251,517	10
38602	CIO - Int'l - 10Q - Equity VAR	12/5/2011	Level 2 Limit	12,000,000	13,251,517	1,251,517	10
38588	CIO - Global - Aggregate - Combined CIO & MSR VAR	12/7/2011	Level 1 Limit	165,000,000	170,095,104	5,095,104	3
38588	CIO - Global - Aggregate - Combined CIO & MSR VAR	12/8/2011	Level 1 Limit	165,000,000	174,545,920	9,545,920	6
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/6/2012	Level 2 Limit	5,000,000	-5,767,816	767,816	15
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/9/2012	Level 2 Limit	5,000,000	-6,540,464	1,540,464	31
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/10/2012	Level 2 Limit	5,000,000	-7,173,676	2,173,676	43
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/11/2012	Level 2 Limit	5,000,000	-6,705,051	1,705,051	34
38603	CIO - Int'l - 10Q - Credit VAR	1/12/2012	Level 2 Limit	95,000,000	96,814,688	1,814,688	2
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/12/2012	Level 2 Limit	5,000,000	-7,073,191	2,073,191	41
38591	CIO - International - 10Q - Total VAR	1/16/2012	Level 1 Limit	95,000,000	95,692,064	692,064	1
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/16/2012	Level 2 Limit	5,000,000	-6,789,050	1,789,050	36
38589	CIO - Global - 10Q VAR	1/16/2012	Level 1 Limit	95,000,000	95,681,928	681,928	1
38603	CIO - Int'l - 10Q - Credit VAR	1/16/2012	Level 2 Limit	95,000,000	96,494,152	1,494,152	2
38589	CIO - Global - 10Q VAR	1/17/2012	Level 1 Limit	95,000,000	95,699,848	699,848	1
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/17/2012	Level 2 Limit	5,000,000	-8,623,171	3,623,171	72
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/18/2012	Level 2 Limit	5,000,000	-10,501,915	5,501,915	110
38591	CIO - International - 10Q - Total VAR	1/18/2012	Level 1 Limit	95,000,000	100,778,448	5,778,448	6
38603	CIO - Int'l - 10Q - Credit VAR	1/18/2012	Level 2 Limit	95,000,000	98,016,888	3,016,888	3
38589	CIO - Global - 10Q VAR	1/18/2012	Level 1 Limit	95,000,000	102,385,400	7,385,400	8
38585	CIO - Intl - International - Aggregate - Total VaR	1/18/2012	Level 1 Limit	100,000,000	104,252,784	4,252,784	4
38600	CIO - Int'l - Aggregate - Credit VAR	1/18/2012	Level 2 Limit	100,000,000	100,427,112	427,112	0
38019	CIO - Global Credit - Credit Spread BPV - Total	1/18/2012	Level 2 Limit	12,000,000	-12,476,463	476,463	4
38600	CIO - Int'l - Aggregate - Credit VAR	1/19/2012	Level 2 Limit	100,000,000	100,137,712	137,712	0
38589	CIO - Global - 10Q VAR	1/19/2012	Level 1 Limit	95,000,000	99,936,344	4,936,344	5
38603	CIO - Int'l - 10Q - Credit VAR	1/19/2012	Level 2 Limit	95,000,000	99,976,192	4,976,192	5
38585	CIO - Intl - International - Aggregate - Total VaR	1/19/2012	Level 1 Limit	100,000,000	100,226,928	226,928	0
38591	CIO - International - 10Q - Total VAR	1/19/2012	Level 1 Limit	95,000,000	99,576,968	4,576,968	5
38019	CIO - Global Credit - Credit Spread BPV - Total	1/19/2012	Level 2 Limit	12,000,000	-12,242,682	242,682	2
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/19/2012	Level 2 Limit	5,000,000	-9,038,065	4,038,065	81
38585	CIO - Intl - International - Aggregate - Total VaR	1/20/2012	Level 1 Limit	100,000,000	100,349,216	349,216	0
38600	CIO - Int'l - Aggregate - Credit VAR	1/20/2012	Level 2 Limit	100,000,000	100,691,064	691,064	1
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/20/2012	Level 2 Limit	5,000,000	-9,244,498	4,244,498	85
38603	CIO - Int'l - 10Q - Credit VAR	1/20/2012	Level 2 Limit	95,000,000	100,207,568	5,207,568	5
38591	CIO - International - 10Q - Total VAR	1/20/2012	Level 1 Limit	95,000,000	99,800,376	4,800,376	5
38591	CIO - International - 10Q - Total VAR	1/23/2012	Level 1 Limit	95,000,000	101,827,328	6,827,328	7
38600	CIO - Int'l - Aggregate - Credit VAR	1/23/2012	Level 2 Limit	100,000,000	102,249,600	2,249,600	2
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/23/2012	Level 2 Limit	5,000,000	-9,183,631	4,183,631	84
38585	CIO - Intl - International - Aggregate - Total VaR	1/23/2012	Level 1 Limit	100,000,000	102,966,032	2,966,032	3
38603	CIO - Int'l - 10Q - Credit VAR	1/23/2012	Level 2 Limit	95,000,000	101,721,928	6,721,928	7
38589	CIO - Global - 10Q VAR	1/24/2012	Level 1 Limit	105,000,000	106,610,296	1,610,296	2
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/24/2012	Level 2 Limit	5,000,000	-9,865,676	4,865,676	97
38600	CIO - Int'l - Aggregate - Credit VAR	1/25/2012	Level 2 Limit	110,000,000	110,314,224	314,224	0
38580	CIO - Global - Aggregate - Global VAR	1/25/2012	Level 1 Limit	110,000,000	115,473,248	5,473,248	5
38019	CIO - Global Credit - Credit Spread BPV - Total	1/25/2012	Level 2 Limit	12,000,000	-12,795,898	795,898	7

38585	CIO - Intl - International - Aggregate - Total VaR	1/25/2012	Level 1 Limit	110,000,000	113,508,840	3,508,840	3
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/25/2012	Level 2 Limit	5,000,000	-10,974,965	5,974,965	119
38589	CIO - Global - 10Q VAR	1/25/2012	Level 1 Limit	105,000,000	111,799,224	6,799,224	6
38591	CIO - International - 10Q - Total VAR	1/25/2012	Level 1 Limit	110,000,000	110,505,640	505,640	0
38019	CIO - Global Credit - Credit Spread BPV - Total	1/26/2012	Level 2 Limit	12,000,000	-13,579,489	1,579,489	13
38580	CIO - Global - Aggregate - Global VAR	1/26/2012	Level 1 Limit	110,000,000	123,861,184	13,861,184	13
38589	CIO - Global - 10Q VAR	1/26/2012	Level 1 Limit	105,000,000	119,645,568	14,645,568	14
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/26/2012	Level 2 Limit	5,000,000	-11,845,290	6,845,290	137
38585	CIO - Intl - International - Aggregate - Total VaR	1/26/2012	Level 1 Limit	110,000,000	121,316,416	11,316,416	10
38591	CIO - International - 10Q - Total VAR	1/26/2012	Level 1 Limit	110,000,000	117,573,656	7,573,656	7
38603	CIO - Int'l - 10Q - Credit VAR	1/26/2012	Level 2 Limit	110,000,000	112,791,400	2,791,400	3
38600	CIO - Int'l - Aggregate - Credit VAR	1/26/2012	Level 2 Limit	110,000,000	115,833,400	5,833,400	5
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/27/2012	Level 2 Limit	5,000,000	-13,560,735	8,560,735	171
38019	CIO - Global Credit - Credit Spread BPV - Total	1/27/2012	Level 2 Limit	12,000,000	-15,675,701	3,675,701	31
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/30/2012	Level 2 Limit	5,000,000	-15,169,691	10,169,691	203
38019	CIO - Global Credit - Credit Spread BPV - Total	1/30/2012	Level 2 Limit	12,000,000	-17,347,706	5,347,706	45
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/31/2012	Level 2 Limit	5,000,000	-14,701,978	9,701,978	194
38019	CIO - Global Credit - Credit Spread BPV - Total	1/31/2012	Level 2 Limit	12,000,000	-16,927,997	4,927,997	41
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/1/2012	Level 2 Limit	5,000,000	-12,943,275	7,943,275	159
38019	CIO - Global Credit - Credit Spread BPV - Total	2/1/2012	Level 2 Limit	12,000,000	-15,168,947	3,168,947	26
38019	CIO - Global Credit - Credit Spread BPV - Total	2/2/2012	Level 2 Limit	12,000,000	-14,855,706	2,855,706	24
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/2/2012	Level 2 Limit	5,000,000	-12,596,601	7,596,601	152
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/3/2012	Level 2 Limit	5,000,000	-14,064,638	9,064,638	181
38019	CIO - Global Credit - Credit Spread BPV - Total	2/3/2012	Level 2 Limit	12,000,000	-16,331,436	4,331,436	36
38019	CIO - Global Credit - Credit Spread BPV - Total	2/6/2012	Level 2 Limit	12,000,000	-15,877,140	3,877,140	32
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/6/2012	Level 2 Limit	5,000,000	-13,624,400	8,624,400	172
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/7/2012	Level 2 Limit	5,000,000	-15,379,848	10,379,848	208
38019	CIO - Global Credit - Credit Spread BPV - Total	2/7/2012	Level 2 Limit	12,000,000	-17,630,494	5,630,494	47
38019	CIO - Global Credit - Credit Spread BPV - Total	2/8/2012	Level 2 Limit	12,000,000	-18,677,782	6,677,782	56
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/8/2012	Level 2 Limit	5,000,000	-16,435,554	11,435,554	229
38019	CIO - Global Credit - Credit Spread BPV - Total	2/9/2012	Level 2 Limit	12,000,000	-21,391,039	9,391,039	78
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/9/2012	Level 2 Limit	5,000,000	-19,159,019	14,159,019	283
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/10/2012	Level 2 Limit	5,000,000	-21,881,379	16,881,379	338
38019	CIO - Global Credit - Credit Spread BPV - Total	2/10/2012	Level 2 Limit	12,000,000	-24,093,525	12,093,525	101
38019	CIO - Global Credit - Credit Spread BPV - Total	2/13/2012	Level 2 Limit	12,000,000	-25,112,784	13,112,784	109
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/13/2012	Level 2 Limit	5,000,000	-22,872,697	17,872,697	357
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/14/2012	Level 2 Limit	5,000,000	-23,535,870	18,535,870	371
38019	CIO - Global Credit - Credit Spread BPV - Total	2/14/2012	Level 2 Limit	12,000,000	-25,661,364	13,661,364	114
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/15/2012	Level 2 Limit	5,000,000	-25,212,764	20,212,764	404
38019	CIO - Global Credit - Credit Spread BPV - Total	2/15/2012	Level 2 Limit	12,000,000	-27,353,401	15,353,401	128
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/16/2012	Level 2 Limit	5,000,000	-24,254,996	19,254,996	385
38019	CIO - Global Credit - Credit Spread BPV - Total	2/16/2012	Level 2 Limit	12,000,000	-26,368,765	14,368,765	120
38019	CIO - Global Credit - Credit Spread BPV - Total	2/20/2012	Level 2 Limit	12,000,000	-23,533,748	11,533,748	96
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/20/2012	Level 2 Limit	5,000,000	-23,442,748	18,442,748	369
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/21/2012	Level 2 Limit	5,000,000	-24,227,186	19,227,186	385
38019	CIO - Global Credit - Credit Spread BPV - Total	2/21/2012	Level 2 Limit	12,000,000	-26,365,094	14,365,094	120
38019	CIO - Global Credit - Credit Spread BPV - Total	2/22/2012	Level 2 Limit	12,000,000	-28,731,594	16,731,594	139
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/22/2012	Level 2 Limit	5,000,000	-26,596,566	21,596,566	432
38019	CIO - Global Credit - Credit Spread BPV - Total	2/23/2012	Level 2 Limit	12,000,000	-29,625,059	17,625,059	147
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/23/2012	Level 2 Limit	5,000,000	-27,483,055	22,483,055	450
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/24/2012	Level 2 Limit	5,000,000	-28,241,676	23,241,676	465
38019	CIO - Global Credit - Credit Spread BPV - Total	2/24/2012	Level 2 Limit	12,000,000	-30,395,392	18,395,392	153
38019	CIO - Global Credit - Credit Spread BPV - Total	2/27/2012	Level 2 Limit	12,000,000	-53,127,844	41,127,844	343
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/27/2012	Level 2 Limit	5,000,000	-28,721,282	23,721,282	474
38019	CIO - Global Credit - Credit Spread BPV - Total	2/28/2012	Level 2 Limit	12,000,000	-32,245,745	20,245,745	169
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/28/2012	Level 2 Limit	5,000,000	-29,682,913	24,682,913	494
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	2/29/2012	Level 2 Limit	5,000,000	-30,518,288	25,518,288	510
38019	CIO - Global Credit - Credit Spread BPV - Total	2/29/2012	Level 2 Limit	12,000,000	-32,735,265	20,735,265	173
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/1/2012	Level 2 Limit	5,000,000	-29,915,662	24,915,662	498
38019	CIO - Global Credit - Credit Spread BPV - Total	3/1/2012	Level 2 Limit	12,000,000	-29,839,052	17,839,052	149
38019	CIO - Global Credit - Credit Spread BPV - Total	3/2/2012	Level 2 Limit	12,000,000	-31,901,835	19,901,835	166
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/2/2012	Level 2 Limit	5,000,000	-29,696,480	24,696,480	494
38019	CIO - Global Credit - Credit Spread BPV - Total	3/5/2012	Level 2 Limit	12,000,000	-31,752,125	19,752,125	165

38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/5/2012	Level 2 Limit	5,000,000	-29,557,863	24,557,863	491
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/6/2012	Level 2 Limit	5,000,000	-30,030,377	25,030,377	501
38019	CIO - Global Credit - Credit Spread BPV - Total	3/6/2012	Level 2 Limit	12,000,000	-32,205,522	20,205,522	168
38019	CIO - Global Credit - Credit Spread BPV - Total	3/7/2012	Level 2 Limit	12,000,000	-31,945,890	19,945,890	166
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/7/2012	Level 2 Limit	5,000,000	-29,771,114	24,771,114	495
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/8/2012	Level 2 Limit	5,000,000	-30,562,048	25,562,048	511
38019	CIO - Global Credit - Credit Spread BPV - Total	3/8/2012	Level 2 Limit	12,000,000	-32,673,953	20,673,953	172
38019	CIO - Global Credit - Credit Spread BPV - Total	3/9/2012	Level 2 Limit	12,000,000	-33,051,750	21,051,750	175
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/9/2012	Level 2 Limit	5,000,000	-30,920,234	25,920,234	518
38019	CIO - Global Credit - Credit Spread BPV - Total	3/12/2012	Level 2 Limit	12,000,000	-32,662,390	20,662,390	172
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/12/2012	Level 2 Limit	5,000,000	-30,493,077	25,493,077	510
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/13/2012	Level 2 Limit	5,000,000	-30,580,777	25,580,777	512
38019	CIO - Global Credit - Credit Spread BPV - Total	3/13/2012	Level 2 Limit	12,000,000	-32,737,550	20,737,550	173
38019	CIO - Global Credit - Credit Spread BPV - Total	3/14/2012	Level 2 Limit	12,000,000	-32,713,530	20,713,530	173
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/14/2012	Level 2 Limit	5,000,000	-30,578,413	25,578,413	512
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/15/2012	Level 2 Limit	5,000,000	-31,158,063	26,158,063	523
38019	CIO - Global Credit - Credit Spread BPV - Total	3/15/2012	Level 2 Limit	12,000,000	-33,302,029	21,302,029	178
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/16/2012	Level 2 Limit	5,000,000	-31,498,664	26,498,664	530
38019	CIO - Global Credit - Credit Spread BPV - Total	3/16/2012	Level 2 Limit	12,000,000	-33,548,966	21,548,966	180
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/19/2012	Level 2 Limit	5,000,000	-34,410,927	29,410,927	588
38019	CIO - Global Credit - Credit Spread BPV - Total	3/19/2012	Level 2 Limit	12,000,000	-36,565,043	24,565,043	205
38019	CIO - Global Credit - Credit Spread BPV - Total	3/20/2012	Level 2 Limit	12,000,000	-39,922,466	27,922,466	233
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/20/2012	Level 2 Limit	5,000,000	-37,849,012	32,849,012	657
38019	CIO - Global Credit - Credit Spread BPV - Total	3/21/2012	Level 2 Limit	12,000,000	-46,747,458	34,747,458	290
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/21/2012	Level 2 Limit	5,000,000	-44,541,329	39,541,329	791
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/22/2012	Level 2 Limit	200,000,000	-263,769,048	63,769,048	32
38019	CIO - Global Credit - Credit Spread BPV - Total	3/22/2012	Level 2 Limit	12,000,000	-54,318,985	42,318,985	353
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/22/2012	Level 2 Limit	5,000,000	-52,090,646	47,090,646	942
38019	CIO - Global Credit - Credit Spread BPV - Total	3/23/2012	Level 2 Limit	12,000,000	-54,540,179	42,540,179	355
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/23/2012	Level 2 Limit	200,000,000	-271,619,243	71,619,243	36
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/23/2012	Level 2 Limit	5,000,000	-52,421,825	47,421,825	948
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/26/2012	Level 2 Limit	5,000,000	-52,617,547	47,617,547	952
38019	CIO - Global Credit - Credit Spread BPV - Total	3/26/2012	Level 2 Limit	12,000,000	-54,481,668	42,481,668	354
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/26/2012	Level 2 Limit	200,000,000	-241,740,172	41,740,172	21
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/27/2012	Level 2 Limit	200,000,000	-247,672,260	47,672,260	24
38019	CIO - Global Credit - Credit Spread BPV - Total	3/27/2012	Level 2 Limit	12,000,000	-54,840,621	42,840,621	357
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/27/2012	Level 2 Limit	5,000,000	-52,602,933	47,602,933	952
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/28/2012	Level 2 Limit	200,000,000	-264,056,276	64,056,276	32
38019	CIO - Global Credit - Credit Spread BPV - Total	3/28/2012	Level 2 Limit	12,000,000	-55,376,198	43,376,198	361
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/28/2012	Level 2 Limit	5,000,000	-53,465,422	48,465,422	969
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/29/2012	Level 2 Limit	5,000,000	-52,845,712	47,845,712	957
38019	CIO - Global Credit - Credit Spread BPV - Total	3/29/2012	Level 2 Limit	12,000,000	-55,085,171	43,085,171	359
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/29/2012	Level 2 Limit	200,000,000	-268,065,459	68,065,459	34
38019	CIO - Global Credit - Credit Spread BPV - Total	3/30/2012	Level 2 Limit	12,000,000	-54,124,151	42,124,151	351
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	3/30/2012	Level 2 Limit	200,000,000	-243,334,552	43,334,552	22
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	3/30/2012	Level 2 Limit	5,000,000	-51,829,815	46,829,815	937
38019	CIO - Global Credit - Credit Spread BPV - Total	4/2/2012	Level 2 Limit	12,000,000	-54,990,121	42,990,121	358
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/2/2012	Level 2 Limit	200,000,000	-259,934,602	59,934,602	30
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/2/2012	Level 2 Limit	5,000,000	-52,945,857	47,945,857	959
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/3/2012	Level 2 Limit	200,000,000	-262,574,737	62,574,737	31
38019	CIO - Global Credit - Credit Spread BPV - Total	4/3/2012	Level 2 Limit	12,000,000	-54,843,350	42,843,350	357
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/3/2012	Level 2 Limit	5,000,000	-52,786,393	47,786,393	956
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/4/2012	Level 2 Limit	5,000,000	-53,277,495	48,277,495	966
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/4/2012	Level 2 Limit	200,000,000	-275,111,493	75,111,493	38
38019	CIO - Global Credit - Credit Spread BPV - Total	4/4/2012	Level 2 Limit	12,000,000	-55,213,944	43,213,944	360
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/5/2012	Level 2 Limit	200,000,000	-269,390,519	69,390,519	35
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/5/2012	Level 2 Limit	5,000,000	-52,386,228	47,386,228	948
38019	CIO - Global Credit - Credit Spread BPV - Total	4/5/2012	Level 2 Limit	12,000,000	-54,448,605	42,448,605	354
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/6/2012	Level 2 Limit	5,000,000	-52,386,228	47,386,228	948
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/6/2012	Level 2 Limit	200,000,000	-269,390,519	69,390,519	35
38019	CIO - Global Credit - Credit Spread BPV - Total	4/6/2012	Level 2 Limit	12,000,000	-54,448,605	42,448,605	354
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/9/2012	Level 2 Limit	5,000,000	-52,414,217	47,414,217	948
38019	CIO - Global Credit - Credit Spread BPV - Total	4/9/2012	Level 2 Limit	12,000,000	-53,157,226	41,157,226	343

38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/9/2012	Level 2 Limit	200,000,000	-269,885,938	69,885,938	35
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/10/2012	Level 2 Limit	200,000,000	-321,873,773	121,873,773	61
38019	CIO - Global Credit - Credit Spread BPV - Total	4/10/2012	Level 2 Limit	12,000,000	-56,034,550	44,034,550	367
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/10/2012	Level 2 Limit	5,000,000	-53,929,565	48,929,565	979
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/10/2012	Level 2 Limit	300,000,000	-342,342,685	42,342,685	14
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/11/2012	Level 2 Limit	300,000,000	-376,853,345	76,853,345	26
38019	CIO - Global Credit - Credit Spread BPV - Total	4/11/2012	Level 2 Limit	12,000,000	-59,238,808	47,238,808	394
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/11/2012	Level 2 Limit	200,000,000	-356,390,044	156,390,044	78
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/11/2012	Level 2 Limit	5,000,000	-57,135,483	52,135,483	1043
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/12/2012	Level 2 Limit	300,000,000	-374,478,448	74,478,448	25
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/12/2012	Level 2 Limit	5,000,000	-57,470,586	52,470,586	1049
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/12/2012	Level 2 Limit	200,000,000	-353,037,662	153,037,662	77
38019	CIO - Global Credit - Credit Spread BPV - Total	4/12/2012	Level 2 Limit	12,000,000	-59,652,844	47,652,844	397
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/13/2012	Level 2 Limit	200,000,000	-368,813,527	168,813,527	84
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/13/2012	Level 2 Limit	300,000,000	-390,547,052	90,547,052	30
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/13/2012	Level 2 Limit	5,000,000	-57,927,242	52,927,242	1059
38019	CIO - Global Credit - Credit Spread BPV - Total	4/13/2012	Level 2 Limit	12,000,000	-60,121,678	48,121,678	401
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/16/2012	Level 2 Limit	5,000,000	-57,985,157	52,985,157	1060
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/16/2012	Level 2 Limit	200,000,000	-371,895,266	171,895,266	86
38019	CIO - Global Credit - Credit Spread BPV - Total	4/16/2012	Level 2 Limit	12,000,000	-60,167,490	48,167,490	401
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/16/2012	Level 2 Limit	300,000,000	-393,676,447	93,676,447	31
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/17/2012	Level 2 Limit	200,000,000	-362,795,153	162,795,153	81
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/17/2012	Level 2 Limit	5,000,000	-57,676,484	52,676,484	1054
38019	CIO - Global Credit - Credit Spread BPV - Total	4/17/2012	Level 2 Limit	12,000,000	-59,885,623	47,885,623	399
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/17/2012	Level 2 Limit	300,000,000	-384,661,930	84,661,930	28
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/18/2012	Level 2 Limit	5,000,000	-58,521,238	53,521,238	1070
38019	CIO - Global Credit - Credit Spread BPV - Total	4/18/2012	Level 2 Limit	12,000,000	-60,742,826	48,742,826	406
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/18/2012	Level 2 Limit	300,000,000	-393,902,861	93,902,861	31
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/18/2012	Level 2 Limit	200,000,000	-372,061,660	172,061,660	86
38019	CIO - Global Credit - Credit Spread BPV - Total	4/19/2012	Level 2 Limit	12,000,000	-61,189,331	49,189,331	410
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/19/2012	Level 2 Limit	200,000,000	-380,193,919	180,193,919	90
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/19/2012	Level 2 Limit	300,000,000	-401,835,188	101,835,188	34
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/19/2012	Level 2 Limit	5,000,000	-58,982,269	53,982,269	1080
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/20/2012	Level 2 Limit	5,000,000	-59,676,571	54,676,571	1094
38019 -	CIO - Global Credit - Credit Spread BPV - Total	4/20/2012	Level 2 Limit	12,000,000	-61,876,597	49,876,597	416
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/20/2012	Level 2 Limit	300,000,000	-406,171,289	106,171,289	35
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/20/2012	Level 2 Limit	200,000,000	-384,647,536	184,647,536	92
38019	CIO - Global Credit - Credit Spread BPV - Total	4/23/2012	Level 2 Limit	12,000,000	-61,469,257	49,469,257	412
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/23/2012	Level 2 Limit	200,000,000	-400,815,797	200,815,797	100
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/23/2012	Level 2 Limit	300,000,000	-422,470,672	122,470,672	41
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/23/2012	Level 2 Limit	5,000,000	-59,272,161	54,272,161	1085
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/24/2012	Level 2 Limit	300,000,000	-411,332,289	111,332,289	37
38019	CIO - Global Credit - Credit Spread BPV - Total	4/24/2012	Level 2 Limit	12,000,000	-60,906,979	48,906,979	408
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/24/2012	Level 2 Limit	5,000,000	-58,721,289	53,721,289	1074
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/24/2012	Level 2 Limit	200,000,000	-389,658,389	189,658,389	95
38019	CIO - Global Credit - Credit Spread BPV - Total	4/25/2012	Level 2 Limit	12,000,000	-59,661,613	47,661,613	397
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/25/2012	Level 2 Limit	5,000,000	-58,737,497	53,737,497	1075
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/25/2012	Level 2 Limit	200,000,000	-403,685,619	203,685,619	102
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/25/2012	Level 2 Limit	300,000,000	-415,971,207	115,971,207	39
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/26/2012	Level 2 Limit	5,000,000	-59,556,629	54,556,629	1091
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/26/2012	Level 2 Limit	300,000,000	-443,150,935	143,150,935	48
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/26/2012	Level 2 Limit	200,000,000	-421,552,962	221,552,962	111
38019	CIO - Global Credit - Credit Spread BPV - Total	4/26/2012	Level 2 Limit	12,000,000	-61,718,741	49,718,741	414
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/27/2012	Level 2 Limit	5,000,000	-59,695,101	54,695,101	1094
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/27/2012	Level 2 Limit	300,000,000	-429,093,269	129,093,269	43
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/27/2012	Level 2 Limit	200,000,000	-407,310,286	207,310,286	104
38019	CIO - Global Credit - Credit Spread BPV - Total	4/27/2012	Level 2 Limit	12,000,000	-61,854,212	49,854,212	415
38016	CIO - Global Credit - 10% CSW - MTM - Total (long/short)	4/30/2012	Level 2 Limit	200,000,000	-428,187,762	228,187,762	114
38019	CIO - Global Credit - Credit Spread BPV - Total	4/30/2012	Level 2 Limit	12,000,000	-61,781,744	49,781,744	415
37991	CIO - Global Credit - 10% CSW - Total (long/short)	4/30/2012	Level 2 Limit	300,000,000	-447,715,780	147,715,780	49
38020	CIO - Global Credit - Credit Spread BPV - MTM - Total	4/30/2012	Level 2 Limit	5,000,000	-59,874,882	54,874,882	1097

Stress Breaches

CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN CHASE & CO.

Id	Description	Cob	Type	Value	Utilization	Excession	%
32091	CIO - Global - Max Stress Loss - FSI - Aggregate	4/3/2012	Level 1 Limit	800,000,000	-1,180,071,389	380,071,389	48
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/3/2012	Level 1 Limit	500,000,000	-858,842,646	358,842,646	72
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/4/2012	Level 1 Limit	500,000,000	-858,842,646	358,842,646	72
32091	CIO - Global - Max Stress Loss - FSI - Aggregate	4/4/2012	Level 1 Limit	800,000,000	-1,180,071,389	380,071,389	48
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/10/2012	Level 1 Limit	1,000,000,000	-1,526,602,110	526,602,110	53
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/11/2012	Level 1 Limit	1,000,000,000	-1,526,602,110	526,602,110	53
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/12/2012	Level 1 Limit	1,000,000,000	-1,526,602,110	526,602,110	53
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/13/2012	Level 1 Limit	1,000,000,000	-1,526,602,110	526,602,110	53
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/16/2012	Level 1 Limit	1,000,000,000	-1,526,602,110	526,602,110	53
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/17/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/18/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/19/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/20/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/23/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/23/2012	Level 1 Limit	1,000,000,000	-1,430,087,769	430,087,769	43
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/24/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/25/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/26/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/27/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65
32092	CIO - Global - Max Stress Loss - FSI - MTM	4/30/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65
32092	CIO - Global - Max Stress Loss - FSI - MTM	5/1/2012	Level 1 Limit	1,000,000,000	-1,650,033,139	650,033,139	65

Stop Loss Advisories

Id	Description	Cob	Type	Value	Utilization	Excession	%
32139	CIO - NA - MTM - Twenty Day Stop Loss Adv	10/3/2011	Level 1 Limit	25,000,000	-39,340,873	14,340,873	57
32139	CIO - NA - MTM - Twenty Day Stop Loss Adv	10/4/2011	Level 1 Limit	25,000,000	-29,132,856	4,132,856	17
32114	CIO - Global - MTM - Five Day Stop Loss Adv	3/26/2012	Other Threshold	60,000,000	-79,656,111	19,656,111	33
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/26/2012	Other Threshold	70,000,000	-73,518,000	3,518,000	5
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/26/2012	Other Threshold	70,000,000	-70,009,000	9,000	0
32114	CIO - Global - MTM - Five Day Stop Loss Adv	3/27/2012	Other Threshold	60,000,000	-82,935,270	22,935,270	38
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/27/2012	Other Threshold	70,000,000	-72,785,000	2,785,000	4
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/27/2012	Other Threshold	70,000,000	-73,465,000	3,465,000	5
32114	CIO - Global - MTM - Five Day Stop Loss Adv	3/28/2012	Other Threshold	60,000,000	-130,310,910	70,310,910	117
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/28/2012	Other Threshold	70,000,000	-126,298,000	56,298,000	80
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/28/2012	Other Threshold	70,000,000	-128,945,000	58,945,000	84
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/29/2012	Other Threshold	70,000,000	-182,659,000	112,659,000	161
32111	CIO - Global - Aggregate - Five Day Stop Loss Adv	3/29/2012	Other Threshold	150,000,000	-191,256,804	41,256,804	28
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/29/2012	Other Threshold	70,000,000	-183,268,000	113,268,000	162
32114	CIO - Global - MTM - Five Day Stop Loss Adv	3/29/2012	Other Threshold	60,000,000	-188,976,233	128,976,233	215
32114	CIO - Global - MTM - Five Day Stop Loss Adv	3/30/2012	Other Threshold	60,000,000	-185,398,055	125,398,055	209
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	3/30/2012	Other Threshold	70,000,000	-141,958,000	71,958,000	103
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	3/30/2012	Other Threshold	70,000,000	-136,310,000	66,310,000	95
32113	CIO - Global - MTM - One Day Stop Loss Adv	3/30/2012	Other Threshold	60,000,000	-135,774,116	75,774,116	126
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/30/2012	Other Threshold	70,000,000	-180,703,000	110,703,000	158
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	3/30/2012	Other Threshold	100,000,000	-129,070,618	29,070,618	29
32111	CIO - Global - Aggregate - Five Day Stop Loss Adv	3/30/2012	Other Threshold	150,000,000	-185,092,463	35,092,463	23
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/30/2012	Other Threshold	70,000,000	-180,266,000	110,266,000	158
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/2/2012	Other Threshold	70,000,000	-146,352,000	76,352,000	109
32111	CIO - Global - Aggregate - Five Day Stop Loss Adv	4/2/2012	Other Threshold	150,000,000	-150,547,365	547,365	0
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/2/2012	Other Threshold	60,000,000	-152,919,669	92,919,669	155
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/2/2012	Other Threshold	70,000,000	-144,745,000	74,745,000	107
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/3/2012	Other Threshold	70,000,000	-117,393,000	47,393,000	68
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/3/2012	Other Threshold	70,000,000	-114,849,000	44,849,000	64
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/3/2012	Other Threshold	60,000,000	-109,897,507	49,897,507	83

33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/4/2012	Other Threshold	70,000,000	-71,397,000	1,397,000	2
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/4/2012	Other Threshold	60,000,000	-68,395,399	8,395,399	14
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/9/2012	Other Threshold	60,000,000	-61,273,253	1,273,253	2
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/10/2012	Other Threshold	60,000,000	-420,458,051	360,458,051	601
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/10/2012	Other Threshold	70,000,000	-417,252,000	347,252,000	496
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/10/2012	Other Threshold	60,000,000	-61,783,416	1,783,416	3
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/10/2012	Other Threshold	70,000,000	-402,586,000	332,586,000	475
32138	CIO - NA - MTM - Five Day Stop Loss Adv	4/10/2012	Other Threshold	25,000,000	-33,978,467	8,978,467	36
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	4/10/2012	Other Threshold	100,000,000	-405,792,051	305,792,051	306
32138	CIO - NA - MTM - Five Day Stop Loss Adv	4/11/2012	Other Threshold	25,000,000	-28,621,415	3,621,415	14
32155	CIO - Int'l - Aggregate - Twenty Day Stop Loss Adv	4/13/2012	Other Threshold	70,000,000	-77,768,000	7,768,000	11
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/13/2012	Other Threshold	60,000,000	-68,761,162	8,761,162	15
33003	CIO - Int'l - MTM - Twenty Day Stop Loss Adv	4/13/2012	Other Threshold	70,000,000	-86,322,000	16,322,000	23
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/16/2012	Other Threshold	60,000,000	-98,721,319	38,721,319	65
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/16/2012	Other Threshold	70,000,000	-93,978,000	23,978,000	34
32112	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/16/2012	Other Threshold	150,000,000	-178,238,289	28,238,289	19
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/16/2012	Other Threshold	70,000,000	-98,354,000	28,354,000	41
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/17/2012	Other Threshold	60,000,000	-84,257,692	24,257,692	40
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/17/2012	Other Threshold	70,000,000	-82,658,000	12,658,000	18
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/17/2012	Other Threshold	70,000,000	-85,152,000	15,152,000	22
32112	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/18/2012	Other Threshold	150,000,000	-155,591,346	5,591,346	4
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/18/2012	Other Threshold	70,000,000	-104,012,000	34,012,000	49
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/18/2012	Other Threshold	70,000,000	-100,470,000	30,470,000	44
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/18/2012	Other Threshold	60,000,000	-106,609,097	46,609,097	78
32112	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/19/2012	Other Threshold	150,000,000	-204,594,780	54,594,780	36
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/19/2012	Other Threshold	60,000,000	-130,967,139	70,967,139	118
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/19/2012	Other Threshold	70,000,000	-126,811,000	56,811,000	81
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/19/2012	Other Threshold	70,000,000	-138,440,000	68,440,000	98
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/20/2012	Other Threshold	60,000,000	-110,806,346	50,806,346	85
32112	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/20/2012	Other Threshold	150,000,000	-232,212,264	82,212,264	55
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/20/2012	Other Threshold	70,000,000	-125,400,000	55,400,000	79
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/20/2012	Other Threshold	70,000,000	-109,715,000	39,715,000	57
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/23/2012	Other Threshold	60,000,000	-69,570,691	9,570,691	16
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/23/2012	Other Threshold	60,000,000	-160,191,902	100,191,902	167
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	4/23/2012	Other Threshold	100,000,000	-156,582,902	56,582,902	57
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/23/2012	Other Threshold	70,000,000	-88,389,000	18,389,000	26
32112	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/23/2012	Other Threshold	150,000,000	-232,212,264	82,212,264	55

32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/23/2012	Other Threshold	70,000,000	-155,547,000	85,547,000	122
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/23/2012	Other Threshold	70,000,000	-159,156,000	89,156,000	127
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/23/2012	Other Threshold	70,000,000	-70,640,000	640,000	1
32111	CIO - Global - Aggregate - Five Day Stop Loss Adv	4/24/2012	Other Threshold	150,000,000	-180,804,474	30,804,474	21
33002	CIO - Int'l - MTM - Five Day Stop Loss Adv	4/24/2012	Other Threshold	70,000,000	-83,842,000	13,842,000	20
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/24/2012	Other Threshold	60,000,000	-78,615,156	18,615,156	31
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/24/2012	Other Threshold	70,000,000	-80,472,000	10,472,000	15
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/24/2012	Other Threshold	70,000,000	-82,759,000	12,759,000	18
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/24/2012	Other Threshold	70,000,000	-99,709,000	29,709,000	42
32114	CIO - Global - MTM - Five Day Stop Loss Adv	4/24/2012	Other Threshold	60,000,000	-84,034,318	24,034,318	40
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	4/25/2012	Other Threshold	100,000,000	-175,965,311	75,965,311	76
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/25/2012	Other Threshold	70,000,000	-176,715,000	106,715,000	152
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/25/2012	Other Threshold	70,000,000	-177,627,000	107,627,000	154
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/25/2012	Other Threshold	60,000,000	-176,877,311	116,877,311	195
32111	CIO - Global - Aggregate - Five Day Stop Loss Adv	4/25/2012	Other Threshold	150,000,000	-152,144,116	2,144,116	1
32154	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	4/25/2012	Other Threshold	70,000,000	-71,397,000	1,397,000	2
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	4/26/2012	Other Threshold	100,000,000	-166,510,106	66,510,106	67
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/26/2012	Other Threshold	60,000,000	-166,914,106	106,914,106	178
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/26/2012	Other Threshold	70,000,000	-164,524,000	94,524,000	135
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/26/2012	Other Threshold	70,000,000	-164,927,000	94,927,000	136
32113	CIO - Global - MTM - One Day Stop Loss Adv	4/30/2012	Other Threshold	60,000,000	-218,143,442	158,143,442	264
32110	CIO - Global - Aggregate - One Day Stop Loss Adv	4/30/2012	Other Threshold	100,000,000	-219,294,442	119,294,442	119
32998	CIO - Int'l - MTM - One Day Stop Loss Adv	4/30/2012	Other Threshold	70,000,000	-219,240,000	149,240,000	213
32153	CIO - Int'l - Aggregate - One Day Stop Loss Adv	4/30/2012	Other Threshold	70,000,000	-220,391,000	150,391,000	215

Limit Excess	Limit Description	Excession Dates	Limit Amount	Average Utilization
Level 1	CIO - Global - 10Q VAR	1/16 - 1/19	95,000,000	98,425,880
Level 1	CIO - Global - 10Q VAR	1/24 - 1/26	105,000,000	112,685,029
Level 1	CIO - Global - Aggregate - Combined CIO & MSR VAR	11/14 - 11/15	145,000,000	147,123,824
Level 1	CIO - Global - Aggregate - Combined CIO & MSR VAR	12/7 - 12/8	165,000,000	172,320,512
Level 1	CIO - Global - Aggregate - Global VAR	1/25 - 1/26	110,000,000	119,667,216
Level 1	CIO - International - Aggregate - Total VaR	1/18 1/23	100,000,000	101,948,740
Level 1	CIO - International - Aggregate - Total VaR	1/25 - 1/26	110,000,000	117,412,628
Level 1	CIO - International - 10Q - Total VAR	1/16 - 1/23,	95,000,000	99,535,037
Level 1	CIO - International - 10Q - Total VAR	1/25 - 1/26	110,000,000	114,039,648
Level 1	CIO - Global - Max Stress Loss - MTM	3/29	500,000,000	(858,842,646)
Level 1	CIO - Global - Max Stress Loss - MTM	4/5 , 4/12 , 4/19	1,000,000,000	(1,535,574,339)
Level 1	CIO - Global - Max Stress Loss - Aggregate	3/29	800,000,000	(1,180,071,389)

Limit Excess	Limit Description	Excession Dates	Limit Amount	Average Utilization
Level 2	CIO - Int'l - Aggregate - Credit VAR	1/18 - 1/23	100,000,000	100,876,372
Level 2	CIO - Int'l - Aggregate - Credit VAR	1/25 - 1/26	110,000,000	113,073,812
Level 2	CIO - Int'l - 10Q - Credit VAR	1/12 - 1/23	95,000,000	98,871,903
Level 2	CIO - Int'l - 10Q - Credit VAR	1/26	110,000,000	112,791,400
Level 2	CIO - Int'l - 10Q - Equity VAR	11/30 - 12/5	12,000,000	13,191,850
Level 2	CIO - Global Credit - 10% CSW - MTM	3/22 - 4/30	200,000,000	(326,052,292)
Level 2	CIO - Global Credit - 10% CSW - Total	4/10 - 4/30	300,000,000	(402,280,226)
Level 2	CIO - Global Credit - Credit Spread BPV - MTM - Total	1/6 - 4/30	5,000,000	(33,055,377)
Level 2	CIO - Global Credit - Credit Spread BPV - Total	1/18 - 1/19 , 1/25 - 4/30	12,000,000	(39,058,125)
Level 2	CIO - Global Equities - Int'l - Aggr - Total Gross Equity Vega	10/3 - 10/31	6,000,000	14,764,863
Level 2	CIO - Global Equities - Int'l - Aggr - Total Net Equity Vega	10/3 - 10/31	4,500,000	9,745,687
Level 2	CIO - Global Equities- Int'l - Aggr - Top Tier Delta	10/4 , 10/10 - 10/14 ,10/19 - 10/26	250,000,000	317,832,266
Level 2	CIO - Global Equities - Int'l- Aggr - Top Tier Vega	10/3 - 10/31	2,000,000	6,824,777

Limit Excess	Limit Description (Stop Loss Advisories)	Excession Dates	Limit Amount	Average Utilization
Threshold	CIO - Global - Aggregate - Five Day Stop Loss Adv	3/29 - 4/2, 4/24-4/25	150,000,000	(171,969,044)
Threshold	CIO - Global - Aggregate - One Day Stop Loss Adv	3/30 , 4/10, 4/23 , 4/25, 4/26, 4/30	100,000,000	(208,869,238)
Threshold	CIO - Global - Aggregate - Twenty Day Stop Loss Adv	4/16 , 4/18 - 4/23	150,000,000	(200,569,789)
Threshold	CIO - Global - MTM - Five Day Stop Loss Adv	3/26 - 4/4 , 4/9, 4/10, 4/13 - 4/24	60,000,000	(104,181,866)
Threshold	CIO - Global - MTM - One Day Stop Loss Adv	3/30 , 4/10, 4/23-4/26 , 4/30	60,000,000	(193,853,441)
Threshold	CIO - Int'l - Aggregate - Five Day Stop Loss Adv	3/26 - 4/3 , 4/16-4/25	70,000,000	(112,873,200)
Threshold	CIO - Int'l - Aggregate - One Day Stop Loss Adv	3/30 , 4/10, 4/23 - 4/26 , 4/30	70,000,000	(191,261,714)
Threshold	CIO - Int'l - Aggregate - Twenty Day Stop Loss Adv	4/13	70,000,000	(77,768,000)
Threshold	CIO - Int'l - MTM - Five Day Stop Loss Adv	3/26 - 4/4 , 4/16- 4/24	70,000,000	(110,168,067)
Threshold	CIO - Int'l - MTM - One Day Stop Loss Adv	3/30 , 4/10 , 4/23-4/26 , 4/30	70,000,000	(194,376,000)
Threshold	CIO - Int'l - MTM - Twenty Day Stop Loss Adv	4/13	70,000,000	(86,322,000)
Threshold	CIO - NA - MTM - Five Day Stop Loss Adv	4/10 , 4/11	25,000,000	(31,299,941)
Threshold	CIO - NA - MTM - Twenty Day Stop Loss Adv	10/3 , 10/4	25,000,000	(34,236,865)

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Thu, 12 Jan 2012 15:42:54 GMT
To: Weiland, Peter <peter.weiland@jpmchase.com>
CC: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>; Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>
Subject: RE: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

No , in terms of VAR . Will come back to you with a better explanation .From our point of view we did not have any P/L vol to increase the overall VAR so much . Pat's model is in line with the 70 VAR and has a much better explanation for these changes . Hopefully we get this approved as we speak .

in terms of book positioning as I explained the book is long risk now but has increased the short in HY and rebalanced on the rest . This should not have had a great increase in the VAR of our postions .

From: Weiland, Peter
Sent: 12 January 2012 14:45
To: Martin-Artajo, Javier X
Subject: Fw: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

Is this not correct?
Peter Weiland
JPMorgan
o: +1 212 834 5549
m: +1 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Stephan, Keith
Sent: Wednesday, January 11, 2012 07:29 AM
To: Weiland, Peter
Subject: RE: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

This is what I sent to Javier and bruno yest

From: Stephan, Keith
Sent: 10 January 2012 17:17
To: Iksil, Bruno M; Grout, Julien G
Cc: Chandna, Sameer X; D'costa, Karolyn K; Lee, Janet X; Kalimtgis, Evan; Martin-Artajo, Javier X
Subject: FW: Core Credit Var Summary 06 January

Below are the major drivers in the increase in VAR since mid December for Credit Tranche portfolios – **since 21 December, the book var has moved from $76mm to 93mm**, nearly +25% increase driven by position changes and through the inclusion of mkt data in the last week of 2001 with rally in OTR HY indices.

The big drivers, are increases in notional of HY OTR short risk in indices +2.6bio not'l, +14MM VAR. At the same time the increase in index short risk (and long HY10 7Y reduction) has driven and increase in the positive benefit in the credit crisis stress loss scenario from 1.1bio to +$1.5bio.

In Marginal terms, the $17mm move since Dec 21 is driven by:

1) Stg 15D $14mm (increased short risk positions across HY14-HY17 by $2.65bn)

2) Stg 18US $1mm

3) Stg 27D $2mm (reduced Long risk pos in HY10 7Y + Price changes**see details below)

4) Note: 14EU does have a net increase in XO16 pos by $260mm but increase in MN16 long risk pos by $2.0bn more than offsets the var moves from XO.

Details:

Main days of big moves in Var:

Dec19 Var of $70.0mm
Dec21 Var of $75.8mm
Dec22 Var of $78.4mm
Dec30 Var of $82.7mm
Jan06 Var of $92.9mm

1)Changes from Dec19 to Dec21 of $5.8mm mainly driven by Stg15D. Increased Short Risk position by $1bn across HY14-HY17 indices.

2)Changes from Dec21 to Dec22 of $2.6mm mainly driven by Stg15D: Increased Short Risk position by $600mm in HY15 and HY17 indices.

3)Changes from Dec30 to Jan06 of $10.7mm mainly driven by

Stg 14 EU +1.8mm - XO16 5Y - increased short risk position by 150mm. Spread tightening of 16bps.

Stg 15B +1.2mm - Price widening of +0.875pts in HY10 7Y - short risk index position of $4.4B and short risk position SSnr Trn 35-100 of $3.7B

Stg 27D +2.7mm - shorter risk by $950mm across HY9 and HY10 7Y

Stg 15D +3.3mm - shorter risk by $438mm across HY16 and HY17 - Price improvement across most HY Indices (HY15 +0.875pt, HY16 +1pt, HY17 +1.125pt)

From: Weiland, Peter
Sent: 11 January 2012 12:26
To: Stephan, Keith
Subject: FW: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

fyi

Peter Weiland
Tel: +1 212 834 5549
Mob: +1 [redacted]

▬ = **Redacted by the Permanent Subcommittee on Investigations**

From: Weiland, Peter
Sent: Tuesday, January 10, 2012 9:38 PM
To: Drew, Ina
Cc: Wilmot, John
Subject: Re: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

Yes, I have details and can give you tomorrow. Short story is that the increase in VaR corresponds to increased credit protection on HY, in particular trades executed between Dec. 19 and Jan. 6.

This has been obviously a significant increase and I sent Javier an email today to highlight the RWA implications.

▬▬ = Redacted by the Permanent Subcommittee on Investigations

Pete
Peter Weiland
JPMorgan
o: +1 212 834 5549
m: +1[redacted]

From: Drew, Ina
Sent: Tuesday, January 10, 2012 07:36 PM
To: Weiland, Peter
Cc: Wilmot, John
Subject: Fw: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

This says cio var still 88? can u give me breakdown tomorrow

From: Market Risk Management - Reporting
To: Market Risk Management - Reporting; Dimon, Jamie; Zubrow, Barry L; Staley, Jes; Drew, Ina; Rauchenberger, Louis; Lake, Marianne; Hogan, John J.; Weiland, Peter; Weisbrod, David A.; Bacon, Ashley; Beck, David J; Braunstein, Douglas; Morzaria, Tushar R; Wilmot, John; Dellosso, Donna; Bisignano, Frank J
Cc: Doyle, Robin A.; Waring, Mick; Market Risk Reporting; Sreckovic, Steven; McCaffrey, Lauren A; Tocchio, Samantha X; Chiavenato, Ricardo S.; Chen, Dan
Sent: Tue Jan 10 19:32:44 2012
Subject: JPMC Firmwide VaR - Daily Update - COB 01/09/2012

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/09/2012 is $123mm or 98% of the $125mm limit, an increase of $5mm from the prior day's revised VaR.
- The increase in the Firm's VaR is primarily driven by IB [redacted]
- Each LOB's contribution to the Firm's $123mm VaR (as shown by marginal VaR) are: IB [redacted] CIO ($67mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted], Private Equity [redacted] and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted] CIO is $88mm (vs. $95mm limit), RFS [redacted] TSS is [redacted] Private Equity [redacted] and AM is [redacted]

10Q Externally Disclosed VaR

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

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Please contact the MRM External Reporting team with any questions.

95% 10Q VaR ($mm)	1Q12 Spot	1Q12 Avg	4Q11 Spot	4Q11 Avg	1Q11 Spot	1Q11 Avg
IB VaR by risk type:						
Fixed income	49	49	49	56	55	49
Foreign exchange	15	15	19	12	11	11
Equities	24	19	19	19	22	29
Commodities & other	23	23	22	20	10	13
Diversification benefit to IB trading VaR	(57)	(52)	(55)	(50)	(37)	(38)
IB Trading VaR	54	54	54	57	61	64
CPG	35	39	42	39	28	26
Diversification benefit to IB trading & CPG VaR	(16)	(17)	(20)	(21)	(7)	(7)
Total IB trading & CPG VaR	73	76	76	75	82	83
Mortgage Production and Servicing VaR	15	15	16	74	18	16
Chief Investment Office (CIO) VaR	88	88	77	69	55	60
Diversification benefit to total other VaR	(7)	(9)	(10)	(30)	(13)	(14)
Total other VaR	96	93	83	113	60	62
Diversification benefit to total IB and other VaR	(46)	(53)	(46)	(39)	(56)	(57)
Total IB and other VaR	123	116	113	149	86	88

From: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Sent: Fri, 20 Jan 2012 13:08:35 GMT
To: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Subject: FW: Breach of firm var

FYI

-----Original Message-----
From: Stephan, Keith
Sent: Friday, January 20, 2012 07:01 AM Eastern Standard Time
To: Goldman, Irvin J; Weiland, Peter
Cc: Martin-Artajo, Javier X; Macris, Achilles O; Kalimtgis, Evan
Subject: FW: Breach of firm var

Irv & Pete

Below please find details of the VaR limit breach. The VaR increase is driven by Core Credit (tranche) in EMEA. The VaR has increased steadily since the end of December as positions in CDX.HY on-the-run indices have been added to the portfolio to balance the book, which has been taken longer risk since the expiry of CDX.HY.11 3Y positions which matured 21 Dec 2011.

Key Points:

1. The increase in VaR is largely attributed to increased short risk positions in CDX.HY indices – which we have discussed w/ the desk and which were added specifically to reduce the outright long CS01 profile of the book (as we are additionally over the MtM CS01 limit and actively reducing this risk to move within the $5MM CS01 threshold)
2. We are reviewing the details of the current VaR number and actively working with the desk to reduce the current VaR based on current marginals, while continuing to address the CS01 as above; N.B. the action taken thus far has further contributed to the Positive Stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bio to +$1.6bio from 17-19 Jan.
3. We are in late stages of model approval for full revaluation which will have the effect reducing the standalone VaR for Core Credit from circa $96MM to approx $70MM – impact analysis on the marginal contribution to the Firm is ongoing and will be distributed later today.

I expect that we will resolve through active risk management the breach of VaR limit using current method over the next two trading sessions, depending on liquidity.

Furthermore, I believe that the process of model approval is nearing completion and that this will be implemented in the next 1-2wks in production.

My recommendation therefore is that we do not address, nor upsize the limit for CIO – but that we continue to work in partnership with the desk to manage to the current $95mm limit over the next two to three trading sessions – and that we discuss further with the model review group (MRG) today the schedule for completion of approval of the new model with a view toward implementation next week if possible. My team and I are disaggregating strategy level marginal VaR (reported daily) to the level of position / instrument level marginal VaR to provide the desk with precise list of actions that can be taken to most effectively reduce VaR while maintaining balance of other risk measures. This will be complete by mid-afternoon

London time today.

Evolution of Current VaR using production model:

cid:image001.png@01CCD767.766510C0

The details of the drivers of the VaR increases, using current model for measurement are as follows:

Jan18 to Jan19 (from $94.7mm to $98.6mm) - +$3.8mm move:

1) +4mm from Stg 15D – Increased **HY14 – HY16 short risk position by $1.075bn**

Jan17 to Jan18 (from $91.8mm to $94.7mm) +$3mm move:

1) +2mm from Stg 18US – Increased IG17 5Y short risk position by $2.25bn
2) +1mm from Stg 14EU – Increased Itraxx MN16 long risk position by $785mm

Jan16 to Jan17 (from $96mm to $91.8mm) – ($4mm) move:

1) -4mm from Stg 15D : **Reduced HY17 Index short risk position by $1.3bn**

Jan06 to Jan16 (from $93mm to $96mm) - +$3mm move:

1) +3mm from Stg 15D

Increase in HY Index short risk positions of $1.1bn (HY14$300mm, HY15 $250mm, HY16 $450mm, HY17 $50mm)

2) +2mm from Stg 18US

Increase in IG9 10Y Index long risk by $6.7bn

Increase in IG17 5Y short risk position by $3.0bn provides diversification

3) +1mm from Stg 14EU

Decrease in MN9 5Y Index long risk position by $7.25bn

Decrease in MN Outright Index short positions provide diversification (S15-S16 5/10Y – net decrease of $775mm

4) -3mm from worst day rolloffs (5th, 19th and 29th days)

Dec 21 to Jan06 (from $76mm to $93mm) - +$17mm move:

1) Stg 15D $14mm **(increased short risk positions across HY14-HY17 by $2.65bn)**

2) Stg 18US $1mm

3) Stg 27D $2mm (reduced Long risk pos in HY10 7Y + Price tightening in recent weeks meant that this position delivered positive offset on worst days

4) Note: 14EU does have a net increase in XO16 pos by $260mm but increase in MN16 long risk pos by $2.0bn more

than offsets the var moves from XO.

From: Goldman, Irvin J
Sent: 20 January 2012 03:08
To: Stephan, Keith; Weiland, Peter
Cc: Macris, Achilles O; Martin-Artajo, Javier X; Kalimtgis, Evan
Subject: Breach of firm var

All,
This is the third consecutive breach notice (below) that has gone to Jamie and OC members. We need to get Ina specific answers to the cause of the breach, how it will be resolved and by when. She requested the answers today - Friday and would like Achilles and Javier to vett the international credit explanations.
Irv

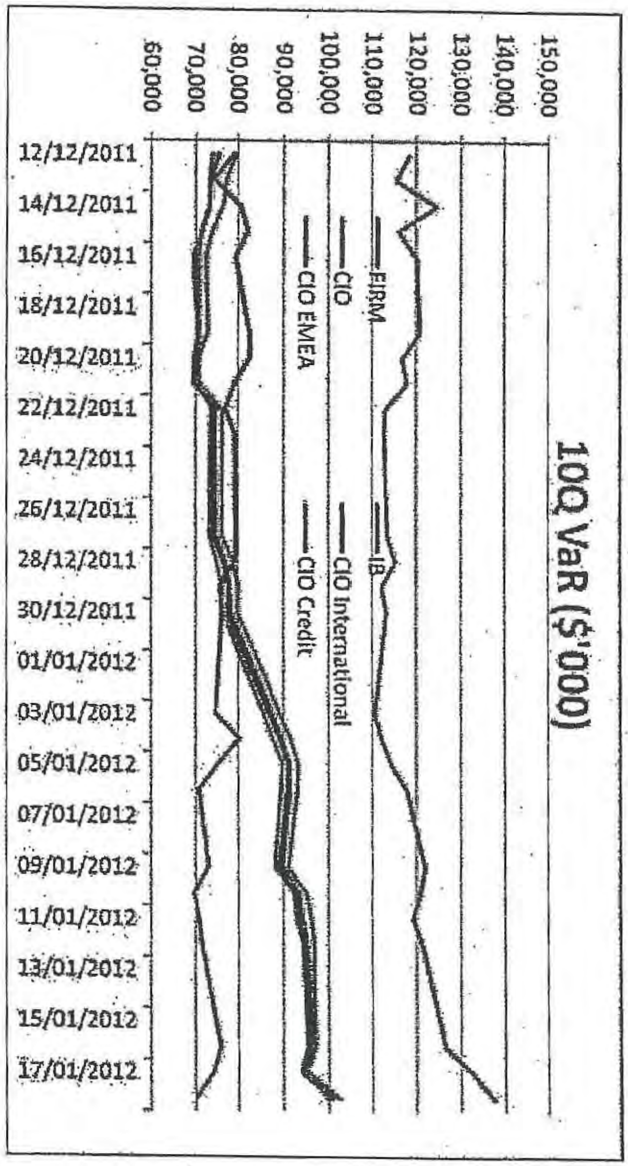
[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Firmwide 95% 10Q VaR

· The Firm's 95% 10Q VaR as of cob 01/18/2012 has increased by $5mm from the prior day's VaR to $138mm and has breached the $125mm Firm VaR limit for the third consecutive day.
· CIO's 95% 10Q VaR as of cob 01/18/2012 has increased by $7mm from the prior day's VaR to $102mm and has breached the $95mm CIO VaR limit for the third consecutive day.
· The increase in the Firm's VaR is primarily driven by an overall reduction in diversification benefit across the Firm and position changes in CIO and MSR.
· Each LOB's contribution to the Firm's $138mm VaR (as shown by marginal VaR) are: IB [redacted] CIO ($85mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted] Private Equity [redacted] and TSS [redacted]
· The stand alone VaR for each LOB are as follows: IB [redacted] is $102mm (vs. $95mm limit), RFS [redacted] TSS is [redacted] Private Equity is [redacted] and AM is [redacted]

10Q Externally Disclosed VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Please contact the MRM External Reporting team with any questions.


10Q VaR ($'000)
150,000
140,000
130,000
120,000
110,000
100,000
90,000
80,000
70,000
60,000
12/12/2011
14/12/2011
16/12/2011
18/12/2011
20/12/2011
22/12/2011
24/12/2011
26/12/2011
28/12/2011
30/12/2011
01/01/2012
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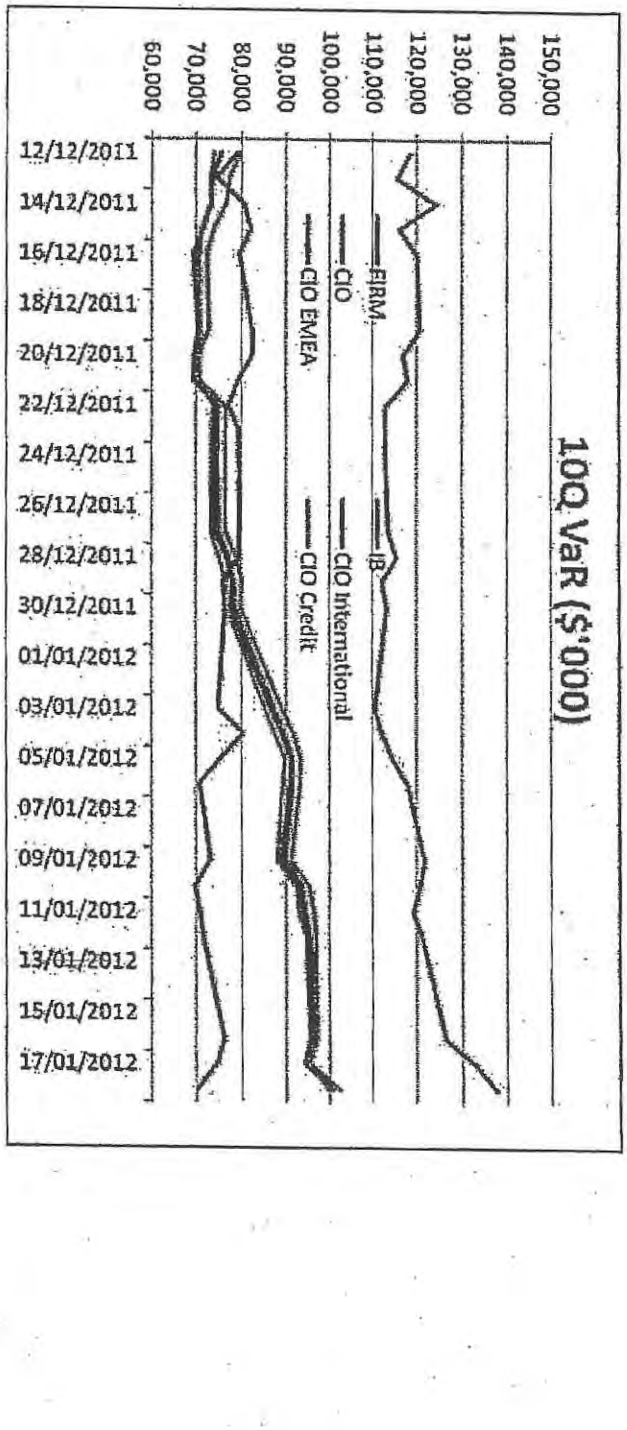
CIO International
CIO EMEA
CIO Credit


10Q VaR ($'000)
150,000
140,000
130,000
120,000
110,000
100,000
90,000
80,000
70,000
60,000
12/12/2011
14/12/2011
16/12/2011
18/12/2011
20/12/2011
22/12/2011
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26/12/2011
28/12/2011
30/12/2011
01/01/2012
03/01/2012
05/01/2012
07/01/2012
09/01/2012
11/01/2012
13/01/2012
15/01/2012
17/01/2012
FIRM
IB
CIO
CIO International
CIO EMEA
CIO Credit

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Mon, 23 Jan 2012 09:58:33 GMT
To: Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>
Subject: CIO VaR

FYI . Dual plan ..... as discussed keep the pressure on our friends in Model Validation and QR .

From: Hogan, John J.
Sent: 20 January 2012 23:15
To: Goldman, Irvin J
Cc: Drew, Ina; Macris, Achilles O
Subject: Re: CIO VaR

OK thx Irv. Good weekend!

From: Goldman, Irvin J
To: Hogan, John J.
Cc: Drew, Ina; Macris, Achilles O
Sent: Fri Jan 20 17:27:09 2012
Subject: CIO VaR

John,

Achilles and I have reviewed the CIO limit breach for the past four days. CIO has been managing a dual process of increasing overall credit spread protection while managing Basel III RWA targets. The action taken thus far has further contributed to the Positive Stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bio to +$1.6bio and created higher VaR resulting in the breach period.

Two important remedies are being taking to reduce VAR and have CIO get well within its limits while continuing to manage for Basel III RWA.

1. position offsets to reduce Var are happening daily.
2. Most importantly, a new improved Var model that CIO has been developing is in the near term process of getting approved by MRG and is expected to be implemented by the end of the January..
   The estimated impact of the new VaR model based on Jan 18 data will be a CIO VAR reduction in the tranche book by 44% to 57mm, with CIO being well under its overall limits.

Irv

Irvin Goldman | **J.P.Morgan** | Chief Investment Office | 270 Park Ave. | ☎ Tel: +1 212 834 2331 | ✉ irvin.j.goldman@jpmchase.com

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>
Sent: Sat, 28 Jan 2012 16:19:28 GMT
To: Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: Re: CIO VaR heads up and update

Thx and can you guys compare notes on any methodology difference btwn IB and CIO and let me know what you find? Thx, John

---

From: Bacon, Ashley
To: Hogan, John J.; Goldman, Irvin J
Sent: Sat Jan 28 11:15:12 2012
Subject: Re: CIO VaR heads up and update

If this change is what I think it is (full reval credit p&l calculation for the shocks derived from the VaR days, instead of sensitivities times shocks), then the IB is already on the new methodology so no change for us.

I will confirm, and let you know if not.

From: Hogan, John J.
Sent: Saturday, January 28, 2012 03:43 PM
To: Goldman, Irvin J; Bacon, Ashley
Subject: Re: CIO VaR heads up and update

Is this change in methodology applicable to IB's VaR as well. What was the primary change that we made? Thx, John

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From: Goldman, Irvin J
To: Hogan, John J.; Drew, Ina
Sent: Fri Jan 27 13:35:40 2012
Subject: CIO VaR heads up and update

From: Stephan, Keith
Sent: Friday, January 27, 2012 1:30 PM
To: Goldman, Irvin J; Weiland, Peter
Cc: Kalimtgis, Evan; Martin-Artajo, Javier X; Macris, Achilles O; Lee, Janet X; Chandna, Sameer X
Subject: Update on *old/current methodology VaR* increase for COB 27 Jan
Importance: High

Below please find an update on the increase in VaR for Core Credit from 103.8mm to 107.6mm. Final VaR vectors globally have not been processed yet for COB 26 Jan, however CIO is over its temporary limit, and could cause the Firm to do the same. As such I wanted to communicate this to you to ensure we are all on the same page about what is happening.

The ***old methodology*** currently in production: VaR has increased by +$3mm, to $107.6mm driven by increase in CDX IG S9 10Y index long risk (+1.8bio notional). This is consistent w/ the VaR increases of the last several days, under the old methodology, wherein the VaR increases approx 1mm per billion of notional in IG9 10y. I estimate this will put CIO Global over its temporary $110mm limit and probably closer to $115mm—note: not all vectors globally are loaded yet for the 26 Jan cob – so I'm estimating here. This means that the formal notification of limit excess will be generated and distributed to you for approval.

Importantly, for the same COB 26 January, the ***new / full revaluation methodology*** shows VaR decreased ($1.3MM) from 70.8mm to 69.5mm. I estimate that this would make CIO global VAR closer to $76MM vs. the currently reported number >$115.

We anticipate final approval on Monday, and that the *new methodology *should* become the official firm submission from Monday, for 27 Jan COB. Limit issues should therefore cease beginning from Monday.

We have completed all technology changes to support the daily production of the VaR under new methodology beginning from Monday.

Thanks and please let me know if you have any questions.

Keith

Keith Stephan
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Mob ☎: +44(0)759 592 1539
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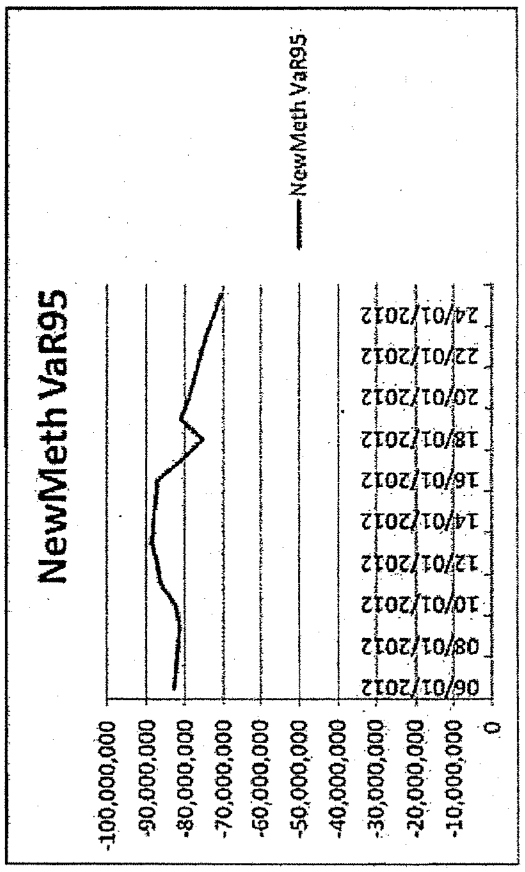
NewMeth VaR95
-100,000,000
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-80,000,000
-70,000,000
-60,000,000
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10/01/2012
12/01/2012
14/01/2012
16/01/2012
18/01/2012
20/01/2012
22/01/2012
24/01/2012
NewMeth VaR95

From: Dev, Ashish K <ashish.k.dev@jpmchase.com>
Sent: Mon, 30 Jan 2012 16:50:13 GMT
To: Weiland, Peter <peter.weiland@jpmchase.com>
CC: Rajesh, Govindan X <govindan.rajesh@jpmchase.com>
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

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Pete – I talked to Rajesh and we agree that the new VaR is a clear improvement over the production version. Please go ahead with the implementation of the new HVaR methodology for the CIO credit books. Best regards! Ashish.

From: Weiland, Peter
Sent: Monday, January 30, 2012 11:40 AM
To: Dev, Ashish K
Cc: Rajesh, Govindan X; Stephan, Keith; Goldman, Irvin J; Lee, Janet X; Chandna, Sameer X
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

I just sat with Rajesh to discuss. Ashish we tried to call you but I guess you were away from your desk.

We are going to proceed with the new VaR vector. Rajesh will endeavor to distribute a new version of the approval document, but he has gotten some comfort from the data that he received from Pat this morning that Numerix and West End agree.

In any event the new VaR is a clear improvement over the production version, which helps to make us comfortable with the decision.

Best,

Pete

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Peter Weiland
Tel: +1 212 834 5549
Mob: +1 [redacted]

From: Dev, Ashish K
Sent: Monday, January 30, 2012 10:43 AM
To: Weiland, Peter
Cc: Rajesh, Govindan X
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

Pete – I believe you have been looking for me. I am sorry I had a 8:30AM meeting outside the office which went on past the 10AM end. I did not get a chance to talk to Rajesh either. But my view is that if January tests look all right, we should go ahead and implement the new model even before the MRG review is completed. Regards! Ashish.

From: Weiland, Peter
Sent: Monday, January 30, 2012 7:40 AM
To: Dev, Ashish K
Subject: FW: draft of the MRG review of the HVAR methodology for the CIO core credit books

Hi Ashish –

Do you have any thoughts on this matter? I don't know how material the requested testing note is to the validity of the VaR, but if possible we would like to move forward with the new VaR, which is a significant improvement on the production version.

I have reminded Pat of the urgency of producing the testing note.

Please let me know if we can proceed with this important upgrade.

Thanks,

Pete

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Peter Weiland
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Mob: +1 [redacted]

From: Rajesh, Govindan X
Sent: Friday, January 27, 2012 10:59 AM
To: Weiland, Peter; Dev, Ashish K
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

Pete,
I guess this is a question for Ashish.

Ashish,
We've circulated a draft of the review, but it will take another couple of days to publish, since we are waiting for one additional testing note from Pat. Do you think it is OK for CIO to go live today?

Rajesh

From: Weiland, Peter
Sent: Friday, January 27, 2012 10:48 AM
To: Rajesh, Govindan X
Subject: Re: draft of the MRG review of the HVAR methodology for the CIO core credit books

Can we start using today?
Peter Weiland
JPMorgan
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m: +1 [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Rajesh, Govindan X
Sent: Friday, January 27, 2012 09:39 AM
To: Stephan, Keith; Pirjol, Dan
Cc: Weiland, Peter; Hagan, Patrick S
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

PS: we're still waiting for the testing note showing that the pricer used for VaR matches the Numerix model. Of course, we'll update the review to make it clear that an in-depth review of that will be done separately.

Rajesh

From: Rajesh, Govindan X
Sent: Friday, January 27, 2012 9:38 AM
To: Stephan, Keith; Pirjol, Dan
Cc: Weiland, Peter; Hagan, Patrick S; Martin-Artajo, Javier X; Shen, Charles; Bangia, Anil K; Christory, Jean-Francois A; Scott, Brian GO
Subject: RE: draft of the MRG review of the HVAR methodology for the CIO core credit books

Thanks Keith. The last 3 were actually recommendations, not action plans, but it is good to have committed timelines on them.

Regarding the second AP, could you confirm that for illiquid series with material exposures, you will use the Credit Hybrids risk mapping tool to map them to the on-the-runs?

Thanks,
Rajesh

From: Stephan, Keith
Sent: Friday, January 27, 2012 9:29 AM
To: Pirjol, Dan; Rajesh, Govindan X
Cc: Weiland, Peter; Hagan, Patrick S; Martin-Artajo, Javier X; Shen, Charles; Bangia, Anil K; Christory, Jean-Francois A; Scott, Brian GO
Subject: FW: draft of the MRG review of the HVAR methodology for the CIO core credit books
Importance: High

Hi Dan and Rajesh

Please can you review the below action plan responses which I hope will satisfy final approval of the model? Importantly, I anticipate that point one (automation / industrialization) will be delivered by Monday a.m. as the team are well ahead of schedule – this work has been happening in the background through the testing phase. I've tried to put reasonable estimates around each of the points below – and given the priority of this initiative, I would suggest that each will be completed with dedicated focus, and I would envision that we will deliver more quickly than the (worst-case) timelines I've provided below.

Happy to discuss if you need further information.

Thanks
Keith

- *Operational risk.* The VaR computation is currently done off spreadsheets using a manual process. Thus it is error prone, and not easily scalable.
- ACTION PLAN: CIO should upgrade the infrastructure to enable the VaR calculation to be automated, and less subject to operational errors. **Item Owner: Patrick Hagan, Completion Date: TBD**
-

The MRM coverage team, technology and QR resources have identified an implementation plan, and will be working through the weekend of 29 Jan 2012 to complete automation required to run the VaR simulation daily, and to store results and vectors in a database. The MRM coverage team has agreed and SLA (service-level agreement) with the analytics team to produce the vector by 10h00 GMT daily, to provide time to analyse results and to ensure quality control before upload to MaRRS. Estimated completion: Tuesday 31 January 2012. (Owner: Samir Patel, Patrick Hagan)

- ACTION PLAN: CIO should establish a process to monitor the size of the positions with exposure to the illiquid time series, and if the exposures are material should risk map the positions to on-the-run time series. **Item Owner: Patrick Hagan, Completion Date: TBD**

The MRM coverage team, and QR resources have agreed an action plan to 1) define 'illiquid instruments' and 2) to monitor size of exposures to illiquid instruments on the basis of CS01 and Corr1% sensitivies. Where exposures to illiquid instruments exceed agreed thresholds, instruments will be mapped to 'on-the-run (correlation) series' instruments' time-series (currently ITX.MN S9, CDX.IG S9, and CDX.HY S9) consistent with market convention, and the IB Credit Hybrids business. Estimated completion: Friday 24 February 2012. (Owner: Julien Grout, Sameer Chanda)

- ACTION PLAN: CIO should re-examine the data quality and explore alternative data sources. For days with large discrepancies between dealer marks and IB marks, the integrity of the data used for HVAR calculation should be verified.

The MRM coverage team, and QR resources will compare market data time-series history vs. DataQuery, and dealer-marks. This process has been conducted previously, and will be re-visited to ensure the integrity of time-series. Given illiquidity of certain instrumentation, and especially in cases where CIO maintains positions in instruments where IB Credit Hybrids may not, we have found irregular patterns in DataQuery data, and amended our market data / time-series to reflect Dealer mid marks. An action plan to perform periodic review of time-series vs. DataQuery and dealer-marks has been agreed, to ensure on-going continuity of time-series history. The team will conduct a regular, 1x monthly review of time-series, attended by Front Office, MRM coverage, and QR resources to discuss discrepancies. Discrepancies which cannot be resolved will be escalated to the CIO Valuation Control Group for independent verification of prices / spreads. Further, in cases where time-series have been overridden by committee or by Valuation Control Group, the team will put forward an action plan to ensure adequate control, record-keeping and audit trail for time-series amendments which deviate from DataQuery. Estimated completion: Friday 24 February 2012. (Owner: Keith Stephan, Julien Grout)

- ACTION PLAN: For the purpose of capital calculation at firm-wide level, the CIO risk measures including VaR will have to aggregated with the risk metrics of the IB portfolio.For consistency the VaR methodologies used by the two groups must be reasonably similar. We recommend that CIO investigates using absolute daily changes for the base correlations, similar to the methodology adopted in IB.

The MRM coverage team, and QR resources will compare the current relative shifts in base correlation vs. the absolute shifts. This is a medium-term action plan target, and given estimated work-load may require a number weeks to complete. An action plan to review the results will be agreed between MRM coverage, QR resources and Front Office. The findings of that study will be published to Model Review Group, and will form the basis of further discussion, related to course of action, practicability, and resonableness of a move toward absolute base correlation shifts. If it is determined at the conclusion of the study, that a move to absolute correlation shifts is required, a further action plan will be established to commence the project to make this variation in computation and market data collection. Estimated completion: Friday 27 April 2012. (Owner: Patrick Hagan, Keith Stephan, Julien Grout)

From: Pirjol, Dan
Sent: 25 January 2012 19:33
To: Hagan, Patrick S; Weiland, Peter; Stephan, Keith; Bangia, Anil K; Bessin, Jean-Francois X
Cc: Rajesh, Govindan X; Shen, Charles; Scott, Brian GO
Subject: draft of the MRG review of the HVAR methodology for the CIO core credit books

All,

please find attached a first draft of the MRG review of the HVAR methodology for the CIO core credit books. Please send me your comments and suggestions by the end of the
day Friday Jan.27.

Pat, please let me know if you agree with the formulation of the action plans, and what are your suggested completion dates.

Best regards,
Dan

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Wed, 18 Apr 2012 21:51:26 GMT
To: Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>
Subject: Fw: CIO VaR

What happened here ?

From: Stephan, Keith
Sent: Wednesday, April 18, 2012 08:03 PM
To: Macris, Achilles O; Martin-Artajo, Javier X
Cc: Weiland, Peter
Subject: FW: CIO VaR

FYI -we discovered an issue related to the VAR market data used in the calculation which we need to discuss. This means our reported standalone var for the five business days in the period 10-16th April was understated by apprx $10mm. This increases our marginal contribution to the Firm by $3.5mm. The unfortunate part is the firm is running close to its limit (CIO is within it's limit as it stands) and this will put the firm over. Which is something Pete is going to explain to Irv, Ashley, et al. as it will require approval / one-off limit extension / or permanent var limit increase for the Firm.

The market data used by Pat / Samir in the methodology for revaluation of the VAR was not inclusive of the major moves of 10 april that caused the realized pnl of -395mm. We have corrected this - and I'm investigating how / why this happened.

Standalone Synthetic Credit VaR	10/04/2012	11/04/2012	12/04/2012	13/04/2012	16/04/2012	17/04/2012
HVaR-95 Uploaded	55,840,398	55,058,312	55,180,605	58,812,234	59,120,659	64,146,238
H[illegible]95 Restated by QR	66,598,296	66,502,483	64,193,746	68,404,469	68,853,160	
Va[illegible]Diff	10,757,898	11,444,171	9,013,141	9,592,235	9,732,501	

Thanks

Keith

From: Stephan, Keith
Sent: 18 April 2012 18:02
To: Weiland, Peter
Cc: Man, George KB
Subject: FW: CIO VaR

Hi Pete - we have been going through the market data related to the realized pnl of 10 april (-$395mm) as this was not properly reflected in our market data environment for the VaR historical simulation. We have corrected the simulated pnl for the 10th April to be consistent with the mkt moves that drove the PnL on that date. The restated P&L vector for cob 10-Apr was included in today's cob 17-Apr VaR submission.

This loss increased Synthetic Credit / CIO Var by $5mm and marginal VaR contribution to Firm by $3.7mm assuming all VaR feeds are now in the latest snapshot.

[ ] Picture (Device Independent Bitmap)

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From: Hagan, Patrick S
Sent: Thu, 22 Dec 2011 13:39:05 GMT
To: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: RWA - Tranche Book

-----Original Message-----
From: Drew, Ina
Sent: Thursday, December 22, 2011 1:06 PM
To: Martin-Artajo, Javier X; Wilmot, John
Cc: Macris, Achilles O; macris@[redacted]Iksil, Bruno M; Hagan, Patrick S
Subject: RE: RWA - Tranche Book

Can you break out the cost again please of each
13 bil
1 bil hg
1 bil clo mtm

-----Original Message-----
From: Martin-Artajo, Javier X
Sent: Thursday, December 22, 2011 8:00 AM
To: Drew, Ina; Wilmot, John
Cc: Macris, Achilles O; macris@[redacted]; Iksil, Bruno M; Hagan, Patrick S
Subject: RE: RWA - Tranche Book

CLOs and Tranches MTM SAA . HG Mandate AFS SAA .

Will come back with total cost under normal trading and 90 days window .

-----Original Message-----
From: Drew, Ina
Sent: 22 December 2011 12:49
To: Martin-Artajo, Javier X; Wilmot, John
Cc: Macris, Achilles O; macris@[redacted]Iksil, Bruno M; Hagan, Patrick S
Subject: Re: RWA - Tranche Book

Total cost including hg and clo. (All in trading not saa, correct?)

----- Original Message -----
From: Martin-Artajo, Javier X
To: Drew, Ina; Wilmot, John
Cc: Macris, Achilles O; macris@[redacted]Iksil, Bruno M; Hagan, Patrick S
Sent: Thu Dec 22 07:46:36 2011
Subject: RWA - Tranche Book

Ina/John

We are in a position to reduce 15 Bln by end of Q1 by :

- Reducing Tranche Book 13 Bln
- Reducing CLO Book 1 Bln (as per the CLO conversation)
- Reducing HG Book 1 Bln (as per our HG Bank conversation)

Tranche Book

Under normal circumstances the Credit Derivatives Book will reduce three months of duration , expire the March rolls , improve both the Capital CRM and VAR/Stress numbers , and will require some further reductions and optimization in the actual position ratios .

The estimates of reductions will be :

Model reduction QR CRM (acknoledged already) 5 (Pat estimate)
Model reduction QR VAR 0.5 (Pat estimate)
Model Reduction QR Stress 1.5 (Pat estimate)
Reduction for duration shortening 1 Actual
Book Optimization 3 Estimate
Book Reduction 2 Trading reduction

TOTAL 13 Billion RWA end Q1 2012

The actual cost for these reductions will probably lower than 100 MM if the Book Reduction needed and is limited to reducing the Book after all the previous changes in three Strategies (See attachment if needed) .

This does not include the challenging but benefit of getting the actual diversification value that currently QR is not asigning to CIO and will be part of our effort to convince QR/Risk/CFO of the merits of this benefit . We will need to plan for a New York deep dive coordination with Risk Management , Finance and QR for end of January/Beginning of February .

Regards

Javier

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-----Original Message-----
From: Drew, Ina
Sent: 22 December 2011 00:55
To: Martin-Artajo, Javier X; macris@[redacted]
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 bil in the first quarter? Not a stress scenario, so assuming normal (whatever that is now - not year end) liquidity. Pls 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 -

From: Weiland, Peter <peter.weiland@jpmchase.com>
Sent: Fri, 02 Mar 2012 21:31:43 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Enfield, Keith <Keith.Enfield@jpmorgan.com>; Stephan, Keith <keith.stephan@jpmorgan.com>; Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Subject: Fw: CIO CRM results

Javier -
We got some CRM numbers and they look like garbage as far as I can tell, 2-3x what we saw before. They came from the technology guy running the process, so probably QR has not even reviewed the results.
Obviously a lot of work to be done here.
Pete
Peter Weiland
JPMorgan
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m: +1 [redacted]

From: Weiland, Peter
Sent: Friday, March 02, 2012 03:50 PM
To: Krug, Kevin
Cc: Bangia, Anil K; Kabia, Amy A; Enfield, Keith
Subject: RE: CIO CRM results

Thanks Kevin. We will definitely need to look carefully into these numbers.

These results, if I understand them, suggest that there are scenarios where the CIO tranche book could lose $6B in one year. That would be very difficult for us to imagine given our own analysis of the portfolio.

Pete

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Peter Weiland
Tel: +1 212 834 5549
Mob: +1 [redacted]

From: Krug, Kevin
Sent: Friday, March 02, 2012 3:44 PM
To: Weiland, Peter
Cc: Bangia, Anil K; Kabia, Amy A; Enfield, Keith
Subject: CIO CRM results

Hi Pete,

Sorry for the late response, but I wanted to be able to provide some additional information with the numbers, which took some time to gather. As you can see your CRM numbers have increased significantly with the new hierarchy runs. It looks like there was already a trend upward that the new numbers are consistent with, although I'm sure that's not the right way to look at it. QR is investigating the drivers of the change and will provide further information as it becomes available. The tables below show the product counts for the 18th of Jan (last day of old hierarchy) and the 22nd of Feb (last completed run with the new hierarchy). There were also 4 positions rejected due to missing ccy's on 1/18 and 6 positions rejected on 2/22 due to missing spread curves. These positions can be seen by filtering on the last column of the attached file. You should at least make sure that we have all of your positions.

Regards,
Kevin

CIO CRM
($MM)

Date	Old Hierarchy	New Hierarchy
Jan 4th	1,966	
Jan 11th	2,344	
Jan 18th	3,154	
Jan 25th		N/A
Feb 1st		5,732
Feb 8th		Needs Re-run
Feb 15th		Needs Re-run
Feb 22nd		6,301

Count of PCM Product				
Jan 18, 2012	CDS	CDSINDEX	TRANCHE	Grand Total
XJCFADX/EUR INDX CRD	13	16833	8445	25291

Count of PCM Product				
Feb 22, 2012	CDS	CDSINDEX	TRANCHE	Grand Total
Synthetic Credit	9	19160	7758	26927

From: Vigneron, Olivier X <olivier.x.vigneron@jpmorgan.com>
Sent: Wed, 07 Mar 2012 17:08:15 GMT
To: Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>
Subject: RE: New CRM numbers ...

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great thanks

From: Venkatakrishnan, CS
Sent: 07 March 2012 16:57
To: Vigneron, Olivier X
Subject: RE: New CRM numbers ...

I will ask if you and I can see him on Friday. Venkat

From: Vigneron, Olivier X
Sent: 07 March 2012 16:56
To: Venkatakrishnan, CS; Christory, Jean-Francois A
Subject: RE: New CRM numbers ...

I know of him but have not yet met him...

From: Venkatakrishnan, CS
Sent: 07 March 2012 16:48
To: Vigneron, Olivier X; Christory, Jean-Francois A
Subject: RE: New CRM numbers ...

Ashley has invited Javier to my meeting with him. I will tell him that this is a priority and mention you, Olivier. Do you know Javier?

From: Vigneron, Olivier X
Sent: 07 March 2012 16:47
To: Venkatakrishnan, CS; Christory, Jean-Francois A
Subject: RE: New CRM numbers ...

meeting this guy is one of my top priority on CIO side. I need to sharpen my tools before hand but I am comfortable to face him...

From: Venkatakrishnan, CS
Sent: 07 March 2012 16:35
To: Christory, Jean-Francois A
Cc: Vigneron, Olivier X
Subject: FW: New CRM numbers ...

I am cc'ing the firepower ;-)

We obviously need to address his issues. Has the model been discussed with him? Has he raised this with us before? Or is that an example of "institutional inertia" also? ;-)

Permanent Subcommittee on Investigations
EXHIBIT #48

From: Christory, Jean-Francois A
Sent: 07 March 2012 16:19
To: Venkatakrishnan, CS
Subject: FW: New CRM numbers ...

FYI. Historically we have not replied to this type of e-mails and worked our way through Pete Weiland on the risk side to get comfortable with the positions. We can obviously decide to change the strategy now if we are going to have more firepower on the frontlines.
JF

From: Hagan, Patrick S
Sent: Wednesday, March 07, 2012 11:12 AM
To: Martin-Artajo, Javier X; Weiland, Peter; Iksil, Bruno M; Grout, Julien G
Cc: Bangia, Anil K; Christory, Jean-Francois A; Stephan, Keith; Broder, Bruce
Subject: New CRM numbers ...

The CRM represents the worst loss over a 12m horizon at the 99.9% confidence level. With their new model, QR is reporting that we have a stand alone CRM of roughly 6bn. This is radically higher than the worst loss we see at the same confidence level; the loss we see is far below 2bn.

The worst case scenario as identified by QR at the 1 in a 1000 level is
CDX HY spreads widen by a factor of 2.02
CDX IG spreads widen by a factor of 2.37
Itraxx MN spreads widen by a factor of 3.46
There are also 3HY defaults, 2 IG defaults, and 4 Itraxx defaults

Using a top down, full repricing approach, we calculate the 12 month loss in this case as between 2.54bn and 2.78bn, depending on various assumptions about the full scenario. Note that QR does not construct the full 12m profit/loss under each scenario; instead QR "re-centers" the results. This neglects carry, a key feature of our books. Also, even though our book benefits from defaults, by subtracting the mean outcome from the P/L, their calculation gives us event risk to defaults. This is why we prefer our approach.

We see the bad scenarios generated by QR as being much much rarer than indicated in their model. For example, in our model, the probability of the spreads widening as in the QR scenario is much less than 1 part in 1000. Under our model, the QR scenario is at
3.76 standard deviations (probability: 0.000084) if we do not include mean reversion in our model
4.93 standard deviations (probability: 0.000000416) if we do include mean reversion in our model
Moreover, including the probabities of realizing the defaults indicated in the QR scenario would greatly lower these probabilities further.

Suppose we construct the scenario by going in the same direction as the QR scenario, but stopping at the 0.001 probability level. If we did not model mean reversion, this would yield the scenario
CDX HY spreads widen by a factor of 1.79, and there are 3 HY defaults
CDX IG spreads widen by a factor of 2.05, and there are 2 IG defaults
Itraxx MN spreads widen by a factor of 2.79, and there are 4 Itraxx defaults
This scenario would result in a 12month loss of around 1.28bn.

Moreover, if we model mean reversion, then going in the same direction as the QR scenario, but stopping at the 0.001 probability level would yield the scenario
CDX HY spreads widen by a factor of 1.57, and there are 3 HY defaults
CDX IG spreads widen by a factor of 1.73, and there are 2 IG defaults
Itraxx MN spreads widen by a factor of 2.20, and there are 4 Itraxx defaults

This is not a particularly bad scenario for us, with the damage caused by the Itraxx widening being offset by positive default payments and CDX widening. It yields a 12m loss of 0.14bn.

Examination of the path by path data provided by QR makes it appear that QR is using a Gaussian copula model, or some variant. This is distrubing. The Gaussian copula model, along with the popular variants, has been thoroughly discredited. Reasons cited are:

* it has no physical or economic basis or justification,
* it is mathematically inconsistent,
* it is not arbitrage free,
* it is a static model, neglecting the dominant risk of the credit markets,
* it has failed in practice, being commonly cited a one of the proximate causes of hundreds of billions USD losses in the industry.

Let us be clear here: Using the Gaussian copula model for hedging and trading purposes, requires fidelity between the model and the market place for relatively small market moves. The Gaussian copula model failed at this task. Hoping that the model is somehow valid for extrapolating down to the 0.001 level risks is madness. The only conceivable excuse for it is institutional inertia.

Patrick S. Hagan
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patrick.s.hagan@jpmorgan.com

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Thu, 08 Mar 2012 12:10:08 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>
CC: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>
Subject: RE: CIO CRM results

Ina ,

I have a full presentation to explain the issues at SAA today .
The change in notional is not correct and the CRM is therefore too high . We need to understand better the way they are looking at the scenario that creates the CRM and we also disagree with them on this . More work in progress until we can understand how to improve the number but the if the result of an increase is due to an increase in the long index but not on the tranches this makes no sense since this is not part of the CRM measure and once we reconcile the portfolio this should be very clear of what we would do . First , go back to the results of end of year so that we go to a more neutral position before trying to do what we have done with the reduction of RWA due to VAR and StressVAR . (We are getting positive results here in line with expectations) .

regards

From: Drew, Ina
Sent: 08 March 2012 00:29
To: Macris, Achilles O; Martin-Artajo, Javier X
Cc: Goldman, Irvin J; Weiland, Peter
Subject: Fw: CIO CRM results

Not consistant with your take. Let's discuss thurs.

From: Venkatakrishnan, CS
To: Drew, Ina; Hogan, John J.; Bacon, Ashley; Goldman, Irvin J; Weiland, Peter
Sent: Wed Mar 07 19:12:25 2012
Subject: Fw: CIO CRM results

Ina,

There are two related issues. The first is the $3bn increase in CRM RWA between Jan and Feb, from $3.1bn to $6.3bn. The second is that your group believes that the absolute level of CRM RWA we calculate was high to begin with in Jan. The second question requires us to explain our models to the satisfaction of your team. I am in London and spoke with Javier today and we will make this an urgent matter.

Based on our models, though, we believe that the $3bn increase in RWA is entirely explained by a $33bn notional increase in short protection (long risk) in your portfolio between Jan and Feb. See table below.

Peter Weiland and your mid-office confirm this $33bn notional increase in long index risk. Further we both agree that this position change results in a change of about $150mm (a decrease) in 10%CSW. Per our models, a roughly 10% capital charge ($3bn) on this $33bn increase in risk is reasonable.

Also, to be clear, there has been no model change on our end; the change in RWA for tranches has hardly changed over the month.

I understand that we need to build your confidence in our models themselves but, given our models, we believe the increase in RWA is well explained by the build up in your risk positions.

I will call you tomorrow from London to follow up, but you can reach me at 917-[redacted]

Thanks,

Venkat

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Bangia, Anil K
Sent: Wednesday, March 07, 2012 06:35 PM
To: Venkatakrishnan, CS
Subject: CIO CRM results

	Standalone CRM ($MM)		Net Notional($MM)			Position Count	
	Jan 18th	*Feb 22nd*	*Jan 18th*	*Feb 22nd*	*Position Increase*	*Jan 18th*	*Feb 22n*
All CIO Positions	3,154	6,301				25,291	26,92
Index CDS: All Positions	2,043	6,224				16,833	19,16
Index CDS: Common Positions	651	646				15817	1581
Index CDS: Rolloff Positions*	**4,037**		**55,091**			1,016	
Index CDS: New Positions		**9,579**		**88,618**	**33,527**		3,34
Index Tranche: All Positions	2,814	2,818				8,445	7,75
Index Tranche: Common Positions	1,972	2,174				7,334	7,33
Index Tranche: Rolloff Positions*	1,484					1,111	
Index Tranche: New Positions		1,416					42

* Includes 421 Dummy PCM Trades that were removed from PCM feed (4 CDS/227 Index CDS/190 Tranches)

From: Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>
Sent: Wed, 21 Mar 2012 12:10:40 GMT
To: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Stephan, Keith <keith.stephan@jpmorgan.com>; Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>; Christory, Jean-Francois A <jean-francois.christory@jpmorgan.com>; Bangia, Anil K <anil.k.bangia@jpmorgan.com>; Broder, Bruce <bruce.broder@jpmorgan.com>; Enfield, Keith <Keith.Enfield@jpmorgan.com>
CC: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Pat Hagan <pathagan1954@yahoo.com>
Subject: Optimizing regulatory capital

To optimize the firm-wide capital charge, I believe we should optimize the split between the tranche and index books. The bank as a whole may be leaving $6.3bn on the table, much of which may be recoverable.
Here is the situaton:

	total	IB	CIO
Alternative CRM floor:	$41.7bn	$28.3	$13.4
Model CRM:	$35.4bn	$18.3	$15.6
Effective CRM	$41.7bn	$28.3	$13.5
IRC			$18.75

Note that the effective CRM is currently controlled by the Alternative CRM floor. We should be able to move some directional trades out of the index book (to lower the IRC charge), and into the tranch book. This should increase the model CRM, but not the alternative CRM. Intuitively, the optimum split would have the Model CRM and Floor CRM nearly equal.

I think QR is in a unique position to perform this optimization. Here's what I think can be done.
a) the split between the index book (subject to IRC) and the tranch book (subject to CRM) should be a theoretical split, a matter of labeling for the capital calculations. If there is a natural split which helps us think about the positions, that's different, but for the purposes of the capital calculation, the books should be combined and split on the optimal basis;

b) If X our suggested index-only portfolio that is split off the combined book, then the theoretical split would be
New tranch + hedge book = Old combined book - aX,
New index book = aX,
where "a" would be 100% if we'd guessed the correct amount of directional hedges to remove from the combined book. But the idea would be for QR to find the value of "a" which results in the minimum post-diversification captial charge for the bank as a whole. With the capabilities shown to me by QR, I believe that they can accomplish this quite readily. The idea would be for them to do the optimization every week when they calculate the charges. (Who gets the savings is a different discussion.) QR may have the capacity to put this in place by quarter end.

c) Our book has four main axes. The eventual aim would be to provide QR with four index-only portfolios U, V, X, Y and create the theoretical portfolios:
New tranch + hedge book = Old combined book - aU - bV - cX - dY
New index book = aU + bV + cX + dY
Each week when QR calculates the firm's regulatory capital, they would have the additional task of determining the optimum coefficients a, b, c, and d which results in the minimum RWA for IRC + CRM. The other components of regulatory capital, historical Var and stress Var, aren't affected by the split, so this would be the optimal capital charge.

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The new rules have too many arbitrary factors of three for the regulatory capital to rationally reflect our risks. I don't think we should treat this as regulatory arbitrage. Instead we should treat the regulatory capital calculation as an exercise of automatically finding the best results of an immensely arbitrary and complicated formula.

Patrick S. Hagan
Chief Investment Office,
J.P. Morgan
100 Wood Street
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United Kingdom

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patrick.s.hagan@jpmorgan.com

EXCERPTS FROM
TRANSCRIPT OF AUDIO RECORDING PRODUCED
TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Date: March 21, 2012 Telephone Call
Parties: Anil Bangia, Patrick Hagan
Bates Number: JPM-CIO-PSI-A 0000089

Mr. Bangia: I think, the, the email that you sent out, I think there is a, just FYI, there is a bit of sensitivity around this topic. So --

Mr. Hagan: There, there is a lot of sensitivity.

Mr. Bangia: Exactly, so I think what I would do is not put these things in email.

Mr. Hagan: That's exactly what I was told. Javier, Javier is the guy that asked me to send out the email this morning. And then he found out from, from Pete and – yeah, and he found out from some -- and Irv that this is ...

Mr. Bangia: Yeah, yeah, I wouldn't put this you know in ....

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EXCERPTS FROM
TRANSCRIPT OF AUDIO RECORDING PRODUCED
TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Date: March 21, 2012 Telephone Call
Parties: Patrick Hagan, Anil Bangia
Bates Number: JPM-CIO-PSI-A 0000090

Mr. Hagan: Hi Anil, this is Pat.

Mr. Bangia: Hi Pat.

Mr. Hagan: Um, you know that email that I should not have sent?

Mr. Bangia: Um hum.

Mr. Hagan: Have you read it? Is that a feasible thing to do or is that impossible?

Mr. Bangia: Well it's, in some ways it's somewhat feasible, once we have a bit more of [indecipherable] development. So, a lot of the IRC tools that I was showing you are really based on a new model that is not in production yet. There is an old model that Bruce [Broder] has run, so that's the official model. So that has a very different offline manual process that complicates things.

Mr. Hagan: I see.

Mr. Bangia: And beyond that it's a matter of also, how much you guys should do it independently versus what, how much we can actually do on optimizing it, right, so, there's that side of that as well.

Mr. Hagan: Yeah, I mean, the feeling from the risk managers was that ... treating the capital charge is this incredibly complicated mathematical function that we're, of course, going to optimize. And uh, they were less concerned about physically moving things from one physical book to another physical book.

Mr. Bangia: Yeah. Yeah. I think we should also make sure we don't oversell this in the sense that the stability of this, we have to see over time. So I, I would also not quote any numbers on how much we think we can save, right?

Mr. Hagan: Yeah, the thing is I was hoping we could save about half that and that's got to be split between the investment bank and us, so ...

Mr. Bangia: Hmm.

Mr. Hagan: It's not clear, it's not clear.

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Mr. Bangia: Yeah, yeah, it's not clear.

EXCERPTS FROM
TRANSCRIPT OF AUDIO RECORDING PRODUCED
TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Date: March 21, 2012 Telephone Call
Parties: Peter Weiland, Patrick Hagan
Bates Number: JPM-CIO-PSI-A 0000091

Mr. Weiland: I keep getting banged up .... I know you've had some emails back and forth with Venkat and Anil or whoever on the optimization of the IRC and CRM and everything else. Everyone is very, very – I told this to Javier the other day but maybe he didn't mention it to you – everyone is very, very sensitive about the idea – writing emails about the idea of optimizing –

Mr. Hagan: I got that sort of mentioned. I'd say it was mentioned to me [laughter].

Mr. Weiland: OK, so, I don't know, Irv just came by again and said, "Oh, Venkat was telling me he got another email from Pat you know –"

Mr. Hagan: From me?

Mr. Weiland: Maybe it's from a couple of days ago, I don't know, but .... if you're sensitive to it, that's all I wanted to know.

Mr. Hagan: Okay.

Mr. Weiland: So I think we can talk about, you know, allocation –

Mr. Hagan: Okay, so nothing about allocation, I understand –

Mr. Weiland: – Uh, you see, the work of the risk manager has very broad and unclear borders sometimes. Anyway –

Mr. Hagan: – Okay. I did write an email message. I didn't realize it was sensitive to that extent .... Ah, it's all mathematics.

Mr. Weiland: – Yeah, well that's, you know, the funniest thing is, the first time that someone mentioned it to me I said, you know, 'I'm sure that Pat just sees this as like a math problem, an interesting and a complicated math problem. And all this other crap that goes on about, like, the implications of regulatory arbitrage and stuff like that is like, completely boring' [laughter].

Mr. Hagan: – No it's not that. I just get annoyed when I see us creating risks when there were no risks —

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Mr. Weiland: Yeah, I know.

Mr. Hagan: -- that's annoying. Ok, I understand the sensitivity. Tell Irv I'm sorry.

From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: 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. We are a significant player in a market that is less liquid, hence any attempt to manage p&l or capital away from an "as is" approach will either result in p&l dislocation or RWA constraints (a la 4Q11/1Q12)
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 de-risk without creating continual tail risk further out past tranche maturities. This plane will never land.
4. We also haven't made the case of what it costs to significantly decrease the size of the book (in my mind the only certain way to reduce RWA)

I profess to probably being the least knowledgeable about this book amongst the senior team, 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 jump-to-default capacity as it exhibits neither acceptable risk/return profiles nor market liquidity characteristics to justify capital.

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

-----Original Message-----
From: Drew, Ina
Sent: Tuesday, April 03, 2012 6:52 AM
To: Wilmot, John
Subject: Fw:

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Read before the meeting

----- Original Message -----
From: Macris, Achilles O
Sent: Tuesday, April 03, 2012 06:27 AM
To: Drew, Ina
Subject: RE:

OK -- maybe to follow-up 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.
- Clearly maintaining this "neutrality" will be resulting in higher RWA than we originally anticipated.
- 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 several moving pieces in methodology 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 $46-52b 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. The luck of liquidity

in HY, 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 curry than the over $2m daily, as of now.

My recommendation is the gradual reduction to a $35b RWA target by year-end. I realize that this is higher than what we have all hoped for. I am very concerned by over-acting 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 (pre-priced 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 O
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.

From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 30 Jan 2012 21:02:17 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: there is more loss coming in core credit book

I reckon we have another 50M coming from CDX IG9 exposure. The guys have a huge skew trade on and they will defend it as much as we do. I think I should take the pain fast over to next month. I have tried but it will ot move : they have moved some of those trades out at BOA but BNP, CSFB and BARCLAYS go for the fight. It is pointless in my view to go for a fight. We will roll down and recover the loss. But i have to let it go . The day when either we have a panic or names like Radian, MBIA recover, the position will be at profit because the forwards will collapse. Now I just grow the exposure and the CS01 moves up.

From: Goldman, Irvin J
Sent: Tue, 14 Feb 2012 01:22:17 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>
Subject: Re: Csbpv limit- please read

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yes to all.

----- Original Message -----
From: Drew, Ina
To: Goldman, Irvin J
Sent: Mon Feb 13 20:21:04 2012
Subject: Re: Csbpv limit- please read

I have no memory of this limit. In any case it need to be recast with other limits. Its old and outdated

----- Original Message -----
From: Goldman, Irvin J
To: Drew, Ina
Sent: Mon Feb 13 20:18:38 2012
Subject: Csbpv limit- please read

Ina,
I will review thoroughly tomorrow as pete emailed me tonight. Not sure why it did not come up before. Wanted to give you heads up.

I copied below from his email:
We have a global credit csbpv limit. It was set up at the initiation of the credit book, Unfortunately we have been breaching for most of the year. Lavine's team is going to send out a notification (just within CIO) probably tomorrow.
the big portfolio changes they made in the tranche book in Dec/Jan. caused the increase.
We will need a one off limit increase .

From: Keith Stephan <keith.stephan@jpmorgan.com>
Sent: Fri, 17 Feb 2012 14:11:26 GMT
To: BRUNO IKSIL <BIKSIL2@[redacted]; BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>
Subject: FW: CIO Global Credit spread BPV limit breach- COB 02/09/2012

Bruno - can you read the below draft and let me know if you agree /w the points - think we need to get Javier on board w/ this before we send out formal limit request.

From: Stephan, Keith
Sent: 16 February 2012 17:09
To: Weiland, Peter
Cc: Lee, Janet X; Chandna, Sameer X
Subject: RE: CIO Global Credit spread BPV limit breach- COB 02/09/2012
Since mid-January CIO has been in breach of its global csbpv limits, driven primarily by position changes in the tranche book.

The csbpv methodology adds the csbpv sensitivities of all the credit products, unadjusted for correlations. As IG and HY positions have been added in January (with a hedge ratio of roughly 5x) the net csbpv prints a positive number even though on a beta-adjusted basis the book is relatively flat.

Market Risk is currently reviewing all limits and most likely will remove the csbpv limit to be replaced with a set of credit-spread-widening (CSW) limits to better reflect the risk of the portfolio in material market moves. Until the new limits are implemented we will propose a one-off to the csbpv, up to $20mm, as we find that the stress and csw measures are more appropriate indicators of the risk of the portfolio.

As you can see below - the CSBPV measure vs. 10% CSW shows that the book has been reasonably balanced despite the headline bpv looking much longer. This is not the case in the 50% CSW measure, as the parallel relative shifts of 50pc have the effect of steepening the already upward sloping credit curves, hence makes losses look higher when compared with the 10pc measure. This can be seen clearly in comparison of the 50% CSW measure vs. the Large Flattening Selloff / Credit Crisis scenario P&L, which simulates more realistic (i.e. flattening) curve dynamics in the large (circa 50%) selloff. The book, in this case, benefits, given that in CDX.IG, long forward risk is achieved via flattener positions, i.e. the stress loss for the IG strategies in the large flattening selloff is -100mm vs. -1bn in the 50% parallel move.

50% vs LFS:

ITX XO +0.5 vs +0.65 Diff $+0.15bn
ITX MN -1B vs -1.3B Diff $-0.3bn
CDX HY +1.4B vs +1.8B Diff $+0.4bn
CDX IG -1B vs -0.1B Diff $+1bn

[cid:image002.png@01CCECCD.B941A680]

50% parallel shock vs. Large Flattening Selloff:

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[cid:image003.png@01CCECCD.B941A680]

50% vs LFS:

ITX XO +0.5 vs +0.65 Diff $+0.15bn
ITX MN -1B vs -1.3B Diff $-0.3bn
CDX HY +1.4B vs +1.8B Diff $+0.4bn
CDX IG -1B vs -0.1B Diff $+1bn

From: Weiland, Peter
Sent: 15 February 2012 23:39
To: Stephan, Keith
Cc: Lee, Janet X
Subject: FW: CIO Global Credit spread BPV limit breach- COB 02/09/2012

How about this? Maybe you can edit and add your graphs if you think it would help.

Since mid-January CIO has been in breach of its global csbpv limits, driven primarily by position changes in the tranche book.

The csbpv methodology adds the csbpv sensitivities of all the credit products, unadjusted for correlations. As IG and HY positions have been added in January (with a hedge ratio of roughly 5x) the net csbpv prints a positive number even though on a beta-adjusted basis the book is relatively flat.

Market Risk is currently reviewing all limits and most likely will remove the csbpv limit to be replaced with a set of credit-spread-widening (CSW) limits to better reflect the risk of the portfolio in material market moves. Until the new limits are implemented we will propose a one-off to the csbpv, as we find that the stress and csw measures are more appropriate indicators of the risk of the portfolio.

Pete

▬ = Redacted by the Permanent Subcommittee on Investigations

Peter Weiland
Tel: +1 212 834 5549
Mob: [redacted]

From: Hassan, Syed S
Sent: Wednesday, February 15, 2012 3:51 PM
To: Hassan, Syed S; Lee, Janet X; Stephan, Keith; D'costa, Karolyn K; Xiong, Bo
Cc: MRM CIO NA; MRM External Reporting; Weiland, Peter
Subject: RE: CIO Global Credit spread BPV limit breach- COB 02/09/2012

Hi Janet & Keith

Can you please advise on the below request? We'd like to get the notification out as the excession has been ongoing for a while now. Thanks.

Regards,

Hassan-

From: Hassan, Syed S
Sent: Monday, February 13, 2012 2:37 PM
To: Lee, Janet X; Stephan, Keith; D'costa, Karolyn K; Xiong, Bo
Cc: MRM CIO NA; MRM External Reporting
Subject: CIO Global Credit spread BPV limit breach- COB 02/09/2012

Hi Janet & Keith,

The following CIO Global Credit Spread BPV limits have been breaching since the aforementioned period.

Can you please examine and confirm the breaches as valid? If so, please also provide some commentary surrounding the breaches? Thanks.

[cid:image001.png@01CCECCC.BD81DDB0]

Regards,

Syed Hassan | Market Risk Management & Reporting | Chief Investment Office | J.P. Morgan | 2nd floor, 277 Park Avenue, NY | 212.270.2562| Syed.S.Hassan@JPMorgan.com.

Date of Breach	LOB	Limit Type	Limit ID	Current Limit	Limit Utilization	Excession
1/18/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	12,476,463.89	-476,463.894
1/19/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	12,242,682.67	-242,682.665
1/20/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	11,065,751.04	934,248.965
1/23/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	11,192,552.64	807,447.357
1/24/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	11,874,676.30	125,323.697
1/25/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	12,795,898.84	-795,898.842
1/26/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	13,579,489.16	-1,579,489.156
1/27/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	14,836,701.26	-2,836,701.261
1/30/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	16,507,706.96	-4,507,706.956
1/31/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	16,087,997.20	-4,087,997.197
2/1/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	14,328,947.64	-2,328,947.644
2/2/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	14,015,706.12	-2,015,706.120
2/3/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	15,491,436.60	-3,491,436.600
2/6/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	15,037,140.41	-3,037,140.408
2/7/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	16,790,494.73	-4,790,494.731
2/8/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	17,837,782.54	-5,837,782.536
2/9/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - Total	38019	12,000,000	20,551,039.63	-8,551,039.626

[redacted]

[illegible]	[illegible]	Limit Type	Limit ID	Current Limit	[illegible]	[illegible]
1/6/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	5,767,816.27	-767,816.268
1/9/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	6,540,464.31	-1,540,464.306
1/10/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	7,173,676.27	-2,173,676.270
1/11/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	6,705,051.65	-1,705,051.645
1/12/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	7,073,191.51	-2,073,191.507
1/16/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	6,789,050.32	-1,789,050.324
1/17/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	8,623,171.56	-3,623,171.558
1/18/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	10,501,915.86	-5,501,915.863
1/19/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	9,038,065.71	-4,038,065.712
1/20/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	9,244,498.81	-4,244,498.813
1/23/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	9,183,631.29	-4,183,631.287
1/24/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	9,865,676.28	-4,865,676.278
1/25/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	10,974,965.09	-5,974,965.090
1/26/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	11,845,290.09	-6,845,290.092
1/27/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	13,060,735.94	-8,060,735.943
1/30/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	14,669,691.76	-9,669,691.764
1/31/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	14,201,978.23	-9,201,978.226
2/1/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	12443275.5	-7,443,275.504
2/2/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	12096601.27	-7,096,601.272
2/3/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	13564638.64	-8,564,638.637
2/6/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	13124400.95	-8,124,400.945
2/7/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	14879848.15	-9,879,848.145
2/8/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Spread BPV - MTM-Total	38020	5,000,000	15935564.9	-10,935,564.900
2/9/2012	CIO	Chief Investment Office CIO - Global Credit - Credit Sprea[illegible] MTM-Total	38020	5,000,000	18659019.36	[illegible]59,019.360

From: Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>
Sent: Mon, 02 Apr 2012 21:53:53 GMT
To: Hogan, John J. <John.J.Hogan@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>
CC: Vigneron, Olivier X <olivier.x.vigneron@jpmorgan.com>
Subject: FW: CIO DAY 1

John/Ashley/Irv: Below is an update from Olivier. One source of model difference is that the capital models operate at the level of individual names but the CIO's desk models operate at the level of indices --- so the effect of name concentrations may be captured differently. We are pursuing the impact and further modeling of this. Venkat

---

From: Vigneron, Olivier X
Sent: Monday, April 02, 2012 3:15 PM
To: Venkatakrishnan, CS
Subject: CIO DAY 1

Hi Venkat,

Main takeaways:

- Book comprises index trades only (tranches+ plain indices). All modelling done on the index spread, single names are assumed homogeneous and homogeneous pool model is then used to price tranches and generate index delta. Historical regression also gives them a beta adjusted delta for HY vs IG.
- Key takeaway 1: approximation around the dispersion of single names a key source of discrepancies when submitting portfolio to large single name shocks (as does IRC/CRM). More work to quantify impact of this approximation.
- Key takeaway 2: we need to load the book on a "bottom up" single name modelling approach that can give single name default exposures, as well as a CSW computation that is comparable to the Credit Trading desk for example.

Action points:

- To discuss modelling merits of CIO and its feedback on our IRC spread modelling with the model research group (will start with Matthias A. who has been involved by Anil).
- To model in Lynx (tool developed by credit trading team) the CIO portfolio. Preliminary dummy trades loaded. Tool is ring fenced (i.e. only I will have access). However I will check with Javier before loading the real notionals tomorrow that he is fine for me to go ahead with this.

Risk update:

On my CSW estimate sent yesterday for March 7th position, I missed the Xover trades, here is the updated estimate when including them:

Estimated All Tranches:	-45m CSW
Estimated CDX indices:	-350m CSW
Estimated ITRX indices:	-280m CSW
Estimated HY CDX:	+400m CSW
Estimated FinSub + Xover:	+150m CSW

Total: -125m CSW long (March 7th)

Face notional by maturity buckets and IG/HY split.

25bn short in 1Y IG
15bn short in 2Y HY,
17bn short 5Y HY
135bn long in 5Y IG

Olivier

From: Venkatakrishnan, CS
Sent: 30 March 2012 22:30
To: Vigneron, Olivier X
Subject: FW: CIO 10% CSW

Please see below and let's make sure we speak daily on this! Merci, Venkat

---

From: Hogan, John J.
Sent: Friday, March 30, 2012 5:28 PM
To: Venkatakrishnan, CS
Subject: RE: CIO 10% CSW

OK thanks Venkat—keep me posted please

From: Venkatakrishnan, CS
Sent: Friday, March 30, 2012 5:27 PM
To: Hogan, John J.
Subject: CIO 10% CSW

John: CIO's 10% CSW by my group's model estimate is long 245mm of risk; their own models (run by Weiland) quote $145mm. I don't understand the difference in the models and don't know how good a measure of risk 10%CSW is for their book. But I spoke to Ashley and we agree that 10%CSW has been trending up for CIO, by either their model or ours. Once Olivier spends time in the portfolio, we should get a better idea. I also sense from speaking with Javier that CIO are worried that they may now have to shed tranche risk in a tight market. I don't know how real this worry is but I wanted to make you aware. I will get a daily download from Olivier and keep you and Ashley posted (Ashley is out next week). I may myself go to London mid-week. Venkat

Please see the CSW10 results for original CIO portfolio and the split portfolio for March 21st.

Corp Portfolio						
COB	***10-Jan-12***	***18-Jan-12***	***25-Jan-12***	***31-Jan-12***	***28-Feb-12***	***21-Mar-12***
CSW10 (MM)	-7.2	73.7	80.6	62.2	150.1	245.2

21-Mar-12	Corp Portfolio	CIO Index Portfolio	Combined Portfolio
CSW10 (MM)	245.2	252.8	-7.6

This following is based on the latest split I received from Patrick Hagan this morning.

21-Mar-12	Corp Portfolio	CIO Index Portfolio	Combined Portfolio
CSW10 (MM)	245.2	213.5	31.7

From: Huang, Yuan X
Sent: Friday, March 30, 2012 10:02 AM
To: Venkatakrishnan, CS
Cc: Jia, Keith
Subject: FW: Mar-21 risk report for CIO and benchmark indices

We have the CSW10 results for a few days (see row 24 "Spread_10PcntUp"). If the date you are interested is not included (ex, Mar-7th), we can generate the results in about half an hour.

Regards,
Yuan

From: Jia, Keith
Sent: Thursday, March 29, 2012 11:46 AM
To: Huang, Yuan X
Cc: Bangia, Anil K
Subject: RE: Mar-21 risk report for CIO and benchmark indices

6-day risk report.

From: Huang, Yuan X
Sent: Wednesday, March 28, 2012 2:56 PM
To: Jia, Keith
Cc: Bangia, Anil K
Subject: Mar-21 risk report for CIO and benchmark indices

From: Weiland, Peter <peter.weiland@jpmchase.com>
Sent: Mon, 07 May 2012 15:32:57 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>
CC: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: CSBPV History

Hi Ina –

Irv said you need some background on the CSBPV limit history. I created the attached slide for your reference (this has not gone to anyone else).

I also attach the limit memo from Brian Roseboro back in 2008 in case you need it.

I'm not sure what else you may need – I will be at the phone if there are other specific data that would help.

Pete

Peter Weiland | **J.P.Morgan** | Chief Investment Office | 270 Park Ave. | ☎ Tel: +1 212 834 5549 | ☎ Cell: +[redacted]
peter.weiland@jpmorgan.com

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CIO Global Credit CSBPV Limits

CIO Global Credit CSBPV Limit has been in place since 2007
•Composed of both synthetic credit and cash credit (mostly collateralized securities)
•Net sum of CSBPVs for all credit underlyings
•Spot quarterly history of Global Credit CSBPV exposure at right

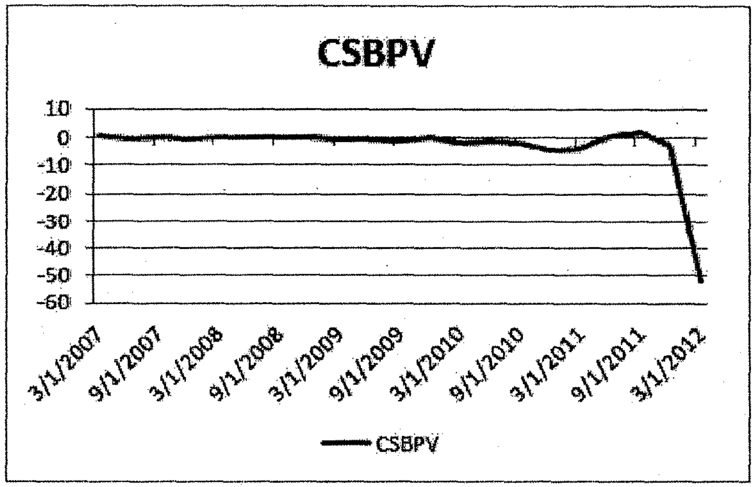
CSBPV in 2012
•Early in 2012 net CSBPV increased dramatically as IG positions were added and offset between HY and IG grew

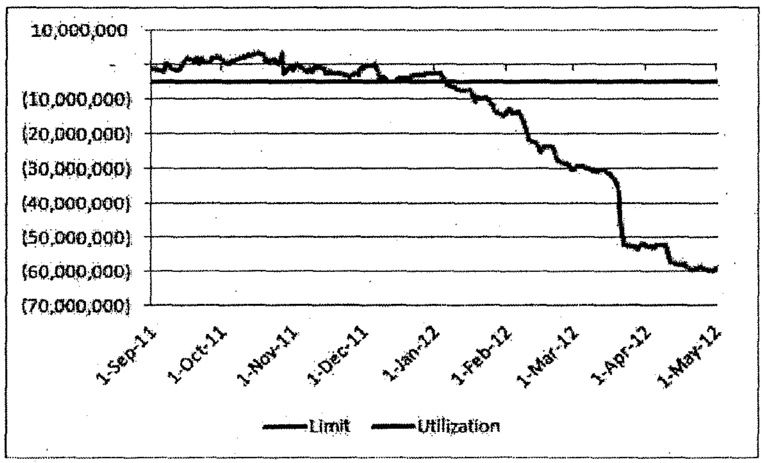
•Given that a beta adjusted credit spread-neutral position including HY and IG requires 5-6x as much IG as HY, decision was taken at that time that the CSBPV limit should be changed to account better for the increased activity

•Written notification of limit breach from MRM Reporting included the following commentary: "Current measurement of raw CSBPV is not normalized for the level of spreads, nor does it capture convexity as represented in CSW10 (and Stress Loss) measures. Full limit review is underway for the CIO business, and a proposal is expected to address this issue."

•The limit usage was calculated correctly; the issue was simply that we decided that given the mix of underlyings it would be better to look at the sensitivities in a more granular way.

•New limits for Synthetic Credit were implemented according to underlying index as of May 1





From: Berg, Jaymin
To: <Crumlish, Fred>;<Fursa, Thomas>;<Kirk, Mike>;<Hohl, James>;<Wong, Elwyn>;<Kamath, Jairam>; <Monroe, Christopher>;<Tornese, Doug>;<McLaughlin, Doug>
Sent: 1/31/2012 6:17:33 PM
Subject: CIO Quarterly Meeting

Financial

- CIO finished 4th quarter with $785mm of revenues.

o MTM gains totaled $330mm of which $250mm of the gains originated from the credit tranche portfolio. The CIO was short credit, and a bankruptcy by AMR caused a large gain in CDSs.

- Securities losses totaled $14mm for the quarter primarily driven by losses on EMEA government guaranteed debt.

Investments

- Growth in the international SAA book is due to building out the team in EMEA and opportunistic purchases. It's expected to see more growth in the international portfolio going forward.

- CIO is investing less in rates products and focusing on more credit products due to low interest rates and MBS prepayment concerns from government programs (i.e. HARP 2).

- The rates products most attractive to the CIO are munis because of their longer duration.

- SAA had a negative DOE in 2011 but is expected to move to a positive DOE by the end of 2012.

- Management's view of investments is changing to a Structural Book and an MTM Book, although the Structural Book will include bank Pf and CDS that are MTM accounting.

- The MTM Book is decreasing in size in 2012. It's expected that RWA will decrease from $70B to $40B.

- The Structural Book RWA is expected to be flatish year over year.

MSR

- The 3Q and 4Q hedging volatility was attributed to anticipated changes to the MSR model. The MSR asset continued to have a longer average life than the old model could account for. The MSR model has now been updated and hedging returns normalized.

Jaymin T. Berg
U.S. Department of the Treasury
Office of the Comptroller of the Currency
Large Bank Supervision - Capital Markets
Tel: (212) 899-1395 | Fax: (301) 433-6183

BB: (202)[redacted]

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Permanent Subcommittee on Investigations
EXHIBIT #58

From: Fursa, Thomas
To: <Hohl, James>
Sent: 4/13/2012 3:55:30 PM
Subject: Re: CIO deck

Thanks. I couldn't remember the guys name

----- Original Message -----
From: Hohl, James
Sent: Friday, April 13, 2012 11:53 AM
To: Fursa, Thomas
Subject: RE: CIO deck

Just e-mailed the guy who sent the report before getting this. If I don't hear back from him, I'll e-mail Ed.

-----Original Message-----
From: Fursa, Thomas
Sent: Friday, April 13, 2012 11.51 AM
To: Hohl, James
Subject: Re: CIO deck

If that's the last one - can you e-mail Ed Kastl for the latest?

----- Original Message -----
From: Hohl, James
Sent: Friday, April 13, 2012 11:31 AM
To: Fursa, Thomas
Subject: RE: CIO deck

The latest one that I got was January. I'll check WISDM.

-----Original Message-----
From: Fursa, Thomas
Sent: Friday, April 13, 2012 11.31 AM
To: Hohl, James
Subject: CIO deck

James - have you still been getting the CIO deck? I don't recall seeing it lately. Can you check WISDM to see what the last one is?

Thanks,
Tom

Permanent Subcommittee on Investigations
EXHIBIT #59

From:	Sabatini, Joseph
To:	Iacucci(Regulator), Anna; Crumlish (Regulator), Fred X; Dillon(Regulator), Donald
CC:	Wilmot, John
Sent:	4/16/2012 2:54:36 PM
Subject:	FW: materials for Fed/OCC/FDIC call at noon today
Attachments:	synthetic credit book_Fed_OCC-pdf.zip

This time with the attachment !

From: Wilmot, John
Sent: Monday, April 16, 2012 10:44 AM
To: Sabatini, Joseph
Subject: materials for Fed/OCC/FDIC call at noon today

Joe – here are the materials for the noon call today on the Synthetic Credit Book. John

John C. Wilmot | Chief Investment Office | + john.wilmot@jpmorgan.com | (Work: (212) 834-5452 | (Cell: [redacted]

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EXHIBIT #60

Synthetic Credit Book Review

Core Credit Book

- Objective since inception (2007) has been to manage a profile that would protect against a significant downturn in credit, offsetting natural credit exposures in CIO and the firm
- The strategy can be divided into four main components
  - Investment grade
    - US (CDX.IG)
    - Europe (iTraxx Main)
  - High Yield
    - US (CDX.HY)
    - Europe (iTraxx XO)
- On a very generalized basis, the combined strategies provide the following risk profile
  - Short HY risk (long protection) against long IG risk (long risk)
  - Short short-duration IG risk (long protection until YE12) against long long-duration IG risk (ie a credit curve flattener)
- The IG9 Series includes 5 fallen angel names included in the HY index
  - Radian
  - MBIA
  - Sprint
  - RR Donnelly
  - iStar Financial

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Rebalancing Activity

Market Back-drop

- Nov 29 AMR bankruptcy filing earlier than expected
- First European announcement of LTRO on December 8th 2011
- CDX High Yield series 11 matured December 20th 2011
- January 18 Kodak files for bankruptcy; rumored for weeks ahead

Risk Management Activity

- CIO decides to reduce the HY protection which was providing stress loss protection for both credit spread widening and systematic risk
- Post AMR default, HY index exhibits limited liquidity, exacerbated by expectations of Kodak event
- Difficult to hedge the book with HY indexes that matched the underlying risk of the protection
- Best available hedge was to use the IG 9 index that had the special feature of being both an instrument with liquidity of IG but with a HY component that allowed a hedge for a good part of the HY position
- After analyzing the economics of the hedge and the behavior of VaR and stress VaR, CIO increased the IG 9 long forward position

Synthetic Credit Summary: Notional Exposure

(all figures in billions USD)	Long	Short	Net
Gross external trades	836.1	-678.8	157.3
Notionals outstanding with JPM	210.8	-197.7	13.0
- index	162.2	-160.8	1.4
- tranche	48.6	-36.9	11.7
Notionals outstanding with ICE	250.1	-153.4	96.7
- index	250.1	-153.4	96.7
- tranche			
Notionals outstanding with external counterparties	375.2	-327.7	47.5
- index	122.1	-118.8	3.3
- tranche	253.1	-208.9	44.2

Detail of Positions				LONG	SHORT	Grand Total
Major Index Positions	CDX HY S08 05Y	external	ICE			
		internal	JPM-IB			
	CDX HY S08 05Y Total					
	CDX IG S09 05Y	external	Credit Agricole			
			ICE			
			Socgen			
		internal	JPM-IB			
	CDX IG S09 05Y Total					
	CDX IG S09 07Y	external	BofA			
			ICE			
			Socgen			
		internal	JPM-IB			
	CDX IG S09 07Y Total					
	CDX IG S09 10Y	external	BofA			
			ICE			
			Socgen			
			UBS			
		internal	JPM-IB			
	CDX IG S09 10Y Total					
	ITRAXX MN S09 05Y	external	Citi			
			ICE			
			Socgen			
			UBS			
		internal	JPM-IB			
	ITRAXX MN S09 05Y Total					
	ITRAXX MN S09 10Y	external	BofA			
			Citi			
			ICE			
			Socgen			
		internal	JPM-IB			
	ITRAXX MN S09 10Y Total					
	ITRAXX MN S16 05Y	external	Citi			
			ICE			
			Socgen			
		internal	JPM-IB			
	ITRAXX MN S16 05Y Total					
	Subtotal of Major Index Positions			338,318,508,291	-184,908,954,786	153,409,553,505
	All Other Index Positions			196,134,045,886	-248,074,220,485	-51,940,174,599
	Total of Index Positions			534,452,554,177	-432,983,175,271	101,469,378,906
	Total of All Tranche Positions			301,660,076,879	-245,795,004,821	55,865,072,058

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- Gross external (to CIO, including IB) notional is $836bio long risk vs. $678bio short risk across all index and tranche products
- External index notional faces Intercontinental Exchange (ICE) is *net* $96.7bio, 97% of total net external index exposure
- Tranche products are not eligible for ICE clearing and are bilateral counterparty exposures

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Synthetic Credit Summary: Maturity Profile

Factored Notional Sum / Index	20-Jun-12	20-Dec-12	20-Jun-13	20-Dec-13	20-Jun-14	20-Dec-14	20-Jun-15	20-Dec-15	20-Jun-16	20-Dec-16	20-Jun-17	20-Dec-17	20-Jun-18	20-Jun-20	20-Dec-20	20-Jun-21	20-Dec-21	Grand Total
CDX HY	13,824	8,485	-2,455	3,197	517		-15,631	-5,735	-6,708	-7,828								-7,333
CDX LCDX			1,846															1,846
CDX IG		-53,065	0	-586	65	34,267	-7,657	-17,596	-18,479	11,493	15,791	91,564		257	-54	302		56,393
ITRAXX MN		7	28,276		-3,356		20,844	26	7,460	18,684	7,529	22	43,521			-2,132	-1,731	118,358
ITRAXX XO								-6	-1,767	-6,822	-118							-8,712
ITRAXX FINSUB	-121	-690	-2,210	-1,444		-1,014		1,705	-594	1,366	928							-2,074
ITRAXX FINSEN											72							72
SOVX WE										47								47
Grand Total	13,703	-45,262	25,457	1,167	-2,774	33,263	1,756	-21,606	-20,088	16,939	24,202	91,587	43,521	257	-54	-1,830	-1,731	158,496

10%CSW Sum / Index	20-Jun-12	20-Dec-12	20-Jun-13	20-Dec-13	20-Jun-14	20-Dec-14	20-Jun-15	20-Dec-15	20-Jun-16	20-Dec-16	20-Jun-17	20-Dec-17	20-Jun-18	20-Jun-20	20-Dec-20	20-Jun-21	20-Dec-21	Grand Total
CDX HY	4	2	-6	-39	-7		138	99	123	166								478
CDX LCDX			1															1
CDX IG		76	0	0	-1	-39	17	55	64	-46	-73	-504		-2	0	-3		-453
ITRAXX MN		-0	68		10		-6	-0	-21	-111	-47	-1	-282			24	20	-344
ITRAXX XO								0	33	143	3							178
ITRAXX FINSUB	0	2	9	8		9		-20	8	-22	-16							-23
ITRAXX FINSEN											-1							-1
SOVX WE										-0								-0
Grand Total	4	80	72	-31	2	-30	150	134	208	130	-134	-505	-282	-2	0	22	20	-163

- Top table shows gross notionals across indices and tranches by underlying index family (simply adds notionals of indices and tranches)
- Bottom table shows the 10% credit spread widening (P/L $MMs) to 10% widening of credit spreads
- Largest short risk exposures in investment grade mature in Dec-12 for CDX.IG.9 and Jun-13for iTraxx S9
- Largest short risk exposures in high yield are concentrated in Dec-15 to Jun-16 for CDX.HY and Dec-16 for iTraxx.Crossover
- One particular item to note is the iTraxx Main 20Jun13 which appears long given positive notional, but which is in fact short, as reflected in 10%csw, as a result of equity tranche protection which is a significant part of the position

Synthetic Credit Summary: Risk Summary

- **Total Synthetic Credit VaR 59.2mm**
- **10% Credit Spread Widening**
  - The position, beta-adjusted has net directionality of -$163MM in 10% parallel move in spreads
  - **This is equivalent of $34.5bio of long risk in 5y IG equivalents**
- **Relative value Risk Exposures**
  - IG9 5/10s curve position $46MM/bps of risk if curve steepens 1bps
  - ITX9 5/10s curve position $19MM/bps if curve steepens 1bps
  - IG vs. HY $27mm/bps of risk if IG underperforms HY by 1bps
  - XO vs. ITX $34mm/bps of risk if ITX underperforms XOVER by 1bps

Index	CS01	Beta-Adj. CS01	CSW 10%	HY vs. IG	Steepen01
CDXHY	8.51	42.55	478.40		
CDXLCDX	0.09	0.45	1.40		
CDXIG	-35.12	-35.12	-453.12	-27.24	-45.08
Total US	-26.52	7.89	26.68	-27.24	-45.08
iTraxx MN	-22.06	-22.06	-344.04	-34.26	-19.07
iTraxx XO	3.06	12.24	178.20		
iTraxx Finsub	-0.56	-2.24	-23.05		
iTraxx Finsen	-0.03	-0.13	-0.73		
SOVXWE	-0.02	-0.02	-0.44		
Total Europe	-19.61	-12.20	-190.05	-34.26	-19.07
Total Synthetic Credit	-46.13	-4.31	-163.38		

(mm USD)	Credit Crisis Stress	Synthetic VaR	Synthetic CSW10%	Synthetic CSBPV
Mar 2012	434	59	(163)	(46)
Feb 2012	1,552	50	(127)	(31)
Jan 2012	1,294	62	(144)	(15)
Dec 2011	1,446	80	91	(3)
Nov 2011	1,380	66	44	(1)
Oct 2011	1,165	65	27	(1)
Sep 2011	802	54	(29)	2
Aug 2011	392	51	(97)	(2)
Jul 2011	859	27	(69)	(2)
Jun 2011	795	31	(46)	1
May 2011	195	40	(128)	(4)
Apr 2011	278	55	(107)	(3)
Mar 2011	(39)	59	(115)	(4)
Feb 2011	148	63	(78)	(4)
Jan 2011	248	67	(100)	(6)

Synthetic Credit Summary: Exposure to CDX IG 9 Curve

- On a simple basis, curve could steepen by 20 bps more (on historical basis)
- Loss approx $1billion
- With hedges currently in place, we could steepen by 10bps approx
- Loss approx $550mm

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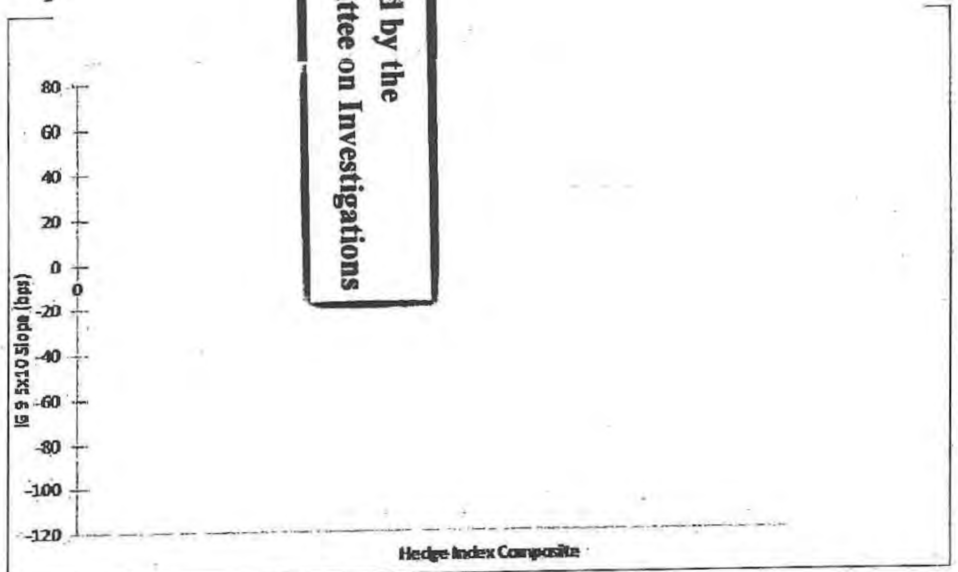
- Bottom graph shows the behaviour of the slope of IG 9 1 yr versus IG 9 5 Yr that we have in our portfolio
- This shows the relationship between the slope of our position in the index versus the actual hedge that we have
- Bounding the relationship is the 5 Yr short that we have on the run five year IG and the short that we have in the HY OTR



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Single Name Risk & Forward Jump to Default Risk

Table 1: default profile today and post December 2012

Portfolio	# of Names	# of names with default loss risk	Average P&L given Default ($mm)	Max P&L given Default ($mm)	# of names with default gain	Average Gain given Default ($mm)	Max Gain given Default ($mm)
Total portfolio today	588	62	-67	-205	526	133	600
Total portfolio post Dec 2012	585	228	-336	-716	357	133	600
IG9 only today	121	0	0	0	121	146	417
IG9 post Dec 2012	121	121	-572	-716	0	0	0
IG9 Hedge options	on-the-run IG18	covers 89 names out of 121					
post Dec 2012	on-the-run HY18	covers 13 out of the remaining 32 names unhedged with IG18					

- Today there is considerable default protection coming from IG9 tranches.
- Across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +146m on average per name to a loss of -572m per name post December 2012.
- This is because of the roll-off of two forms of protection: on 20th Dec 2012
    - The first is the 32bn of short-dated Index protection.
    - Importantly, the second is the roll-off of nearly $4bn long protection on IG9 equity tranches. The equity tranche gives protection at an approximate ratio of 30 to 1, so the $4bn of equity tranche protection is equivalent to $120bn of index protection in terms of pure default risk.
- Post 20th December 2012, we would be able to partially hedge this exposure with the current on-the-run index but the overlap is 89 names out of the 121 in IG9.
- On the 32 remaining names we have a Jump-to-Default loss of $500mm on average per name that would need to be hedged by other means (HY on the run index, single name CDS, index tranches etc)

Single Name Risk – Default Protection in Current Portfolio

- Current portfolio provides Jump-To-Default protection on 526 names
- The Average gain given default is +$133MM, with the max +$600MM
- The Top 20 names positive Jump-To-Default at Market Recovery are shown in the table to the right; these are driven primarily by JTD protection afforded by iTraxx 0-3% equity tranches
- Across the 121 names in IG9, the Jump-To-Default at Market Recovery displays current gain of +146m

Potential Top Default Protection Exposures - Current Portfolio

COMPANY NAME	JTD
GAS NATURAL SDG, S.A.	
GDF SUEZ	
EDP - ENERGIAS DE PORTUGAL, S.A.	
PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.	
PEUGEOT SA	
LAFARGE	
RENAULT	
THYSSENKRUPP AG	
DIXONS RETAIL PLC	
HELLENIC TELECOMMUNICATOINS	
CLARIANT AG	
DEUTSCHE POST AG	
ARCELORMITTAL	
FINMECCANICA S.P.A.	
BANCO ESPIRITO SANTO, S.A.	
DEUTSCHE LUFTHANSA AKTIENGELSELLSCHAFT	
GKN HOLDINGS PLC	
BANCA MONTE DEI PASCHI DI SIENA S.P.S.	
BANCO BILBAO VIZCAYA ARGENTARIA, SOCIEDAD ANONIMA	
BANCO SANTANDER, S.A.	

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Single Name Risk – Default Risk and Default Protection Post December 2012

- Post expiry of CDX.IG.9 0.75y instruments, across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +146m on average per name to a loss of -572m per name post December 2012 as shown in the table
- Among other names, the portfolio retains its pro-default characteristics, as before

Potential Top Default Exposure Post December 2012

IG NAMES	JTD
BAXTER INTERNATIONAL INC	Redacted By Permanent Subcommittee on Investigations
BRISTOL-MYERS SQUIBB COMPANY	
CAPITAL ONE BANK (USA) NA	
CENTEX CORPORATION	
COMCAST CABLE COMMUNICATIONS, LLC	
DUKE ENERGY CAROLINAS, LLC	
EMBARQ CORPORATION	
GOODRICH CORPORATION	
HONEYWELL INTERNATIONAL INC	
INGERSOLL-RAND COMPANY	
INTERNATIONAL BUSINESS MACHINES CORP	
INTERVAL ACQUISITION CORP	
MCDONALDS CORPORATION	
MCKESSON CORPORATION	
MEADWESTVACO CORPORATION	
RIO TINTO ALCAN INC	
ROHM AND HAAS COMPANY	
THE WALT DISNEY COMPANY	
WELLS FARGO & COMPANY	
WYETH LLC	

Potential Top Default Protection Exposures - Current Portfolio

COMPANY NAME	JTD
GAS NATURAL SDG, S.A.	Redacted By Permanent Subcommittee on Investigations
GDF SUEZ	
EDP - ENERGIAS DE PORTUGAL, S.A.	
PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.	
PEUGEOT SA	
LAFARGE	
RENAULT	
THYSSENKRUPP AG	
DIXONS RETAIL PLC	
HELLENIC TELECOMMUNICATOINS	
CLARIANT AG	
DEUTSCHE POST AG	
ARCELORMITTAL	
FINMECCANICA S.P.A.	
BANCO ESPIRITO SANTO, S.A.	
DEUTSCHE LUFTHANSA AKTIENGELSELLSCHAFT	
GKN HOLDINGS PLC	
BANCA MONTE DEI PASCHI DI SIENA S.P.S.	
BANCO BILBAO VIZCAYA ARGENTARIA, SOCIEDAD ANONIMA	
BANCO SANTANDER, S.A.	

Synthetic Credit Summary: Portfolio Effects in Adverse Scenario

- **Stress Loss Protection**
  - In an environment of significant credit deterioration and the occurrence hard default events or perception of imminent defaults, the portfolio provides stress loss protection
  - This is due to the spread convexity of the portfolio to major market dislocation, during which curves may reprice significantly, flattening as hedgers rush to buy protection in short dated indices
  - In addition to the 'static' default profile shown in preceding slides, we simulate the portfolio behaviour (see scenario 10 below) by widening credit spreads by average 75%, and through flattening curves (for reference, above depicts -50bps curve flattening in IG.9 0.75y / 5.75y curve, a move which is extrapolated throughout the portfolio
  - In this case we envision the portfolio would produce substantial protection, circa $1,725MM driven by HY shorts and flattening of investment grade curves

			Scenario									
			1	2	3	4	5	6	7	8	9	10
Scenarios for Q2	Realised P&L in Q1	Current Spread	Extreme Curve Steepening	European Event	Sluggish Stale Growth	Financial Crisis	Status Quo	Central scenario	General Recovery	Currency Crisis	Strong Growth	Default Scenario
Carry	**150**		**150**	**250**	**220**	**250**	**200**	**170**	**160**	**400**	**100**	**350**
IG9 Projections	Initial curve											
IG9 0.75yr	132	68	26	112	74	96	68	48	44	249	1	201
IG9 2.75yr	141	90	53	131	98	117	90	72	67	236	30	198
IG9 5.75yr	150	111	79	150	122	139	111	95	90	222	59	194
Slope												
0.75yr / 5.75yr	18	43	53	38	48	43	43	47	46	27	58	-7
Curve slope change (bps)	25	0	10	-5	5	0	0	4	3	70	15	-50
Implied CSW	-35%	0%	-35%	35%	10%	25%	0	15%	20%	100%	50%	75%
P&L	-580		-650	375	355	250	150	350	702	900	1,125	1725
			10% EXTREME			80% LIKELIHOOD			10% OPTIMISTIC			

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Synthetic Credit Summary: Risk & P/L Scenarios

			Scenario									
			1	2	3	4	5	6	7	8	9	10
Scenarios for Q2	Realised P&L in Q1	Current Spread	Extreme Curve Steepening	European Event	Sluggish Stale Growth	Financial Crisis	Status Quo	Central scenario	General Recovery	Currency Crisis	Strong Growth	Default Scenario
Carry	150		150	250	220	250	200	170	160	400	100	350
IG9 Projections	Initial curve											
IG9 0.75yr	132	68	26	112	74	96	68	48	44	249	[illegible]	201
IG9 2.75yr	141	90	53	131	98	117	90	72	67	236	30	198
IG9 5.75yr	150	111	79	150	122	139	111	95	90	222	59	194
Slope												
0.75yr / 5.75yr	18	43	53	38	48	43	43	47	46	27	58	7
Curve slope change (bps)	25	0	10	5	5	0	0	4	[illegible]	-70	15	-50
Implied CSW	-35%	0%	-35%	35%	10%	25%	0	-15%	-20%	100%	-50%	75%
P&L	-580		-650	-375	-355	-250	-150	350	702	900	1125	1725
			10% EXTREME			80% LIKELIHOOD			10% OPTIMISTIC			

- **Realised P&L in Q1**
  - Q1 Realised P&L -$580, driven by losses in short risk HY (670MM), vs. +128MM in CDX.IG, and -30MM in iTraxx
  - The IG component has been the main P&L driver of underperformance in Q1, as IG.9 forward long risk positions did not deliver anticipated profits given steepening of the curve. Current book is overall risk balanced, given the cross-market long/short and has positive carry of $2MM/day, while retaining upside on defaults
- **Q2 P&L Estimates - these scenarios do not include 10 April P&L, which would accrete back into each scenario +$400MM, if re-calibrated for today's market moves**
  - -$250MM (New Financial Crisis) implies an average spread widening of +25%, driven by banks/financials undergoing stress. In this case, the portfolio P&L is driven by:
    - +250MM carry
    - -100MM given relative underperformance of IG vs. HY (compression, led by banks/financials widening)
    - -$300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - -$100MM due to spread widening, not offset in this case by curve flattening (we assume here that curves remain 43bps steep in IG equivalents)
  - -$150MM (Status Quo) in this case we assume that market levels and curves 'freeze' at current levels; in this scenario CIO would delta hedge around volatility throughout the quarter
    - +200MM carry
    - -$300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - -$50MM due to long-dated tranche underperformance as observed in Q1
  - +$350MM (Central Scenario) in this case bull steepening of IG curves (+4bps), more than offset by outperformance of IG.9 curve vs. on the run
    - +170MM carry
    - -$280MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - +$110MM due to rally in credit spreads -15%
    - +$200MM due to relative outperformance of IG 9 curve vs. on the run IG curves (while counter-intuitive, the "compression" effect of IG.9 vs. on the run IG complex is driver of performance)
    - +$150MM due to long-dated equity tranche outperformance
  - In the section "10% Optimistic" the convexity of the portfolio in a highly positive or a highly negative market outcome is demonstrated.
    - +$702MM in the event of -20% tightening of spreads, decompression of HY vs. IG credit, and IG.9 forward outperformance (rolling down the curve)
    - $1,126 "End of QE" refers to a scenario of strong growth led by U.S., spreads avg. -50% tighter
    - +1,725MM in "Many Defaults" means wave of defaults among widest spread names (incl. MBIA, Radian, iStar) curve flattening, and +75% spread widening, driven by performance of HY shorts, IG flatteners and long protection positions in the portfolio
  - In the section "10% Extreme" it is estimated that the book would range -$355MM to -$650MM.
    - -$355MM in the event of bear steepening of curves, spreads wider by avg +10%
    - -$650MM in the event of bull steepening of curves, spreads tighter by avg -25%, driven by underperformance of IG.9 (forwards do not roll down curve in rally)

From: Bellando, John W <john.w.bellando@jpmorgan.com>
To: <Hohl, James>
CC: <Fursa, Thomas>
ent: 4/16/2012 3:26:41 PM
Subject: RE: CIO January 2012 valuation memo and metrics

Hi James –

I trust you are well. With regards to CSBPV you are correct.

Thanks,
John

From: james.hohl@occ.treas.gov
Sent: Monday, April 16, 2012 10:46 AM
To: Bellando, John W
Cc: thomas.fursa@occ.treas.gov
Subject: RE: CIO January 2012 valuation memo and metrics

Thanks very much. I do have one quick question. For the credit derivatives risk measure (CSBPV). I'd assume that stands for credit spread basis point value and that the exposure is to a 1 bpv widening of credit spreads. Please let me know whether that's correct or if it's something else. Thanks again, James

---

From: Bellando, John W [mailto:john.w.bellando@jpmorgan.com]
Sent: Friday, April 13, 2012 5.58 PM
To: Hohl, James
Subject: RE: CIO January 2012 valuation memo and metrics

Hi James –

Apologies for not distributing the February valuation work. I just sent the February and March reports.

Please let me know if you have any questions.

Thanks,
John

From: james.hohl@occ.treas.gov
Sent: Friday, April 13, 2012 11:49 AM
To: Bellando, John W
Subject: RE: CIO January 2012 valuation memo and metrics

Hi, I don't think that I received a report since this one, have they been distributed? Thanks, James

---

From: Bellando, John W [mailto:john.w.bellando@jpmorgan.com]
Sent: Monday, February 13, 2012 1.13 PM
To: Fursa, Thomas; Hohl, James; McManus, William K; Hawkins, Kimberly A
Cc: m.s.paul@us.pwc.com; 'kristen.brown@us.pwc.com'; 'philip.j.grealy@us.pwc.com'; 'philip.t.mijares@us.pwc.com'; Kastl, Edward R; Alexander, David M; Burke, Alethea X
Subject: FW: CIO January 2012 valuation memo and metrics

Pls find attached our January valuation summary memo and results.

Thanks,

Permanent Subcommittee on Investigations
EXHIBIT #61

John

From: Bellando, John W
Sent: Monday, February 13, 2012 1:07 PM
To: Wilmot, John; Alexander, David M; Weiner, Pamela; Giovannetti, Alison C; Lee, Colvis
Cc: Kastl, Edward R; Shuja, Amir; Bjarnason, David; Hughes, Jason LDN; Liu, Dorris X; Laskis, Adam; Burke, Alethea X
Subject: CIO January 2012 valuation memo and metrics

All –

Attached are two files for your review of the January 2012 CIO independent valuation results:

1) Global summary level VCG memo – January 2012 Valuation Summary

2) Global valuation summary with price testing results and coverage metrics - Global Valuation Summary Metrics January 2012

Please let me know if you have any questions.

Thanks,
John

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From:	Wilmot, John
To:	Hohl (Regulator), James X
Sent:	4/17/2012 12:24:59 PM
Subject:	RE: Quick questions pp 4 and 5 of yesterday's presentation

Hi James,

Your notes and understanding are correct. Pages 4 and 5 reflect the entire synthetic credit portfolio, long (long credit risk) and short (short credit risk – ie long credit protection).

With respect to the grand total net position, the portfolio is measured as long credit risk under a 10% credit spread widening scenario. As you'll note on 6, this is equivalent to $34.5bn of long risk in 5y IG equivalents. Having said that, the portfolio as we describe it on page 2 has two general positions (short HY risk vs long IG risk and an IG curve flattener). These risk exposures are also outlined on page 6 and give you a sense of the sensitivity to relative spreads and curve. So while directionally (to a csw scenario) the portfolio positions are long risk there are 2nd and 3rd order sensitivities that need to be considered.

Having said all of that I believe there is a modest long credit risk sensitivity to the portfolio now.

Let me know if you have any further questions.

Regards,
John

John C. Wilmot | Chief Investment Office | + john.wilmot@jpmorgan.com | (Work: (212) 834-5452 | (Cell: [redacted]

From: Hohl (Regulator), James X
Sent: Tuesday, April 17, 2012 7:48 AM
To: Wilmot, John
Subject: Quick questions pp 4 and 5 of yesterday's presentation

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Hi John,

I wanted to check my understanding of the synthetic credit summaries on pp 4 & 5, and ask a follow-up question. I wrote down during the meeting that the tables reflect credit risk positions long or short, so that the CDS positions would be the opposite, e.g. looking at the top of p 4, the $836.1 long gross external trades results from CIO selling $836.1 notional CDSs and the $-678.8 short arises from CIO purchasing CDSs. I believe that the chart on p 5 is similarly constructed. I also wrote down that the chart on p 5 reflects the entire synthetic credit portfolio. Can you please let me know if I've misunderstood any of this.

My follow-up question is from the grand total net position on p 5 and my understanding of the tables outlined above. Does CIO management view the $-163 million as basically flat or is the synthetic credit portfolio going to be taking on additional credit risk?

Thanks, James

Permanent Subcommittee on Investigations
EXHIBIT #62

From: Crumlish, Fred
To: Brosnan, Mike; Belshaw, Sally; Pfinsgraff, Martin; Waterhouse, Scott
Cc: Wilhelm, Kurt; Banks, George; Fursa, Thomas; Hohl, James; Kamath, Jairam; Kirk, Mike; Monroe, Christopher; Swank, Todd; Wong, Elwyn
Subject: JPM CIO / IG9 "whale" trade
Date: Tuesday, April 17, 2012 4:33:00 PM

On Monday 4/16 OCC and FRB examiners met with Ina Drew and several members of CIO staff and risk management to discuss the JPM synthetic credit book in view of recent press reporting. 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.

- 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. 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.

- 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.

- 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.

- 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.

- 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 6.5 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.

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.

Permanent Subcommittee on Investigations
EXHIBIT #63

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 pass-throughs that continued to be held, so that structural credit risk in the investment portfolio increased along with portfolio growth.

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 multi-trillion 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 firmwide 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).

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.

The synthetic credit portfolio position now provides around $434 million income in the credit crisis stress scenario. Very generally, the portfolio risk profile is short high-yield risk against long investment grade risk and short short-duration (to yearend 2012) investment grade risk against long long-duration 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 firm-wide 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.

--

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), Irv 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

- apc

From: Wilmot, John
To: Regulator\), James X <Hohl \>
Sent: 4/19/2012 9:15:18 PM
Subject: RE: CIO EMR?

Yes, we still produce it but we don't include in the Treasury EMR. It is separate. I apologize for you guys being left off. I will get my team to rectify that and send you the monthlies ytd.

John C. Wilmot | Chief Investment Office | + john.wilmot@jpmorgan.com | (Work: (212) 834-5452 | (Cell: [redacted]

From: Hohl (Regulator), James X
Sent: Thursday, April 19, 2012 3:21 PM
To: Wilmot, John
Subject: CIO EMR?

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Hi John,

Does the CIO still produce an EMR? It wasn't included in the January Treasury EMR, which is where I used to see it. I'm looking for the balance sheet information that was in it. Thanks,

James

Permanent Subcommittee on Investigations
EXHIBIT #64

From:	Weiland, Peter
To:	Regulator\), James X <Hohl \>
CC:	<Wilmot, John>;<Goldman, Irvin J>
Sent:	4/19/2012 10:24:01 PM
Subject:	RE: Info on VaR, CSBPV, and stress status and limits

I talked to someone in reporting. The excessions email was incorrect.

We are in the midst of implementing stress limits that include SAA. The old limits were $500mm for MTM and $800mm for Aggregate excluding SAA. The numbers I gave you below are the new usages fully inclusive of SAA with the new limits as approved by Hogan et al. It may be that the official reports for April 5 still showed the old limits. Just to summarize, the new ones are:

CIO MTM usage $1.53B against limit of $1.0B
CIO Aggregate usage $12.67B against limit of $15.0B

Pete

Peter Weiland
Tel: +1 212 834 5549
Mob: +[redacted]

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From: Hohl (Regulator), James X
Sent: Thursday, April 19, 2012 2:51 PM
To: Weiland, Peter
Subject: RE: Info on VaR, CSBPV, and stress status and limits

Pete,

he attached 4/17 excession report was the source of the comment. It seems to show CIO aggregate stress of $ 18,454 million in the Level 1 tab to me also, unless we're not reading it correctly. I've also included the report that we have for 4/5 because the way I read it in the Level 1 tab, CIO exceeds both aggregate and MTM stress limits of $800 million and $500 million respectively. Please let me know whether we're reading the reports correctly.

Thanks, James

From: Weiland, Peter
Sent: Thursday, April 19, 2012 1:51 PM
To: Hohl (Regulator), James X
Cc: Wilmot, John; Goldman, Irvin J
Subject: RE: Info on VaR, CSBPV, and stress status and limits

Hi James –

Happy to help.

1. The Monday-Tuesday daily increase in the firm's VaR was due primarily to an increase in the CIO VaR. This was not due to any new trades, but rather to market data. In fact, in reviewing some of the market data from the last week we found that some of the volatility from April 10 was absent in the market data and we fixed it.
2. The aggregate stress comment is not correct. As of April 5, CIO is over its MTM stress limit, at $1.53B vs. limit of $1.0B. Aggregate stress usage is $12.67B vs. limit of $15B (within limit). With respect to CS01 limit, it is correct that we have been in excess for some time. This is a limit under review, as it currently aggregates CS01s from various underlyings (e.g., IG and HY) that should not be added. We have chosen not to adjust the limit until we implement the new methodology. We are working on a new set of limits for synthetic credit and the current CS01 will be replaced by something more sensible and granular.

Best,

Pete

▬▬ Redacted by the Permanent Subcommittee on Investigations

Peter Weiland
Tel: +1 212 834 5549
Mob: +[redacted]

From: Hohl (Regulator), James X
Sent: Thursday, April 19, 2012 11:07 AM
To: Weiland, Peter
Subject: Info on VaR, CSBPV, and stress status and limits

Hi Pete,

Would you have any color around some observations about the CIO VaR, CSBPV and stress results? I received the following from another examiner this morning. Thanks, James

The increase in the Firm's VaR is primarily driven by CIO Synthetic Credit portfolio.

CIO aggregate stress loss is over 23% of its $15B limit. Also, MtM cs bpv limit is in excession by 1074% and has been in excession for 71 days.

From:	Kamath, Jairam
To:	Batista, Geralynn
Sent:	4/23/2012 5:51:25 PM
Subject:	RE: Weekly Market Summary period ending 4/13

▬ = Redacted by the Permanent Subcommittee on Investigations

Sorry, I missed your email last week. I also saw the final version Fred sent out. Looks good.

jairam.kamath@occ.treas.gov
Tel: 212-899-1386
BB: [redacted]
Fax: 301-433-6238

From: Batista, Geralynn
Sent: Thursday, April 19, 2012 1:15 PM
To: Kamath, Jairam
Cc: Swank, Todd; Fursa, Thomas
Subject: Weekly Market Summary period ending 4/13

Hi Jairam,

Do you mind taking a quick peek at this to confirm that it properly reflects the changes to the stress testing framework?

Thanks,

Geralynn

Stress losses increased attributable to additional portfolios added as a result of FSI (see details below) ; IB VaR unchanged; trailing 5-day trading revenue is moderate at $398mm.

STRESS RESULTS (COB 4/6/12)

Change Current

Current Loss/Gain

Prior week Loss/Gain

Limit

Scenario

Firm MTM Bad Case

[redacted]

Permanent Subcommittee on Investigations

EXHIBIT #66

= Redacted by the Permanent Subcommittee on Investigations

. irm Aggregate Bad Case

[redacted]

IB MTM Bad Case

CIO MTM

-$667mm

-$1.5bn

-$860mm

-$1.0bn

Oil Crisis

RFS MTM

[redacted]

The AFS portfolio has been added to the CIO Aggregate stress test, resulting in a dramatic rise in stress losses (see chart 1 below). However, the inclusion of the sizable AFS portfolio represents a discontinuity in the Aggregate Bad Case time series as previously displayed on the graphs. To adjust for this change, the CIO Aggregate loss estimate is subtracted from the series and shown on the "Adjusted" chart (see chart 2 below). 100% of CIO `ggregate losses are assumed to come from the AFS portfolio for simplicity (note that prior week's CIO Aggregate ıoss contribution to Aggregate Bad Case losses was immaterial).

- Other portfolios, [redacted]

- [redacted]
  - [redacted]
  - [redacted]
  - The CIO MTM limit increased from $0.5bn to $1.0bn
  - The CIO Aggregate limit increased from $0.8bn to $15.0bn

Chart 1

<< OLE Object: Picture (Device Independent Bitmap) >>

= Redacted by the Permanent Subcommittee on Investigations

Chart 2

<< OLE Object: Picture (Device Independent Bitmap) >>

3 VAR (4/6 – 4/13)

[redacted]

MEETING MINUTES (4/18)

Follow-Up Items

- Review Fred's email (4/17) for to-do's while he is out
- Send Fred a list of impediments to having "strong" risk management in the areas of interest rate risk, price risk, and liquidity

Summary Bullets

General

- Sally visited to review the Supervisory Strategy over the past two days. She pointed out that regarding Heightened Expectations, the definition of "strong risk management" is to be considered at the dedicated risk management line, not the lines of business
- The Whale Trade issue is considered closed--email went out to Senior Management yesterday

Derivatives/Rates/Equities

[redacted]

Redacted By The Permanent Subcommittee on Investigations

From:	Batista, Geralynn
To:	<Crumlish, Fred>;<Monroe, Christopher>;<Kirk, Mike>;<Swank, Todd>;<Hohl, James>;<Banks, George>;<Kamath, Jairam>;<Wong, Elwyn>;<Tornese, Doug>;<Fursa, Thomas>;<McLaughlin, Doug>;<Vourvoulias, Andrea>;<Glassman, Adam>;<Mark, Aaron>
CC:	<Waterhouse, Scott>;<Jacobi, Gene>;<Atkins, Glenn>;<Batista, Geralynn>
Sent:	4/25/2012 8:10:07 PM
Subject:	Weekly Market Summary period ending 4/20
Attachments:	ATTACH000.eml

Stress losses increased marginally following last week's dramatic jump due to the inclusion of more portfolios into FSI (see last week's email attached below for more details); IB VaR is up from 85mm to 87mm; trailing 5-day trading revenue is moderate at $378mm.

STRESS RESULTS (COB 4/13/12)

Change Current

Current Loss/Gain

Prior week Loss/Gain

Limit

Scenario

▬ = Redacted by the Permanent Subcommittee on Investigations

Firm MTM Bad Case

[redacted]

Firm Aggregate Bad Case

IB MTM Bad Case

Permanent Subcommittee on Investigations

EXHIBIT #67

[redacted]

CIO MTM

$97mm

-$1.4bn

-$1.5bn

-$1.0bn

Oil Crisis

RFS MTM

[redacted]

- The increase in Firm Aggregate loss was driven by CIO's elevated utilization primarily due to a large sell off in equities
- For the second consecutive week, CIO is breaching its $1.0bn stress limit with a utilization of $1.43bn in the Oil Crisis scenario

[redacted]

Chart 1

<<...>>

Chart 2

<<...>>

AR (4/23)

Firm VaR is $144.9mm up from $134mm wow due to CIO VaR increase. After breaching the limit multiple times last week, the limit was raised to $145mm

[redacted]

[redacted]

[redacted]

MEETING MINUTES (4/25)

[redacted]

<<...>>

From: Crumlish, Fred
To: Hohl, James; Kamath, Jairam
Sent: 5/6/2012 9:03:05 PM
Subject: Re: CIO Synthetic Position

Just got back from chile and saw this. Also didn't see any emails or weekly summary comments since I went on leave..

-apc

OCC
202-439-3938

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From: Waterhouse, Scott
Sent: Friday, May 04, 2012 12:03 PM
To: Crumlish, Fred; Hohl, James
Subject: CIO Synthetic Position

Doug Braunstein and John Hogan called to provide an update on the CIO position. They mentioned that if we have been watching the position reports and P&Ls, we would have seen that they have been taking some significant MTM losses over the past few weeks. These losses are on positions established some time ago. Current losses are approximately $1.6 billion. Doug said that over time, the bank has taken 'a couple billion' in gain as an offset to this position.

But at this point, the remaining position is too large and the bank is trying to reduce risk. John said that the long position is sensitive to a 10% widening in the amount of $900MM. This is hedged with a short position in high yields that has a 10% sensitivity of $650MM, giving a net risk to credit spread widening of $250MM. The bank is taking actions now to further reduce the exposure.

Doug said that the CIO will also close out some bond positions to take approximately $1 B in gains to offset this loss.

John said that Ashley Bacon, in his new role as global overseer of market risk, is introducing new risk measures and limits for the CIO.

The bank will publish its Q on Thursday, and Doug expects that they will make some comment in the document.

Doug wants to have a meeting on Wednesday to discuss the history of the position, its performance, and 'glide path' to further reduce the risk. He expects that the position will be down substantially by the time we get together. This meeting will be with the Fed. Fred -- you and James should be prepared to attend. Let's talk Monday about this.

Scott

Permanent Subcommittee on Investigations
EXHIBIT #68

From:	Crumlish, Fred
To:	Waterhouse, Scott
CC:	Kamath, Jairam; Kirk, Mike; Hohl, James
Sent:	5/7/2012 6:57:01 PM
Subject:	CIO information for Wednesday
Attachments:	FSI Limit Change FAQ.docx; R-700596-CIO_-_7-ppt.DRF

Scott - I have been catching up and going through email from the team, and am sending you a couple of background documents relevant to Wednesday. I believe you have the handout and notes from our meeting with Ina Drew, but I can resend them as well.

CIO went to the DRPC in March (see attached wisdm line), but there wasn't a lot of discussion of the synthetic book. JPM would acknowledge that what they do may be problematic from a Volker perspective, depending on the way the rules are written. (Note especially the wording of the mandate) However, they strongly believe that what they do should be exempt from Volker. I haven't found their pitch to DC or others particularly compelling however, since when before DC policy they tend to speak in generalities or use the word "hedge" too much when what they do is more accurately described as active risk mgmt.

Also attached is a JPM document summarizing some recent limit changes. (We have a monthly meeting with market risk reporting where changes to FSI and other matters related to limits reporting and approval are discussed). We have the email where Hogan approved the new firmwide stress limit.

FYI The follow up from our meeting with Ina Drew was to come back and provide us with the results of their "post mortem" on the "whale" issue and the changes that were going to be put in place. On the first call (the one that proceeded the larger meeting with Ina) Hogan also referred to this. I'd expect they would cover some of this during the meeting Wednesday

IMHO on balance closing the book down makes sense given that it was built in light of the crisis. So it's reason for existing isn't as compelling as it once was. Bank could use simpler ways of hedging OCI.

I asked the team to go into the FSI grids to get the main drivers of the stress loss numbers (ie, which factors contribute the most material share).

Also - given CIO's role, we haven't historically gotten daily P&L from them as we do the IB given the nature of its operations. However I asked James to first, put in a request for more granular daily P&L on the synthetic credit to help us prepare for Wednesday's meeting, and, more generally, put out the request that going forward we get daily P&L in a form such as they provide to (say) Ina Drew. Bank will likely object to this, but it will help us better to answer "Volker" related questions internally. James is also pursuing logic of limit changes with RM in CIO.

Permanent Subcommittee on Investigations

EXHIBIT #69

From: Kirk, Mike
To: <Crumlish, Fred>;<Hohl, James>
Sent: 5/10/2012 2:05:39 PM
Subject: RE: My opinion on yesterday's meeting.

Thanks Fred,

Wanted to get some ideas down on paper before I forget the details, and to serve as a roadmap in the future. Working on so many different things all of which will take place over long time periods...so wanted to write down the thoughts.

I'm certain James has more details and ideas.

Regards,

Mike

From: Crumlish, Fred
Sent: Thursday, May 10, 2012 9:58 AM
To: Kirk, Mike; Hohl, James
Subject: RE: My opinion on yesterday's meeting.

See bold.

- apc

From: Kirk, Mike
Sent: Thursday, May 10, 2012 9:22 AM
To: Crumlish, Fred; Hohl, James
Subject: My opinion on yesterday's meeting.

Fred,

James and I were chatting electronically about the recent CIO events, and I wanted to share my opinions as food for thought recognizing that these are only opinions as all the facts are not in, and I don't know for sure what has happened and what is the correct course of action.

It's not clear to me that the synthetic credit hedging strategy failed, as it worked quite well for some time (and perhaps until very recently), and then began to lose effectiveness and they didn't realize this until they tried to reduce part of it. I think it's possible bank processes failed, not the micro strategy of the synthetic credit hedge.

Agree – It wasn't the basic strategy; it was the specific trades done to adjust the position that failed; this seems to have eliminated all the benefit accrued so far. So the problem was the selection of the strategy to make the change

I admire Risk for standing up and taking blame for inadequate limits, but that's only part of the problem. No one will ever know prospectively how issues may arise; that's why there's multiple forms of controls. Issues sometimes manifest themselves thru risk, other times thru models and assumptions, others thru valuation, and others thru combinations of factors (likely in this case).

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EXHIBIT #70

Agree – Also CIO probably needs to focus more on the short term time horizon as well as the longer holding periods (Recall Ina's comments).

Many processes probably may need to be enhanced and management may want to rethink their strategy approval processes (note the MRA in 2010 attempts to get at this). I think all the senior managers, including Jaime Dimon, who approved this strategy shoulder the blame. I think Ina Drew considers herself to be a real money manager; she is not. She is a more like a ALM manager. The CIO function is in a bank. A real money manager produces returns monthly (sometimes more frequently) to investors who can withdraw at any time. This instills a certain amount of discipline in risk/return vs. liquidity. They know that any investment they make may need to be liquidated in short order, therefore they need to be conscious of their size, size of trades, and market ability to absorb their investments when they need to exit (I realize they have liquidity lines of credit to assist with this, but this provides for orderly liquidation, it does not provide for long term unwinds with large market risk exposure). Ina doesn't have that type of discipline forced upon her b/c bank liabilities are not correlated strongly to her return, and she doesn't have the risk that investors may withdraw funds if they are unhappy with her investment selections.

Agree – CIO needs a more balanced perspective

In reality Ina Drew is a hybrid, and should manager her function/business as a hybrid. Items that are marked to market probably should have the same processes as IB, as at the end of the day JPMC has limited appetite for P&L vol. Also, limits tend at JPMC to be set once there are material exposures.. In this case, because of the size of JPMC's balance sheet, they would likely set the limits very large anyway. Moreover, there are so many permutations on how to reduce with derivs (Indices, tranches etc) that the limit system would have to have been extremely comprehensive, and it is unlikely they would have set it up that way (particularly if they didn't have the exposures yet) even if they did think of notional limits. So, I think that traders would have found other means to exit other than unwinding what they had. If reserves provided proper incentives to unwind vs. find less costly alternative the situation may have been better.

Once the bank finishes their investigations etc, we can also spend more time pulling this apart. CIO was on the schedule for October

More robust reserving for concentrations and liquidity may likely have resulted in traders rolling out of existing HY trades earlier before they became off the run indices, as there may have been an incentive to hold more actively and deeply traded indices rather than holding onto an older index as liquidity fell, and JPMC's concentration relative to market size increased. If the bank was not able to roll into another more liquid HY index that was a suitable hedge, this would have been an indication that the strategy may be breaking down, or that correlations have changed and holdings should be changed to match available credit hedges. It may not ever be known what happened, but somewhere in between initiating the position and the point where the bank decided to reduce the HY hedge the market's willingness/ability to absorb JPMC's size changed, and that should (I believe) be reflected in their P&L thru reserves (call it concentration or liquidity) and this would have provided the incentives to the bank to reduce exposures before it became a multibillion dollar issue. This is another way of saying that there was no process in place to reevaluate the strategy as long as it was in place in working in terms of current P&L, so they wouldn't know they were driving on a road where the bridge was out until they got there. The reserving process, sensitive to changes in concentrations and liquidity, are the road signs warning of danger ahead. Limit structures do not provide this warning until you get to the end of the road.

I wasn't satisfied with the comments made about valuation process and thresholds yesterday, and so we have some followup here. I am not sure they got the point, probably because of that "time horizon" comment. In addition to reserve, there were likely problems with the thresholds themselves. So this is another followup. (Valuation was one of the things Hogan said they are looking at)

In the case of this micro strategy, one can look at the market and make a case that the reason why they could not exit the HY CDS were not due to AMR, EK, LTRO, but due to a pronounced change in market perceptions of risk as one could one could sell IG instead. "What does that tell you"? (To quote a former trading mentor of mine.) I think that tells you (and with hindsight it's clear) that the market has changed materially, and no longer holds historical relationships true; therefore the JPMC traders use of historical relationships (correlations) was in error, because forward correlations were now materially different and likely to remain that way (as JPMC's later analysis agreed). Market's seemingly insatiable appetite to take the other side of JPMC's trades possibly indicated that the IMPLIED market price of this correlation has collapsed..something that eventually became realized in the losses at JPMC.

Agree and when evaluating strategy's perhaps traders should have looked at more scenarios. We will see what they did.

While having more granular limits would have certainly helped, the limits alone would not provide the proper incentive for traders to unwind the trades they have vs enter new ones and adding complexity. For as long as it is less costly to the traders P&L to enter new risks vs closing old ones, new risks will be added. This is a simple law of trading that will always hold true. With complex products traders can always find a way to reduce a type of exposure by adding a new one. The sue is when relationships assumed between the risks break down (correlations) the whole strategy implodes and multiple illiquid risks need to be unwound instead of one. And unwinding this is more complex that it seems because lifting one leg without the closing the other exposes new risks again, and it is extremely difficult to find the other side to multiple legged complex risks strategies; in other words it's unlikely that you will find someone who will want both legs of your complex hedge at a time when it's moving so much against you (or at any time for that matter because the other side of complex hedging strategies do not 'naturally exist").

Processes for new strategy should have included stresses to that strategy. But would they have stressed to extent market is currently dislocated? Probably not, b/c they would have based upon historical spreads and correlations which are now no longer relevant and the moves to current level would have been considered beyond extreme. I think this is a similar issue as the hybrids books...JPMC may not stress the complex risks enough. By putting the complex illiquid products thru the typical stress scenarios the bank is effectively ignoring the illiquidity because the standard scenarios assume an exit and rebalance which may not be feasible. The normal stress processes do not assume events happen multiple times, and do not go extremely deep into tails.

Agree I am curious to see what they did, though

I have no concerns generally with the overarching strategy of the CIO function and what they were attempting to do. I think, however, that processes may need to be strengthened. I understand the bank is looking at all processes right now; but, I think we should consider steering them towards changes in valuation policies and processes for mark to market items, initiating a new strategy review process that is documented and signed off by all control functions (sort of like a NBIA), and a review of stress processes for complex products and strategies (something I think the bank fell short of with respect to hybrids). Prospective strategies should be run thru the complex stress scenarios as part of the NBIA look a-like process.

Agree

Just thinking on paper, not saying that any of this is fact, or the solution.

Regards,

Mike

Mike Kirk

Capital Markets Examiner

Large Bank Supervision

Phone: 212 899-1383

Fax: 301 433-9209

From:	Waterhouse, Scott
To:	<Brosnan, Mike>;<Belshaw, Sally>
Sent:	5/11/2012 2:58:22 PM
Subject:	RE: J.P.Morgan Chase

Just FYI – we did an examination of the CIO at the end of 2010 and have a follow-up planned soon. We had some concerns about overall governance and transparency of the activities. We received a lot of pushback from the bank, Ina Drew in particular, regarding our comments. In fact, Ina called Crumlish when he was in London and "sternly" discussed our conclusions with him for 45 minutes. Basically she said that investment decisions are made with the full understanding of executive management including Jamie Dimon. She said that everyone knows what is going on and there is little need for more limits, controls, or reports. At the conclusion of the exam, we issued the following MRA.

- Management should update and amend investment policies to clearly define the processes used to manage the investment portfolio as well as document current portfolio objectives and investment parameters.

The risk management framework for the investment portfolios (Strategic Asset Allocation and Tactical Asset Allocation) is not well documented. While overall risk controls and communication appear to be sound, the absence of a documented methodology with clear records of decisions and other approvals makes it difficult to determine whether portfolio risk management and control are governed according to senior management and DRPC expectations. Discussions with managers and a review of audit work enabled us to clarify how investment decisions are made and what parameters and limits exist around investment activities. Nevertheless, it is our expectation that the following minimums be formally documented:

- While trades, portfolio decisions and market analysis focus on maintaining an agreed upon duration of equity (DOE), there is no report that summarizes support for the agreed upon DOE. Senior ALCO receives only the DOE synopsis page, and documentation leading up to decisions and/or minutes of those discussions should be kept.

- Guidance articulating overall portfolio objectives or exposure targets and asset parameters is not used. While we recognize the need for maintaining flexibility in portfolio management, practices and decisions should be documented.

- Reporting and analysis on below-investment-grade and nonrated (NR) securities should be documented better to ensure ongoing compliance with *OCC Bulletin 2004-25.*

It just goes to show that it is difficult to always be smarter than the market. Humility is good.

From: Brosnan, Mike
Sent: Friday, May 11, 2012 10:35 AM
To: Belshaw, Sally; Waterhouse, Scott
Subject: Fw: J.P.Morgan Chase

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Permanent Subcommittee on Investigations
EXHIBIT #71

From: Regulator\), James X <Hohl \>
To: <Wilmot, John>
Sent: 5/14/2012 11:24:14 AM
Subject: RE: CIO P&L reporting

Hi John, If there's a daily P&L distribution like those that we get from the IB, can you add either me or my boss Fred Crumlish to it as soon as possible. Thanks, James

---

From: Wilmot, John
Sent: Wednesday, May 09, 2012 6:20 PM
To: Hohl (Regulator), James X
Subject: RE: CIO P&L reporting

Jim – sorry for the delay. I am working on this request.

John C. Wilmot | Chief Investment Office | + john.wilmot@jpmorgan.com | (Work: (212) 834-5452 | (Cell: [redacted]

From: Hohl (Regulator), James X
Sent: Monday, May 07, 2012 11:58 AM
To: Wilmot, John
Subject: CIO P&L reporting

▬ = **Redacted by the Permanent Subcommittee on Investigations**

Hi John,

We'd like to get the synthetic credit P&L for the past five weeks broken out on at least a weekly basis. If you've got regular reports that show this, just forwarding them would be best. Also, we are on the distribution for daily P&Ls from the IB. If CIO MTM positions are also distributed daily, we'd like to get the reporting on the same basis. I am on the distribution for the daily MSR P/L Estimate.

Thanks, James

Permanent Subcommittee on Investigations

EXHIBIT #72

From: Crumlish, Fred
To: <Waterhouse, Scott>
Sent: 5/15/2012 5:24:26 PM
Subject: FW:

Exactly. Let's see what the "lessons learned" says...

- apc

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From: Wong, Elwyn
Sent: Tuesday, May 15, 2012 1:17 PM
To: Kirk, Mike; Crumlish, Fred; Fursa, Thomas; Hohl, James
Subject: RE:

Good point. Does not add up. Collateral dispute of $700 mil versus a double digit reserves amount?

From: Kirk, Mike
Sent: Tuesday, May 15, 2012 1:14 PM
To: Wong, Elwyn
Subject: RE:

ust looked at it and can't find what I would think is the whole book...wondering are there items they weren't price testing?

Wondering how could they have a large collateral dispute and with these reports showing pricing this tight (16MM adjustment only)

Is the synthetic portfolio completely covered by this report? It's not clear to me.

From: Wong, Elwyn
Sent: Tuesday, May 15, 2012 11:18 AM
To: Kirk, Mike
Subject:

Talked to Tom. There is March CIO VCG report in WISDM under FVP/CIO. The Powerpoint mentioned increase by a small amount of reserves for CDS but we didn't find total amount in Spreadsheet. I will look more closely too.

CIO VCG reports to CIO Controller not to Jean Francois Bessin obviously.

Permanent Subcommittee on Investigations
EXHIBIT #73

From:	Regulator\), James X <Hohl \>
To:	Regulator\), Fred X <Crumlish \>
Sent:	5/17/2012 7:36:43 PM
Subject:	Not Getting CIO daily P&L after only one day

FYI - I got one CIO daily P&L distribution and then didn't yesterday. I inquired about it this morning, but haven't heard back.

From: Hohl (Regulator), James X
Sent: Thursday, May 17, 2012 8:09 AM
To: Rizaj, Admand X
Subject: RE: CIO Performance Summary - 05/15/2012

Hi, I received the daily report below on Tuesday, but didn't receive it on Wednesday. Was there a problem with the report last night? Thanks, James

---

From: Rizaj, Admand X
Sent: Tuesday, May 15, 2012 8:23 PM
To: CIO Daily Performance Summary
Subject: CIO Performance Summary - 05/15/2012

Admand Rizaj | JPMC CIO Finance | admand.x.rizaj@jpmorgan.com | ((212) 834 - 9677

5-18-12

SBC Staff Briefing

Frame the briefing

JPMC transactions at issue involved an effort to hedge the bank's credit risk. Hedging credit risk is not uncommon, and if done properly, reflects sound risk management.

As has been reported, in late 2011, JPMC made a decision to lift or modify its original hedging position. Rather than terminating the position, the bank entered into a new position, in a different instrument; the combination was designed to effectively reduce the bank's exposure on the first position.

This has been described as a hedge on a hedge.

These transactions and the individual trades involved are quite complicated.

The OCC has very extensive expectations around national banks' derivatives activities, how hedging would be expected to be undertaken, and unwound, the process for risk identification in those activities, and communications with regulators about those activities.

We are in the process now of getting detailed information on ~~concerning~~ the activities that occurred, and comparing that information with the standards we apply, to identify just where breakdowns occurred.

[This will also inform whether there are changes we need to make in our ~~standards~~ expectations or communications going forward.]

It would not be appropriate to discuss confidential ~~info~~ bank-specific information, or details of ~~specific~~ the OCC examination work, but we can ~~give you detailed~~ provide you with more general information on how we ~~examine in~~ supervise this area and our expectations. [to Mike]

PSI-OCC-10-000001

Permanent Subcommittee on Investigations

EXHIBIT #75

From: Kirk, Mike
To: Wong, Elwyn
Sent: 5/18/2012 11:26:08 AM
Subject: RE: CIO call with Mike Brosnan
Attachments: image001.png; image002.png

Agreed too. That's the problem with using historical data and assuming mean reversion. It will work a lot of times, but one has to be mindful of paradigm shifts and the LTRO is a paradigm shift for the markets in the short run. Issue is JPM never stressed components of the trades beyond historical (I think). Had they looked at the components of the risks and stressed them to say 4-5-6 sds they would have the impacts of low probability events. Although my guess is they would have ignored that too! Arrogance drove this bus.

From: Wong, Elwyn
Sent: Thursday, May 17, 2012 7:56 PM
To: Kirk, Mike
Subject: Re: CIO call with Mike Brosnan

That's not worth the paper it is written on. You think they can convince my cleaning lady? A dollar on each cell of the mattrix is worth the same

---

From: Kirk, Mike
Sent: Thursday, May 17, 2012 06:20 PM
To: Wong, Elwyn
Subject: RE: CIO call with Mike Brosnan

That's the point!

The relationship obviously didn't hold, and I would be if we plotted the graph today the locations would be far from the diagonal... and I be if we had access to the data that the red portion is moving up and farther to the right with each passing day in April

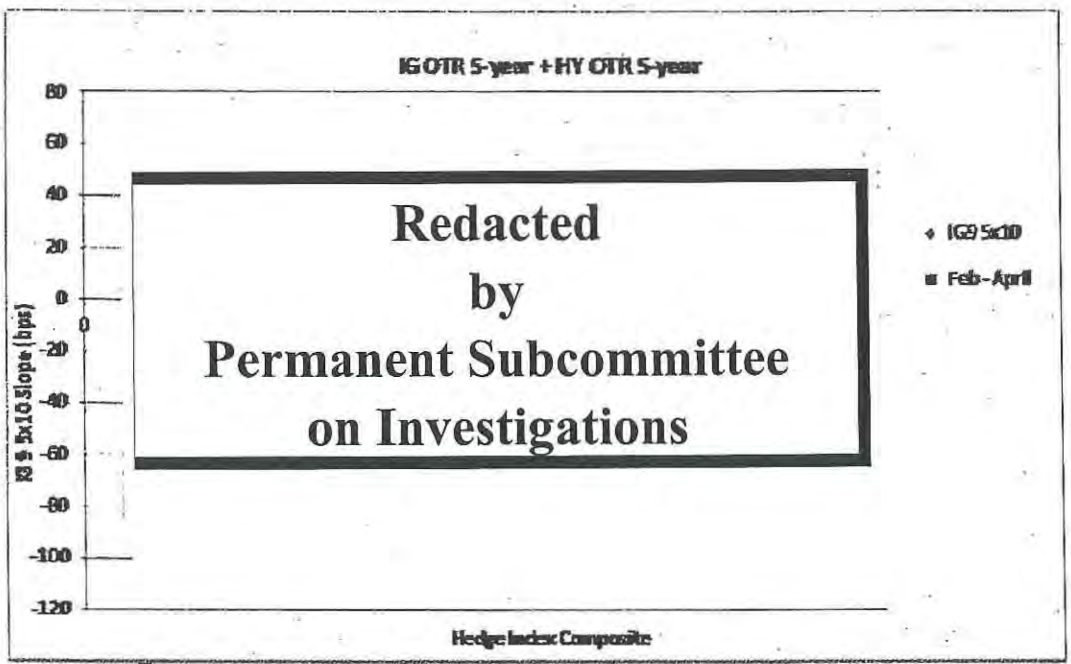
---

From: Wong, Elwyn
Sent: Thursday, May 17, 2012 5:58 PM
To: Kirk, Mike; Crumlish, Fred; Hohl, James
Cc: Waterhouse, Scott
Subject: RE: CIO call with Mike Brosnan

I was not at the April 16 meeting. But let me venture to guess what it is trying to say.

Permanent Subcommittee on Investigations

EXHIBIT #76



The y-axis is rolling 10 yr cds – rolling 5 yr cds. They had a few Bloomberg graphs showing how this rolled spread from being NEGATIVE in 2008 and 2009 (just like Greece and Italy) towards more normalization when it eventually returned to being positively sloped.

The x-axis is the Hedge Index Composite. I venture to guess this is the aggregate hedge that think they need to put on, related to the aggregate number on the extreme lower right hand side, the $158 .498 mil. They have a whole matrix of longs and shorts and that's the composite. As fear resided and rolling 10 yr minus rolling 5 yr returned to positive, they can reduce their total hedge. As Mike said, the REDS are which they are at now--- so their hedge is not that unreasonable, IF THE HEDGE AMOUNT DID HAVE THIS RELATIONSHIP TO THE SLOPE of 5yr to 10yr CDS

The sentence which is somewhat perplexing is "the relationship is bounded by the off-the-run HY shorts and the on-the-run IG shorts. Meaning that this is their core hedge?

Factored Notional Sum	Matur												
Index	20-Jun-12	20-Dec-12	20-Jun-13	20-Dec-13	20-Jun-14	20-Dec-14	20-Jun-15	20-Dec-15	20-Jun-16	20-Dec-16	20-Jun-17	20-Dec-17	20-Jun-
CDX HY	13,824	8,486	-2,465	3,187	517		-19,631	-6,735	-6,708	-7,828			
CDX LCDX			1,846										
CDX IG		-53,065	9	-586	85	34,267	-7,657	-17,556	-18,473	11,493	15,791	91,564	
ITRAXX MN		7	28,276		-3,356		29,044	25	7,460	18,684	7,528	22	43,5
ITRAXX XO								-5	-1,707	-5,822	-110		
ITRAXX FINSUB	-121	-690	-2,210	-1,444		-1,014		1,705	-694	1,366	828		
ITRAXX FINSEN											72		
SOVX WE										47			
Grand Total	13,703	-45,262	25,457	1,167	-2,774	33,253	1,756	-21,606	-20,088	16,939	24,202	91,587	43,5

The whole scenario thing about convexity is talking their book/advertizing – in a panic situation, people will run to put protection in the short end and not the long end. So the curve FLATTENS again like in 2007. In other words, their hedge has analytical underpinning. Not only are they reducing their short risk hedge prudently according to the slope of the 5yr -10yr, as plotted on Bloomberg, the flattener would have been a safe bet because in case they were reducing their hedge too fast and the economy tanked against, the built in flattener would be there to help.

From: Kirk, Mike
Sent: Thursday, May 17, 2012 4:51 PM
To: Crumlish, Fred; Hohl, James; Wong, Elwyn
Cc: Waterhouse, Scott
Subject: RE: CIO call with Mike Brosnan

Fred,

Happy to join you in your calls with Mike B.

In respect to your questions, in the order asked:

- The graph on page 7 shows the slippage of their portfolio compared to the hedge. The closer to the diagonal the more closely the hedge tracks the portfolio. The red highlighted area is recent period they were discussing where hedges were breaking down, and markets were not moving according to their modeled projections based upon historical correlations.
- To make the chart you would need two items. A targeted portfolio and a hedge portfolio. We could ask for this chart of the strategy prior to re working the hedge position to remove part of the hedge (why we were told they decided to sell IG with fallen angels). This request may be instructive and could settle the issue of whether the original portfolio was an effective hedge. P&L for previous 4 years, however, was fairly reasonable, so that would tend to support the banks statement that the hedge worked well for years. It went astray when they reduced the hedge.
- I think Matt Zames would likely have a different view of the choice of strategy with hindsight being a benefit. Position really went bad as shown in March/April, question is did the London desk continue selling in IG in April with the curve steepening and spreads widening and basis (to theoretical) trading rich. This is something we do not at this time know.
- You can give Mike B my cell phone number.

Please note Elwyn and James will likely have quality information to add so you may want to wait to hear from them before passing along.

Regards,
Mike

From: Crumlish, Fred
Sent: Thursday, May 17, 2012 4:22 PM
To: Kirk, Mike; Hohl, James; Wong, Elwyn
Cc: Waterhouse, Scott
Subject: CIO call with Mike Brosnan

Scott and I spoke to Mike Brosnan today about what we were doing now and going forward on the CIO book. We will likely have a call with him frequently, and, particularly with respect to the intricacies of the position, will need to include you.

A couple of things specific to the pre-April 16 interactions and some of the emails that are circulating:

- I told Mike B that the Joe Sabatini emails with selected position information were sent by the bank after initial OCC and FRB enquiries. We concluded that this information was pretty much useless, as it did not tell us what was happening risk wise. We also talked about a couple of those other emails, but I emphasized that the culmination was getting a meeting with Ina Drew and company on April 16.
- With respect to the April meeting, Mike B. is going through the "synthetic credit deck" and he had a few technical questions, not all of which I was able to fully answer since I didn't recall or had been focusing on other issues and didn't think of those questions. With respect to this presentation:
    - Mikeand James: Please have a look at your notes for page 7 as I wasn't fully able to explain the graph on the bottom. Also if you have details on the scenario description on page 11, we should pass that along.
    - It would be nice at some point if we could get a chart such as that on page 5 ***before*** the position was put on. Maybe we will request it, maybe not. Let's see if we need it after going through new reporting

- More to the point, I told Mike that the bank would likely not stand behind (aside from a statement that it was the best they knew at the time) this analysis at this point, as the position turned out to be far more problematic than presented and so the description of risk was missing.
- Mike Kirk – as usual, don't be surprised if Mike just calls you sometime.

- I told Mike that next Monday we will be going over current risk reporting and positions in more detail, as the reporting is evolving. He might want to speak with us shortly after. I'd expect to have Mike and Elwyn to help speak to technical details etc.

So, keep your notes current. All emails get circulated widely, and of course generate questions.

- apc

From: Kamath, Jairam
To: <Crumlish, Fred>;<Fursa, Thomas>;<Wong, Elwyn>
Sent: 5/21/2012 3:20:02 PM
Subject: RE: cio var change

Here are a few comments from the days preceding the synthetic credit VaR model change that became effective 1/27/12. Note the reduction of CIO VaR by 44% to $57mm.

COB 1/23/12
The stand alone VaR for each LOB are as follows: IB is $72mm (vs. $120mm limit), CIO is $103mm (vs. $105mm limit), RFS is $12mm (vs. $95mm limit), TSS is $9mm (vs. $25mm limit), Private Equity is $9mm (no limit set given immateriality), and AM is $0.2mm (no limit set given immateriality).

***CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.**

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

COB 1/24/12
CIO continues to manage the synthetic credit portfolio balancing credit protection and Basel III RWA. The new VaR model for CIO was approved today by MRG and is expected to be implemented prior to month-end.

━━ = Redacted by the Permanent Subcommittee on Investigations

jairam.kamath@occ.treas.gov
Tel: 212-899-1386
BB: [redacted]
Fax: 301-433-6238
This message is intended for designated recipients only. If you have received this message in error, please delete the original and all copies and notify the sender immediately. Federal law prohibits the disclosure or other use of this information.

From: Crumlish, Fred
Sent: Monday, May 21, 2012 10:54 AM
To: Fursa, Thomas; Wong, Elwyn; Kamath, Jairam
Subject: cio var change

During the model control exam or elsewhere, did you specifically discuss the CIO VaR change. If so, let me know what and how. We can discuss. If it's a workpaper comment or meeting note, you can send me the link

- apc

*** If you have received this message in error, please delete the original and all copies, and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. ***

Permanent Subcommittee on Investigations
EXHIBIT #77

From: Waterhouse, Scott
To: Brosnan, Mike; Belshaw, Sally
Sent: 6/29/2012 8:07:30 PM
ubject: FW: 2nd Wilmer Hale Call

Interesting commentary. This is the SEC questioning of WilmerHale.

From: Kirk, Mike
Sent: Friday, June 29, 2012 9:06 AM
To: Wong, Elwyn; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: RE: 2nd Wilmer Hale Call

Yes, a huge percentage at that point in history.

From: Wong, Elwyn
Sent: Friday, June 29, 2012 9:01 AM
To: Kirk, Mike; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: Re: 2nd Wilmer Hale Call

That was my immediate reaction as well. Will be interesting to see what more they have to say in the 3rd call focusing on valuation. But more importantly, the few hundred million divergence was supposed to have been reflected in the PnL on the last day of March. Then in April there was another 700 mil collateral dispute? I mean, DISPUTE - that is a percentage of the mark to market!

-rom: Kirk, Mike
ent: Friday, June 29, 2012 07:38 AM
To: Wong, Elwyn; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: RE: 2nd Wilmer Hale Call

Section 1 on Traders is damaging to Hogan's reputation in respect to his interaction with regulators, in my opinion.

On the 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 and then paid out the near $400MM amount. 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 left puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect. The 4th bullet point below is consistent with a collateral dispute that is resolved by agreeing to counter parties levels, and more consistent with a common sense view of likely drivers of the same.

From: Wong, Elwyn
Sent: Thursday, June 28, 2012 6:17 PM
To: Waterhouse, Scott; Crumlish, Fred; Kirk, Mike
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: 2nd Wilmer Hale Call

/ilmer Hale made Part 2 of their presentation today in terms of their findings. They have yet to finish interviewing JPM employees in London. Materials were handed out to our DC

Permanent Subcommittee on Investigations
EXHIBIT #78

people. Tom Dowd and Kevin Lee were 2 names I recognize.

There will be a third presentation specifically on trader marks and VCG. It is currently scheduled for next Tuesday but Wilmer Hale is asking for more time possibly until week after July 4th as they are still interviewing Lodon employees.

Today Wilmer Hale focused on who knew what and when they knew.

Traders:

- Perplexingly, traders seem to have formulated their RWA reduction strategy based on their own method of calculating RWA outside of that calculated by Risk Management/Finance (unsure how exactly the latter calculates it but it did to a large extent involve Westend and unsure why IG vs HY would reduce RWA at all). While there was not much disagreement between traders and Risk on the large reduction in VaR upon the implementation of Westend, there were lengthy debates on why RWA should increase upon the rollout of the Westend. The disagreement led to Venkat and Olivier's involvement in the first place (separate and distinct from Hogan parachuting them in by April 27th). Macris was unsuccessful in convincing Venkat that traders RWA methodology was correct and Risk Management's was wrong.

- Traders had debated splitting tranches and their delta hedges into one book to calculate Comprehensive Risk Measure (CRM) and the pure index positions into another book to calculate Incremental Risk Capital (IRC)

- Macris and Drew made no mentioning of increase in RWA (according to Risk Management's calculation) in February CIO ERM attended by Dimon and Braunstein

- Wilmer Hale has already begun using the term "hiding losses". A junior trader Julian Grout was responsible for FO daily marks. He kept a record of the difference between "crude-mids" (taking market prices without taking specific consideration of circumstances and size and who it was from) and CIO marks. It was $100mil in Jan 2012 and had grown to $300mil in Mar. That record was last dated 03/15/2012. Real market marks were trued by end of Mar and the large loss on 3/31/2012 was due to that one reason. For example, a realized loss was $12 mil on a day in March when the crude-mid divergence was $600 mil. On another day, it was $18 mil loss when the divergence was $300 mil.

- Bruno Iksil mused on divergence reaching $1 bil by the end of March but if CIO held out it would not lose a single penny. On a Friday, he said he didn't want to come back on Monday.

- Traders were intentionally doing larger notionals to drive the market their way. They talked about "taking the P/L pain" versus the risk of building larger positions.

- Traders gave much smaller loss estimates under different scenarios repeatedly during rehearsals for the earnings call and inquiries triggered by the Bloomberg London Whale article just prior to that. 80% chance of Q2 losses between $150 mil and $250 mil but possible large drawdown intra-quarter.

- A lot of emails between Bruno and Javier not less from them to Macris

- When Ina met with traders to further discuss why the results of Risk Management's RWA calculations were so different from the traders, they did not include positions put on from 3/7 to 3/20 (we now know they doubled down around this time)

- Other senior hires within CIO made incidental suggestions. Head of NA CIO trading suggested using IRS swap spread to hedge credit spread widening. John Wilmott suggested using OCI to fund some unwinds. Wilmott also suggested closing the book entirely

Dimon and Braunstein

- Nothing new on this front as I have written on this extensively in the last email. In a nutshell, they only began asking for details around the Bloomberg news break and during the run-up to the 4/13/2012 earnings call. Macris told Braunstein the majority of the positions were taken in Jan and Feb but we now know the doubling down in March. Dimon, Braunstein and Hogan believed Ina and Macris well into April for at least another week after 4/13/2012 earnings call. That was when more significant losses began to show.

Risk Reporting

- For the 4/13 earnings supplement, neither Levine Surtani and Matt Lynch from Risk Reporting nor Goldman/Weiland knew they should be disclosing VaR model change even though SEC guidelines said they should. They even consulted Ashley Bacon. After Goldman/Weiland sign-off, since only average VaR was reported, no one had picked up on the sudden decrease in VaR caused by the new model.

- Only when 10Q was about to be filed and more people were involved such as PCW and Controllers were they then made aware of the need for disclosure.

- The part on why they had to re-instate old model with a much large VaR is now familiar to us

From: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>

Sent: Fri, 20 Jan 2012 23:10:24 GMT

To: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Rauchenberger, Louis <louis.rauchenberger@jpmorgan.com>; Lake, Marianne <Marianne.Lake@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weisbrod, David A. <David.A.Weisbrod@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Beck, David J <david.j.beck@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Morzaria, Tushar R <tushar.r.morzaria@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Dellosso, Donna <Donna.Dellosso@jpmorgan.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>

CC: Doyle, Robin A. <Robin.A.Doyle@chase.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; Market Risk Reporting <Market_Risk_Reporting@jpmchase.com>; Sreckovic, Steven <steven.sreckovic@jpmorgan.com>; McCaffrey, Lauren A <lauren.a.mccaffrey@jpmorgan.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Chiavenato, Ricardo S. <ricardo.s.chiavenato@jpmorgan.com>; Chen, Dan <Dan.Chen@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>

Subject: JPMC Firmwide VaR - Daily Update - COB 01/19/2012

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/19/2012 has decreased by $9mm from the prior day's VaR to $129mm and continues to breach the $125mm Firm VaR limit for the fourth consecutive day.
- CIO's 95% 10Q VaR* as of cob 01/19/2012 has decreased by $2.5mm from the prior day's VaR to $100mm and continues to breach the $95mm CIO VaR limit for the fourth consecutive day.
- The decrease in the Firm's VaR is primarily driven by an overall increase in diversification benefit across the Firm and position changes in CIO and MSR.
- Each LOB's contribution to the Firm's $129mm VaR (as shown by marginal VaR) are: IB [redacted] CIO ($78mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted] Private Equity [redacted] and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted] CIO is $100mm (vs. $95mm limit), RFS is [redacted] TSS [redacted] Private Equity [redacted], and AM [redacted]

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR

Permanent Subcommittee on Investigations

EXHIBIT #79a

From: MRM Reporting <mrm.reporting@jpmchase.com>

Sent: Fri, 20 Jan 2012 23:10:53 GMT

To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>

CC: Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Doyle, Robin A. <Robin.A.Doyle@chase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; Lochtefeld, Thomas A <thomas.a.lochtefeld@jpmorgan.com>; Surtani, Lavine <Lavine.Surtani@jpmchase.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Gondell, Sarah N <sarah.n.gondell@jpmorgan.com>; Sreckovic, Steven <steven.sreckovic@jpmorgan.com>; McCaffrey, Lauren A <lauren.a.mccaffrey@jpmorgan.com>; MRM Business Reporting <MRM_Business_Reporting@jpmchase.com>; MRM Reporting <mrm.reporting@jpmchase.com>; Intraspect - LIMITS <Intraspect_-_LIMITS@restricted.chase.com>

Subject: JPMC 95% 10Q VaR - Limit Excession Notification (COB 1/19/12)

The Firm's 95% 10Q VaR breached its $125mm limit for the fourth consecutive day on January 19th 2012, primarily driven by CIO.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

Blackberry friendly:
$ mm
COB VaR Limit
1/19/2012 129.2 125.0
1/18/2012 138.0 125.0
1/17/2012 132.9 125.0
1/16/2012 126.5 125.0

Permanent Subcommittee on Investigations
EXHIBIT #79b

From: MRM Reporting <mrm.reporting@jpmchase.com>

Sent: Mon, 23 Jan 2012 20:30:50 GMT

To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>

CC: Drew, Ina <Ina.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; Doyle, Robin A. <Robin.A.Doyle@chase.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Lochtefeld, Thomas A <thomas.a.lochtefeld@jpmorgan.com>; GREEN, IAN <ian.green@jpmorgan.com>; Gondell, Sarah N <sarah.n.gondell@jpmorgan.com>; MRM Firmwide Reporting <MRM_Firmwide_Reporting@jpmorgan.com>; Intraspect - LIMITS <Intraspect_-_LIMITS@restricted.chase.com>

Subject: APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval

Importance: High

This email is to request your approval to implement the temporary increase of the Firm's 95% 10Q VaR limit from $125mm to $140mm, expiring on January 31st, 2012. There is a pending approval for a new model for the CIO Intl Credit Tranche book. If the new model is approved and implemented prior to January 31st, the Firm's 95% 10Q VaR limit will revert back to the original $125mm level.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

Below are estimated VaR levels for COB 1/18/12 using the new Credit Tranche model.

COB 1/18/12	CURRENT FIRM	NEW MODEL FIRM	CURRENT CIO	NEW MODEL CIO
95% 10Q VaR	$137,961,471	$98,456,554	$102,385,406	$57,183,430

Proposed Change to the Firm's 95% 10Q VaR:

LOB	Limit Type: Level 1	Current Limit	Proposed Temporary Limit
JPMC	95% 10Q VaR	$125mm	$140mm

If more information is required, please let us know and we will arrange to provide further details.

Permanent Subcommittee on Investigations

EXHIBIT #79c

Blackberry friendly:

Temporary increase of the JPMC 95% 10Q VaR Limit from $125mm to $140mm.

Upon receipt of your approval, the above limit change will be entered into Market Risk Systems with a start date of **January 20, 2012.**

If you approve of the limit change, please reply to all with your approval.

Thank you.

From: Dimon, Jamie <jamie.dimon@jpmchase.com>
Sent: Mon, 23 Jan 2012 23:13:18 GMT
To: Hogan, John J. <John.J.Hogan@jpmorgan.com>; MRM Reporting <mrm.reporting@jpmchase.com>
CC: Drew, Ina <Ina.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; Doyle, Robin A. <Robin.A.Doyle@chase.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Lochtefeld, Thomas A <thomas.a.lochtefeld@jpmorgan.com>; GREEN, IAN <ian.green@jpmorgan.com>; Gondell, Sarah N <sarah.n.gondell@jpmorgan.com>; MRM Firmwide Reporting <MRM_Firmwide_Reporting@jpmorgan.com>; Intraspect - LIMITS <Intraspect_-_LIMITS@restricted.chase.com>
Subject: Re: APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval

---

I approve.

From: Hogan, John J.
To: MRM Reporting; Dimon, Jamie
Cc: Drew, Ina; Staley, Jes; Weiland, Peter; Bacon, Ashley; Waring, Mick; Doyle, Robin A.; Bisignano, Frank J; Tocchio, Samantha X; Lochtefeld, Thomas A; GREEN, IAN; Gondell, Sarah N; MRM Firmwide Reporting; Intraspect - LIMITS
Sent: Mon Jan 23 17:44:41 2012
Subject: RE: APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval

I approve.

From: MRM Reporting
Sent: Monday, January 23, 2012 3:31 PM
To: Dimon, Jamie; Hogan, John J.
Cc: Drew, Ina; Staley, Jes; Weiland, Peter; Bacon, Ashley; Waring, Mick; Doyle, Robin A.; Bisignano, Frank J; Tocchio, Samantha X; Lochtefeld, Thomas A; GREEN, IAN; Gondell, Sarah N; MRM Firmwide Reporting; Intraspect - LIMITS
Subject: APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval
Importance: High

This email is to request your approval to implement the temporary increase of the Firm's 95% 10Q VaR limit from \$125mm to \$140mm, expiring on January 31st, 2012. There is a pending approval for a new model for the CIO Intl Credit Tranche book. If the new model is approved and implemented prior to January 31st, the Firm's 95% 10Q VaR limit will revert back to the original \$125mm level.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +\$1.4bn to +\$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

Permanent Subcommittee on Investigations
EXHIBIT #79d

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

Below are estimated VaR levels for COB 1/18/12 using the new Credit Tranche model.

COB 1/18/12	CURRENT FIRM	NEW MODEL FIRM	CURRENT CIO	NEW MODEL CIO
95% 10Q VaR	$137,961,471	$98,456,554	$102,385,406	$57,183,430

Proposed Change to the Firm's 95% 10Q VaR:

LOB	Limit Type: Level 1	Current Limit	Proposed Temporary Limit
JPMC	95% 10Q VaR	$125mm	$140mm

If more information is required, please let us know and we will arrange to provide further details.

Blackberry friendly:

Temporary increase of the JPMC 95% 10Q VaR Limit from $125mm to $140mm.

Upon receipt of your approval, the above limit change will be entered into Market Risk Systems with a start date of **January 20, 2012.**

If you approve of the limit change, please reply to all with your approval.

Thank you.

From: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>

Sent: Tue, 24 Jan 2012 00:05:59 GMT

To: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weisbrod, David A. <David.A.Weisbrod@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Beck, David J <david.j.beck@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Morzaria, Tushar R <tushar.r.morzaria@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Dellosso, Donna <Donna.Dellosso@jpmorgan.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>; Rauchenberger, Louis <louis.rauchenberger@jpmorgan.com>; Lake, Marianne <Marianne.Lake@jpmorgan.com>

CC: Doyle, Robin A. <Robin.A.Doyle@chase.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; Market Risk Reporting <Market_Risk_Reporting@jpmchase.com>; GREEN, IAN <ian.green@jpmorgan.com>; McCaffrey, Lauren A <lauren.a.mccaffrey@jpmorgan.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Chiavenato, Ricardo S. <ricardo.s.chiavenato@jpmorgan.com>; Chen, Dan <Dan.Chen@jpmorgan.com>

Subject: JPMC Firmwide VaR - Daily Update - COB 01/20/2012

——— = Redacted by the Permanent Subcommittee on Investigations

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Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/20/2012 is $131mm of the $140mm limit, an increase of $3mm from the prior day's revised VaR.
- CIO's 95% 10Q VaR* as of cob 01/20/2012 is $100mm of the $105mm limit, materially unchanged from the prior day's VaR.
- Each LOB's contribution to the Firm's $131mm VaR (as shown by marginal VaR) are: IB ([redacted] CIO ($80mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted] Private Equity ([redacted], and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted] CIO is $100mm (vs. $105mm limit), RFS is [redacted] TSS is [redacted] Private Equity is [redacted] and AM is [redacted]

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Permanent Subcommittee on Investigations
EXHIBIT #79e

From: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>

Sent: Tue, 24 Jan 2012 23:31:28 GMT

To: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weisbrod, David A. <David.A.Weisbrod@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Beck, David J <david.j.beck@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Morzaria, Tushar R <tushar.r.morzaria@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Dellosso, Donna <Donna.Dellosso@jpmorgan.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>; Rauchenberger, Louis <louis.rauchenberger@jpmorgan.com>; Lake, Marianne <Marianne.Lake@jpmorgan.com>

CC: Doyle, Robin A. <Robin.A.Doyle@chase.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; GREEN, IAN <ian.green@jpmorgan.com>; McCaffrey, Lauren A <lauren.a.mccaffrey@jpmorgan.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Chiavenato, Ricardo S. <ricardo.s.chiavenato@jpmorgan.com>; Chen, Dan <Dan.Chen@jpmorgan.com>; Market Risk Reporting <Market_Risk_Reporting@jpmchase.com>

Subject: JPMC Firmwide VaR - Daily Update - COB 01/23/2012

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/23/2012 is $134mm of the $140mm limit, an increase of $3mm from the prior day's VaR.
- CIO's 95% 10Q VaR* as of cob 01/23/2012 is $103mm of the $105mm limit, an increase of $3mm from the prior day's VaR.
- Each LOB's contribution to the Firm's $134mm VaR (as shown by marginal VaR) are: IB [redacted] CIO ($79mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted] Private Equity [redacted], and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted] CIO is $103mm (vs. $105mm limit), RFS is [redacted] TSS is [redacted] Private Equity is [redacted], and AM is [redacted]

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Permanent Subcommittee on Investigations
EXHIBIT #79f

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>
Sent: Sat, 28 Jan 2012 16:18:23 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
Subject: Fw: JPMC Firmwide VaR - Daily Update - COB 01/26/2012

This should be the last day of firmwide VaR breach. A CIO model change is planned to go in this week-end. New VaR methodology approved (and now the same methodology as IB) reduces standalone Credit VaR by approx $30 mio. John

---

From: Market Risk Management - Reporting
To: Market Risk Management - Reporting; Dimon, Jamie; Hogan, John J.; Zubrow, Barry L; Staley, Jes; Drew, Ina; Goldman, Irvin J; Weiland, Peter; Weisbrod, David A.; Bacon, Ashley; Beck, David J; Braunstein, Douglas; Morzaria, Tushar R; Wilmot, John; Dellosso, Donna; Bisignano, Frank J; Rauchenberger, Louis; Lake, Marianne
Cc: Doyle, Robin A.; Waring, Mick; Market Risk Reporting; GREEN, IAN; McCaffrey, Lauren A; Tocchio, Samantha X; Chiavenato, Ricardo S.; Chen, Dan
Sent: Fri Jan 27 18:16:35 2012
Subject: JPMC Firmwide VaR - Daily Update - COB 01/26/2012

▬▬ = **Redacted by the Permanent Subcommittee on Investigations**

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/26/2012 has increased by $8mm from the prior day's VaR to $161mm and has breached the $140mm Firm VaR limit for the third consecutive day.
- CIO's 95% 10Q VaR* as of cob 01/26/2012 has increased by $8mm from the prior day's VaR to $120mm and has breached the $110mm CIO VaR limit for the third consecutive day.
- The increase in the Firm's VaR is primarily driven by an overall reduction in diversification benefit across the Firm and position changes in CIO.
- Each LOB's contribution to the Firm's $161mm VaR (as shown by marginal VaR) are: IB [redacted] CIO ($107mm mVaR, primarily driven by CIO International credit tranche book), RFS [redacted]), Private Equity [redacted] and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted]), CIO is $120mm (vs. $105mm limit), RFS is [redacted] TSS is [redacted] Private Equity is [redacted] and AM is [redacted]

* CIO continues to manage the synthetic credit portfolio balancing credit protection and Basel III RWA. The new VaR model for CIO was approved by MRG and is expected to be implemented prior to month-end.

10Q Externally Disclosed VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Permanent Subcommittee on Investigations
EXHIBIT #79g

From: ~~Goldman, Irvin J~~
Sent: Mon, 30 Jan 2012 23:53:05 GMT
To: Weiland, Peter <peter.weiland@jpmchase.com>
Subject: Re: JPMC Firmwide VaR - Daily Update - COB 01/27/2012

Just got it.

From: Weiland, Peter
To: Goldman, Irvin J
Sent: Mon Jan 30 18:52:30 2012
Subject: FW: JPMC Firmwide VaR - Daily Update - COB 01/27/2012

This is the email you want.

Peter Weiland
Tel: +1 212 834 5549
Mob: +1 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Market Risk Management - Reporting
Sent: Monday, January 30, 2012 6:49 PM
To: Market Risk Management - Reporting; Dimon, Jamie; Hogan, John J.; Zubrow, Barry L; Staley, Jes; Drew, Ina; Goldman, Irvin J; Weiland, Peter; Weisbrod, David A.; Bacon, Ashley; Beck, David J; Braunstein, Douglas; Morzaria, Tushar R; Wilmot, John; Dellosso, Donna; Bisignano, Frank J; Rauchenberger, Louis; Lake, Marianne
Cc: Doyle, Robin A.; Waring, Mick; Market Risk Reporting; GREEN, IAN; McCaffrey, Lauren A; Tocchio, Samantha X; Chiavenato, Ricardo S.; Chen, Dan
Subject: JPMC Firmwide VaR - Daily Update - COB 01/27/2012

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/27/2012 is $108mm of the $125mm limit, a decrease of $53mm from the prior day's revised VaR, driven by CIO (implementation of newly approved VaR model for synthetic credit).
- Each LOB's contribution to the Firm's $108mm VaR (as shown by marginal VaR) are: IB [redacted], CIO ($35mm mVaR, primarily driven by CIO Synthetic Credit), RFS [redacted] Private Equity [redacted] and TSS [redacted]
- The stand alone VaR for each LOB are as follows: IB is [redacted] CIO is $66mm (vs. $95mm limit), RFS is [redacted] TSS is [redacted], Private Equity is [redacted] and [redacted]

10Q Externally Disclosed VaR

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Permanent Subcommittee on Investigations
EXHIBIT #79h

From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: Tue, 28 Feb 2012 23:48:50 GMT
To: Enfield, Keith <Keith.Enfield@jpmorgan.com>; Weiner, Pamela <pamela.weiner@jpmorgan.com>
Subject: FW: CIO Business Review Materials

FYI

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

From: Wilmot, John
Sent: Tuesday, February 28, 2012 6:32 PM
To: Dimon, Jamie; Braunstein, Douglas; Zubrow, Barry L; Drew, Ina; Hogan, John J.; Macris, Achilles O; Tse, Irene Y; Goldman, Irvin J
Cc: Warren, Shannon S; Gunselman, Gregg B; Jain, Manish; Will, Kathleen; Alvelo, Alexandra X; Peterson, Ruth J; Serpico, Gina; Beamon-Fontenelle, Margaret; Adam, Phillipa C; Gonzalez, Jeanette; Rios, Martha I; O'Donnell, Julie
Subject: CIO Business Review Materials

Attached please find the CIO Business Review materials for our discussion tomorrow, February 29th at 2:00pm.

John

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

▬ = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #80

CIO February 2012 Business Review

[INTERNAL DISCUSSION]

JPMORGAN CHASE & CO.

Today's Attendees		
Operating Committee	CIO	
Jamie Dimon	Ina Drew	John Wilmot
Doug Braunstein	Irv Goldman	
Barry Zubrow	Achilles Macris	
John Hogan	Irene Tse	

Business Review agenda – CIO

February agenda (1 ½ hrs)

Discussion Topics	Presenter	Pages	Duration
1. Review of current agenda	Drew	1-4	[20 mins]
(i) Discussion points			
2. Financial Summary	Wilmot	5-7	[5 mins]
3. CIO Business Structure	Drew/Wilmot	8-10	[5 mins]
(i) Overview		8-9	
(ii) RWA Forecast		10	
4. SAA Portfolio Analytics	Goldman/Macris/Tse	11-16	[20 mins]
(i) Overview		11	
(ii) RWA Efficient Portfolio		12-13	
(iii) Alternative Portfolios		14	
(iv) Economic Impact Analysis		15	
(v) OCI and PV Sensitivity		16	
5. Risk	Goldman	17-18	[10 mins]
6. Reinvestment Activity	Macris/Tse	19-30	[20 mins]
(i) 3Q11 - 1Q12 Purchases		19-25	
(ii) What we are looking at buying		26-29	
7. FX Capital Hedging	Macris	30	[5 mins]
8. Other Corporate Activities	Drew/Wilmot	31-32	[5 mins]

Business Review scorecard

Business topics covered	Review required	Page
Other Corporate Activities	✓	31-32
Control Environment	×	33
Material changes to Mission Critical	×	34
Appendix - SPAR Analytics	×	35-43

CIO Business Structure – Mandate and Approach

- Optimize and protect the Firm's balance sheet from potential losses, and create and preserve economic value over the longer-term

[redacted]

Longer-term investing				[redacted]
Private Equity	Retirement Plan	Special Investments	COLI BOLI	[redacted]
Oversight of legacy investments	Management of US defined benefit pension investments and oversight of 401k	Investments in stressed and distressed opportunities related to undervalued or under-performing JPMC loans	Maximization of tax-advantaged investments of life insurance premiums	[redacted]
[illegible] AUM	[illegible] AUM	TBD	[illegible] AUM	[redacted]
Position in run-off mode	YTD 2012 estimated return of 7%	First two investments completed	Allocation to mortgages and high grade credit	[redacted]

CIO Business Structure (continued)

- Volcker Rule permits risk-mitigating hedging activity, so the prohibition on prop trading does not apply to the "purchase or sale of a covered financial position" by a banking entity that is made "in connection with and related to individual or aggregated" positions
- As proposed, however, the Rule may adversely affect certain ALM activities. CIO is selectively reducing certain MtM/Trading Account activities and calibrating "under-60 day" activities across the division
- Further alignment of activities within Volcker Rule framework has resulted in the consolidation of Strategic and Tactical Asset Allocation portfolios. CIO has completed transition from legacy "SAA & TAA" to consolidated financials, risk management and portfolio structure.
- [redacted] MtM Overlay is for non-AFS eligible transactions and for more dynamic hedging activities
- CIO is resizing the credit book as a hedge for fat-tail risk

North America

MSR Hedging
- Post model changes, activities are limited to hedging the mortgage servicing asset

Rates
- Duration management and dynamically hedging JPM corporate debt liabilities

Agency Mortgages
- Our core rates assets to match liabilities
- Generating income via dollar roll, specified pools and TBAs

Municipal Bonds
- Book generated significant income via spread and tax advantage
- It is also a tool for us to hedge our corporate debt issuance

Non-Agency & CMBS
- CMBS generated significant income and OCI with extremely low RWA usage
- Legacy positions in RMBS, and currently targeting opportunistic adds to RMBS portfolio with positions to benefit from 2012 NPR

Corporate Debt & Preferreds
- Focus on bank debt and preferreds given the recent widening between Banks and Corporates
- The book generated significant income via spread and DRD tax benefits

International

Rates & FX
- Duration management and spread income from global rates curves.
- All liabilities passed to Int'l have thus far been placed in tractors and closely matched.

Emerging Markets Credit
- Dynamically managed investment grade emerging market bonds where JPM has a capital presence.
- Makes use of duration, single name protection and macro index hedges to manage draw-downs.

Secured Credit
- Top of the capital structure RMBS and CLO investments.
- The book generates significant added value from its ability to source the most suitable funding assets in the primary markets.

Synthetic Credit
- Index and tranche credit stress and jump protection portfolio.
- The credit derivatives portfolio seeks to efficiently provide mark-to-market stress offset to the CIO Int'l credit investments activity.

Developed Markets Credit
- Dynamically managed senior bond spread portfolio focused on core national champion banks.
- Can utilize duration, single name hedging overlays and macro index hedges.

FX Hedging
- Management of the firm's embedded FX capital exposures through dynamic spot hedging and efficient NII generation and risk management through derivative overlay and local currency duration.

RWA Forecast

▬ = Redacted by the Permanent Subcommittee on Investigations

- RWA trends reflect CIO structure
  - [redacted]
- 2012 trend will reflect continued reduction to MTM Overlay offset by continued rotation into higher RWA rates and credit within SAA
  - [redacted]

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—— = Redacted by the Permanent Subcommittee on Investigations

CIO Summary Risk Metrics

Structural Risk	
Firm DoE (excludes credit spread)	(5.3)
Credit spread Investments	2.9
Firm DoE (includes credit)	(2.4)

Risk Overview

- Integration of SAA into Firmwide Stress reflected; includes OCI impact as well as structural liability (see table below)
- Full limits framework review underway
  - VaR for limits and disclosure would include all CIO Trading Book assets

[redacted]

Stress Testing (mm USD)	Credit Crisis (credit selloff / rates rally)	Drivers
CIO MTM	510	Positive benefit from tranche book offset by bank preferreds and CLOs

[redacted]

VaR Highlights

- Enhanced VaR methodology for tranche book, reviewed and approved by MRG helping to reduce VaR and RWA usage
- Reduced MSR VaR reflects dampened sensitivity profile based on model implemented in December
- VaR limit reductions are in the pipeline both for MSR (from $90mm to $55mm) and CIO (reduction from $95mm under review)

	VaR	mVaR
Global CIO 10Q	50.3	26.1
- CIO International	48.3	21.9
- CIO North America	8.6	6.7
MSR	4.9	2.2

CIO Market Risk Summary

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Permanent Subcommittee on Investigations

CIO Reinvestment Activity – 3Q11 through YTD12

Redacted by the Permanent Subcommittee on Investigations

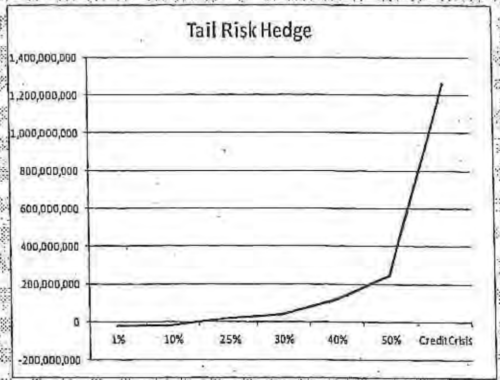
CIO Reinvestment Activity – 3Q11 through YTD12

Redacted by the Permanent Subcommittee on Investigations

CIO International Core Credit: Tail Risk Book

Currently the Core Credit Book is:

1. **An option** with positive convexity, positive carry and upside on large spread widening and default waves (similar to 2008-2009)
2. **Current Position:**
   - I. **US** mortgage-related issuers (Radian, MGIC, ILFC, RESCAP, ALLY) may file as the US Government and banks are looking for a settlement on past underwriting practices
   - II. **Europe** countries including Greece and Portugal may opt to restructure some national champions like banks or telecom operators.
   - These events could generate US$200mm-500mm P&L gains



Capital

- This is a Tail Risk Book that had under Basel I an RWA cost of US$5bln and from 2007-2011 has generated US$2.4bln total return
- Under Basel 2.5, Risk Weighted Assets are estimated to increase 5-8x (methodology still in development); this would increase the RWA of the core credit book to US$36bln however, CIO is currently working to reduce this to US$20bln for year end 2012
- Despite effectiveness of the Tail Risk Book hedging credit portfolio, the change in regulatory capital regime is likely to force a re-size / run-off of synthetic portfolio in order to maintain RWA targets for the Firm
- CIO continues to coordinate with IB Risk to improve the applicable RWA and capital levels

MARCH 2012

Directors Risk Policy Committee – CIO 2012 Opportunities and Challenges

Chief Investment Office
Ina Drew
Irv Goldman

J.P.Morgan

Mandate and Approach

KEY MANDATE: Optimize and protect the Firm's balance sheet from potential losses, and create and preserve economic value over the longer-term.

LONGER — INVESTMENT HORIZON — *SHORTER*

Longer-term Investing				*Strategic Investing & Risk Management*			*MTM Overlay & Risk Management*	
Private Equity	**Retirement Plan**	**Special Investments**	**COLI BOLI**	**Strategic Asset Allocation**	**FX Hedging**	**MSR Hedging**	**North America**	**International**
Oversight of legacy investments	Management of US defined benefit pension investments and oversight of 401k	Investment in stressed and distressed opportunities related to undervalued or under-performing JPMC loans	Maximization of tax-advantaged investments of life insurance premiums	Core investment and derivatives portfolio used to manage the Firm's structural risk exposures. Mainly available for sale	Management of Firm's foreign currency exposure from non USD capital, revenues, and expenses	Management of exposures in Home Lending's MSR asset	Complement central core investment decisions and are mainly in mark to market accounts	
$3.5bn AUM	$11.0bn AUM	TBD	$8.8bn AUM	$(139)mm BPV structural risk	$17bn nominal structural risk	$(21)mm BPV structural risk	Position size varies	
Position in run-off mode	YTD 2012 estimated return 5.7%	First two investments completed	Allocation to mortgages and high grade credit	Reduced interest rate allocation; rotating into credit	Some open currency exposures, primarily Asia and Latam	Close to fully hedged post model update	Reducing capital intensive credit securities positions	

Overview

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Business Structure

- Manage the portfolio with TRR mindset, delivering on
  - Financial returns vs budget
  - RWA limits
  - Risk adjusted returns (OCI and liability marked)
- Allocation of $153bn in RWA and $6.9bn in capital against AFS and MTM activities
  - AFS investment portfolio $110bn in RWA
  - MTM activities $43bn in RWA
  - Reallocation trend of RWA from MTM to AFS
- 430 people worldwide

Governance Structure

- Expanded Management Committee
  - Operating issues
- Investment Committee
  - ALM and Investment portfolio review, analytics and asset allocation
- CIO Risk Committee
  - Management of aggregate market, credit, reputation and operational risks

CIO Risk Summary – COB March 6, 2012

DoE

Credit Crisis Stress

FX Capital Hedging

Country Risk

SAA Risk

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OEP FX Hedging Summary

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Permanent Subcommittee on Investigations

MTM Overlay

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Permanent Subcommittee on Investigations

MSR Hedging Program

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Permanent Subcommittee on Investigations

Synthetic Credit Summary

Portfolio	Spr01	Spr+10%	Up50%	Lrg Fltn Selloff	Sml Pll Selloff	Var95	Contrib Var95
Core Strategic	(25.4)	8.9	(38.1)	1,428.1	80.1	48.6	48.3
Core Tactical	0.1	12.6	20.6	87.8	50.4	8.4	2.3
Synthetic Total	(25.3)	21.5	(17.5)	1,515.9	130.5	50.5	50.5

J.P.Morgan

Volcker

Proposed Volcker Rule	CIO View
Any trade subject to Market Risk Capital Rules is deemed de facto prop trading	A transaction that is legitimately risk hedging is not prop trading because of the application of accounting and capital rules
Trades held for less than 60 days duration are presumptively prop trading	MTM positions that are true risk mitigation transactions might benefit from short term price movements but are not prop trading
Hedge must be "reasonably correlated" to the risk being hedged, but the preamble to the Rule states the hedge is only permissible when it is "established slightly before" the banking entity becomes exposed to the underlying risk	Purpose of stress tests is to inform the banking entity about risks to which it may become exposed, and based upon that information it is prudent for the banking entity to take risk-mitigating actions. Use crisis as an example of anticipatory hedging

- ALM-Volcker comment letter was submitted to the Clearing House and SIFMA for industry submission
- Included as part of JPM comment letter on Volcker Rule specific examples of actions taken during the crisis that need clarification under the Rule as written
- Held meetings with Fed and OCC in late January. Scheduling meetings with the FDIC and CFTC

J.P.Morgan

From: mcmanus_william@jpmorgan.com
Sent: Fri, 30 Mar 2012 22:12:22 GMT
To: JOHN.WILMOT@jpmorgan.com; peter.weiland@jpmchase.com
CC: Ina.Drew@jpmorgan.com; achilles.o.macris@jpmorgan.com; anthony.m.brown@jpmorgan.com; javier.x.martin-artajo@jpmorgan.com; bruno.m.iksil@jpmchase.com; phil.lewis@jpmorgan.com; irvin.j.goldman@jpmchase.com; david.bjarnason@chase.com; Ashley.Bacon@jpmorgan.com; steinar.zinke@jpmorgan.com; John.J.Hogan@jpmorgan.com; hema.s.coombes@jpmchase.com; alison.c.giovannetti@jpmorgan.com; kastl_edward@jpmorgan.com; paul.t.bates@jpmchase.com; Jason.LDN.Hughes@jpmorgan.com; keith.stephan@jpmorgan.com; Keith.Enfield@jpmorgan.com; rory.h.oneill@jpmchase.com; Douglas.Braunstein@jpmorgan.com; warren_shannon@jpmorgan.com; jean-francois.bessin@jpmorgan.com; Daniel.Pinto@jpmorgan.com; frank.j.pearn@jpmorgan.com; graham.j.meadows@jpmorgan.com; hatzopoulos_alexander@jpmorgan.com; mcmanus_william@jpmorgan.com; Paul.A.Ricci@chase.com; jorn.x.rose@jpmorgan.com; john.r.buttarazzi@jpmchase.com; andrew.c.challen@jpmchase.com; spencer.x.john@jpmorgan.com; avis.b.rodriguez@us.pwc.com; lauren.m.tyler@jpmorgan.com
Subject: Audit Report: EMEA CIO Credit - Market Risk and Valuation Practices (Rating: Needs Improvement)

Audit Department Report

EMEA CIO Credit - Market Risk and Valuation Practices

Report Number: G-12/003
Audit Rating: Needs Improvement
Report Date: March 30, 2012
Audit Type: Audit

Prior Report Number: G-10/003
Prior Report Date: February 26, 2010
Prior Report Rating: Satisfactory

Prior Audit Type: Audit

Business Overview and Context
The CIO EMEA credit portfolio is made up of 'Investment' and 'Core Credit' portfolios. The Investment portfolio consists of Asset Backed Securities (ABS), Collateralised Loan Obligations (CLOs), Mortgage Backed Securities (MBS) and Rates products (Corporate & Government Bonds) and had a total notional of approximately $157 billion as of 12/31/11, $140bn within the strategic asset allocation (SAA) book and $17bn in the tactical asset allocation (TAA) book. The Core Credit portfolio primarily consists of derivative positions such as the CDS indices and tranches and had a total notional value of approximately $50 billion as of 12/31/11.

The Market Risk team is an independent control function within the CIO whose primary responsibilities are identifying, defining and monitoring appropriate measurement techniques to control market risk, using information provided by the JPMorgan risk infrastructure. CIO Valuation Control Group (VCG) is also an independent control function within the CIO responsible for price testing and fair value adjustments.

Audit Scope
The audit scope focused on risk and controls specifically relating to:

- Market Risk including the risk limits and sensitivities, VAR methodology and stress testing;
- Monthly valuation and reserve processes including independent price testing and provisioning;
- The completeness of positions included in the market risk and financial valuation processes.

Key Findings
The controls supporting the EMEA CIO Credit market risk management and valuation practices are being rated 'Needs Improvement' due to the following:

CIO VCG Practices
CIO utilise a number of risk and valuation models which have not been subject to review by the Model Risk Group. While there may be instances where the use of unapproved models is acceptable for a predefined period of time, no reserves are currently taken to account for positive P/L on unapproved models used for valuation purposes (i.e. Swaptions - Unapproved Model - Positive P/L $18m).

In addition, Audit noted deficiencies in the EMEA CIO VCG practices including the absence of a formally applied price sourcing hierarchy, insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserves for significant credit indices positions) and the lack of formally documented/consistently applied price testing thresholds. There is also a lack of transparency and quantitative assessment of the considerable judgment used to price test the CLO book given the inherent valuation uncertainty with the positions.

Market Risk

- Stress Testing - There is no documented stress testing methodology to outline key testing components (e.g. computational method and shock factors used) or assess limitations such as off-line risk measurement, missing risk factors and curves. As a result, Audit was unable to fully assess the stress testing framework and related scenario outputs.
- Market Risk Management Practices - The SAA book ($140Bn Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework and relevant SAA stress testing results are not measured against corresponding limits. CIO also does not explicitly measure the portfolio sensitivity to certain potentially applicable risk measures.
- Market Risk Models - EMEA CIO is currently using unapproved models in the calculation of risk (including VaR) and associated risk measurement methodologies have not been appropriately documented and/or catalogued.

VaR Data Controls
While Audit found no specific examples of incomplete or inaccurate data, the control process around the offline VaR calculation needs to be enhanced to ensure completeness and accuracy of Credit trade data used in the offline calculation of VaR.

Root Cause
Root cause: Poorly documented CIO VCG practices and failure to comply with firmwide risk management standards.

'tatus
ıanagement agrees with the reported issues and is implementing corrective actions.

Business Details
Level 1: Chief Investment Office
Business Executive: Ina Drew

Level 2: CIO
Business Executive: Achilles O Macris, John Wilmot, Phil Lewis, Irvin J Goldman

Location: United Kingdom, EMEA
Business Executive: Achilles O Macris

Audit Details
Management Team Member: Hatzopoulos, Alexander X
Audit Manager: John R Buttarazzi
Auditor In Charge: Andrew C Challen

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Detailed Findings and Management Action Plans

Issue: CIO VCG Practices

Audit testing identified several deficiencies and inconsistencies in EMEA CIO VCG practices and methodologies. Specifically:

- CIO is not currently deferring positive P&L generated from unapproved valuation models. Specifically, several unapproved models (Primus Sabre, ALIB Option, Offline TDR, Prime Whole Loan, CMBX, Bond) are currently being used for valuation purposes without any corresponding reserves. Per VCG, associated 2011 P&L was predominantly limited to Swaptions totalling $18m.
- CIO VCG lacks a formally documented price sourcing hierarchy to govern the consistent use and appropriate application of independent prices for price testing purposes. Audit also noted that in price testing high grade corporate bonds, CIO VCG inappropriately utilises an indicative report sent by JPM Asset Management (JPMAM), based on their incorrect understanding that such prices were validated by JPMAM's price testing function. Utilising Bloomberg prices, Audit estimated a price testing increase of $58m at 12/31/11. Separately, emerging market bonds are being price tested at mid levels, which is inconsistent with the front office marking at bid and resulted in an Audit estimated price testing decrease of $50m.
- There is no evidence of CIO VCG review to ensure the ongoing validity of thresholds applied to corporate, EM, government and government guaranteed bond price testing. Further, while the formally documented bond price testing threshold is +/- 1.5 price points (which would result in minimal required adjustments) different thresholds are actually applied by EMEA VCG without sufficient transparency or evidence. At year-end, Audit's independent bond price testing using dynamic thresholds resulted in an estimated $110m net increase. In addition, thresholds used to determine which price testing differences require adjustment are not clearly defined for Credit Indices.
- Concentration FVA was not calculated or applied for credit indices to account for the significant market positions. While the subsequently calculated potential concentration FVA of $13m would not have resulted in a required adjustment based on the CIO policy (which only requires taking the larger of the liquidity or concentration FVA), the policy's appropriateness should be reassessed.
- [redacted]

Root Cause: Insufficient assessment/formalisation of certain price testing methodologies and poorly documented CIO VCG practices.

Action Plan

CIO will review current methodology to ensure consistency in application and appropriate practices are utilised. Specifically, CIO VCG will:

- Implement and evidence enhanced oversight of positive P&L being generated from unapproved and disapproved models, with reserves as necessary.
- Define and implement a price sourcing hierarchy to ensure a consistent and appropriate price sourcing and testing approach.
- Ensure price testing is performed consistently with front office marking policy.
- Document the rationale for current Bond price testing thresholds and reassess as necessary; clearly define price testing thresholds for ABS and CDS.
- Improve evidence of the monthly VCG ABS price testing process in order to enable re-performance.
- Reconsider the appropriateness of the existing credit indices price testing policy to ensure concentration is sufficiently incorporated.

Target Date: July 31, 2012
Issue Owner: Jason LDN Hughes

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Issue: Market Risk Management and Stress Testing Practices
Audit noted the following with regards to the market risk management framework, which is currently subject to a comprehensive reassessment by the CIO:

- There is no stress testing methodology documentation in place to outline key testing components (e.g. computational method and shock factors used for each asset class) or assess limitations such as offline risk measurement, missing risk factors and curves. Therefore Audit was unable to fully assess the validity of the stress testing framework and scenario outputs.
- The SAA book ($140bn Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework. While there is SAA portfolio stress testing and risk measurement of non statistical measures (e.g. CS01 and CSW), these exposures are not measured against corresponding limits. In the context of a large sell off scenario, the stress loss for AFS Credit is estimated to be $2.6bn.
- CIO does not explicitly measure the portfolio sensitivity to certain potentially applicable risk measures such as bond/CDS basis, index basis and prepayment risk to facilitate sufficient consideration of corresponding risk management and controls.
- The Single Name Position Risk (SNPR) issuer exposure is misstated for the trading portfolio as it does not incorporate a disaggregation of the credit index tranche exposure at issuer level.
- [redacted]

Root Cause: Market risk management practices have not been recently assessed or updated.

Action Plan

1. Comprehensive stress testing methodology documentation will be produced and specifically include shock factors (including FSI alignment) and an assessment of all risk factors. (Target Date: July 31, 2012)
2. CIO is currently undertaking a comprehensive review of the risk measurement and limits framework across all asset classes to assess potentially required enhancements including whether additional risk factors are required for inclusion. (Target Date: July 31, 2012)
3. CIO is in the process of implementing new functionality to enable the disaggregation of the credit index tranche for SNPR risk measurement purposes. (Target Date: September 30, 2012)
4. [redacted]

Target Date: July 31, 2012
Issue Owner: Keith Stephan

[redacted]

Redacted by the Permanent Subcommittee on Investigations

Issue: Market Risk Models

CIO is currently using unapproved models in the calculation of risk (including VaR) and associated risk measurement methodologies have not been appropriately documented and/or catalogued. Specifically:

- CIO specific amendments to approved IB VaR methodologies have not been documented or submitted to MRG for review. Unapproved amendments pertain to the production of P&L vectors and the use of proxies.
- CIO generate non statistical risk measures used for risk management, stress and VaR measurement via the internally developed West End analytics model, which has not been submitted to MRG for review.
- Documentation for all product sensitivity inputs used in CIO VaR models was not maintained in the Global Model Database (GMD), as required.
- The CIO Quantitative Research (QR) model inventory is incomplete. For example, the application of VaR and sensitivity models to specific product types is not included.

Root Cause: Model documentation for VaR and non statistical models was not appropriately maintained and submitted to MRG for review.

Action Plan

1. CIO will document all amendments to the approved VaR model and submit to MRG for review.

2. CIO will document the West End Analytics engine and submit to MRG for review.
3. The QR model inventory and GMD will be updated as appropriate.

Target Date: June 30, 2012
Issue Owner: Keith Stephan

Issue: VaR Data Controls
While Audit found no specific examples of incomplete or inaccurate data, the control process around the offline VaR calculation needs to be enhanced to ensure completeness and accuracy of Credit trade data used in the offline calculation of VaR for the Credit Sectors. Specifically:

- For Synthetic Credit, controls require enhancement to ensure the completeness and accuracy of trade positions used in the market risk VaR model, which are sourced from Primus via a stored procedure.
- For Secured Credit, controls require enhancement to ensure the completeness and accuracy of the sensitivity data (CSO1) used in the market risk VaR model and sourced from the trader maintained blotter (which is used as the central source of position and risk information for VaR reporting).

In addition, no SOX testing was being performed on these manual processes, which require designation as key SOX controls.

Root Cause: A lack of clear handshakes for ensuring the completeness and accuracy of VaR feeds in the off-line process.

Action Plan
1. CIO MO will implement daily controls to ensure the completeness and accuracy of data used in the off-line calculation of VAR.
2. Following successful implementation of the above, Middle Office manager to deem control as a SOX key control and test as necessary going forward.

Target Date: May 31, 2012
Issue Owner: Hema S Coombes

Issue: VCG reporting
Audit noted the following with regards to VCG reporting to senior management:

- Pre- and post- price testing threshold results are not being reported.
- There is no historical analysis or trending of key valuation metrics with only the current month being reported.
- High grade bond price testing results that were reported to senior management varied from the underlying calculation files by $11m due to a manual reporting error. However, this issue did not result in a financial statement impact.

Root Cause: Insufficient focus on ensuring the appropriateness of VCG reporting to senior management.

Action Plan
VCG will enhance their reporting to senior management to provide transparency and analysis.

Target Date: June 30, 2012
Issue Owner: Jason LDN Hughes

Issue: Manual Errors within Price Testing and FVA Process
Controls over spreadsheets used for price testing purposes are not appropriately designed, resulting in several manual errors totalling $13m, $1.4m of which had a financial statement impact. The $1.4m error ($31m reported versus $32.4m actual) was primarily the result of several off-the-run credit indices being excluded. Other errors noted include VCG using an incorrect benchmark for 37 of the bonds tested and EUR/GBP high grade corporate bond positions not being converted into USD before aggregation for reporting purposes.

Root Cause: Controls over spreadsheets used for price testing purposes are not appropriately designed.

Action Plan
CIO VCG will implement sufficient spreadsheet control and governance processes in the VCG process to sufficiently minimise the risk of manual errors.

Target Date: July 31, 2012
Issue Owner: Jason LDN Hughes

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– End Report –

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Thu, 05 Apr 2012 21:05:18 GMT
macris@btinternet.com
CC: Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: Fw: Jamie's fine with this.

From: Drew, Ina
Sent: Thursday, April 05, 2012 04:53 PM
To: Evangelisti, Joseph; Zubrow, Barry L
Subject: Re: Jamie's fine with this.

Point two. Assets and liabilities

We do not disclose cio earnings - part of corporate

From: Evangelisti, Joseph
Sent: Thursday, April 05, 2012 04:45 PM
To: Drew, Ina; Zubrow, Barry L
Subject: Jamie's fine with this.

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m: Dimon, Jamie
Sent: Thursday, April 05, 2012 4:45 PM
To: Evangelisti, Joseph
Subject: Re: Revised: WSJ/Bloomberg CIO stories

Ok

From: Evangelisti, Joseph
Sent: Thursday, April 05, 2012 04:44 PM
To: Drew, Ina; Dimon, Jamie; Hogan, John J.; Scher, Peter L; Zubrow, Barry L; Staley, Jes; Cutler, Stephen M; Radin, Neila; Braunstein, Douglas; Wilmot, John
Subject: Revised: WSJ/Bloomberg CIO stories

Here are some revised points based on your comments. The WSJ's deadline is in 10 minutes. Thanks, Joe

- The Chief Investment Office is responsible for managing and hedging the firm's foreign exchange, interest rate and other structural risks.
- CIO is focused on managing the long-term structural liabilities of the firm and is not focused on short-term profits.
- Our CIO activities hedge structural risks and invest to bring the company's asset and liabilities into better alignment.
- Our CIO results are disclosed in our quarterly earnings reports.
- We cooperate closely with our regulators, who are aware of our hedging activities.

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- Background: Not correct to attribute gains to a single trader. Members of the CIO take long-term hedging positions in the context of our overall liquidity management structure.
- Background: $200 billion vastly overstated. $600 million in gains overstated.
- Won't comment on a specific people.

From: Evangelisti, Joseph
Sent: Thursday, April 05, 2012 4:06 PM
To: Drew, Ina; Braunstein, Douglas; Hogan, John J.; Staley, Jes; Scher, Peter L
Cc: Dimon, Jamie; Youngwood, Sarah M
Subject: WSJ/Bloomberg CIO stories

The Wall Street Journal and Bloomberg are working on prominent stories about Bruno Iksil, a managing director in our Chief Investment Office in London.

They are saying that Iksil currently has more than $200 billion in positions in credit trading products and has made JPM more than $600 million in profits over the past two years. They said his current CDS positions on the IG9 Index are roiling the market and that some of his positions may result in losses.

More generally, the WSJ and Bloomberg are saying that JPMorgan basically has a large proprietary trading shop hidden in its CIO, and that many analysts are unfamiliar with specifics around its activities. They also say that with increased capital rules the upcoming Volcker Rule, these activities could come under pressure.

I'd like us to hit hard the points that the CIO's activities are for hedging purposes and that the regulators are fully aware of our activities. I'd like to give them the following on the record:

- The Chief Investment Office is responsible for managing and hedging the firm's liquidity, foreign exchange, interest rate and other structural risks.
- Gains in the CIO offset and hedge losses in other parts of the firm.
  - The investments and positions undertaken by the CIO are to hedge positions and losses in other parts of the firm and are done in the context of our overall company risk management framework. Hedging gains reflected in our financial statements represent one side of a transaction that is hedging a loss in one of our main businesses.
- We cooperate closely with our regulators, and they are fully aware of our hedging activities.
- Background: Not correct to attribute gains to a single trader. Members of the CIO take long-term hedging positions in the context of our overall liquidity management structure.
- Background: $200 billion vastly overstated. $600 million in gains overstated.
- Won't comment on a specific people.

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Thu, 05 Apr 2012 21:58:38 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>; Cutler, Stephen M <stephen.m.cutler@jpmorgan.com>; Maclin, Todd <TODD.MACLIN@chase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Erdoes, Mary E <mary.erdoes@jpmorgan.com>; Smith, Gordon <gordon.smith@chase.com>; Petno, Douglas B. <Douglas.B.Petno@jpmorgan.com>; Bisignano, Frank J <frank.j.bisignano@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Cavanagh, Mike <mike.cavanagh@jpmchase.com>
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 positionned 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 as the macro scenario was upgraded and our investment activities turned 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 am 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.

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 DERIVIATIVES 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 P L 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 DRAWING20 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. WE HAD A BIG PAY DAY. 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 RIOLED 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 LILQUIDITY 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 LIQLIUIDITY IN THE HIGH YIELD MARKET. A DIRECT REDUCTIONOF THE EXPLICIT POSITION WAS DEEMED NOT POSSIBLE AND ENORMOUSLY EXPENSIVE.

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 LIQLUIDITY 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. ALL THE THEORETICAL UNDERPINNINGS OF VALUATION HAVE BROKEN DOWN AND THE VOLATILITY HAS BROKEN ALL HISTORICAL AND WORSE CASE BANDS.

THERE WAS NO ELEVATION OF THE SIZE OF THE POSITION CHANGE OR A DISCUSSION AROUND THE MAGNITUDE OF NEW LONG RISK BEING ADDED TO EFFECTVELY 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 NEGTIVE 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 P L 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 BOTHI 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 PSOTION 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 ANAYST MEETRING AND THE POTENTIAL IMPACT ON THE MARKET AND OUR ABILITY TO REDUCE THIS POSITION.

WHAT WENT WRONG:

From: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Sent: Sun, 08 Apr 2012 23:14:32 GMT
To: Drew, Ina <Ina.Drew@jpmorgan.com>
CC: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; macris@[redacted]
Subject: Synthetic Credit Summary

▬ = Redacted by the Permanent Subcommittee on Investigations

Hi Ina,

Following up from our earlier call, here is a summary of our synthetic credit activity, results and outlook for Q2.

Year-to-date the synthetic book is -$525MM. Offsets in other credit positions limit the Q1 loss to -$350MM, while the Q1 CIO Int'l financial income was +$830MM including the synthetic book. The Q1 TRR (including OCI delta) is $3.2bio year to date.

The synthetic credit book, as a dedicated hedge to our credit longs, continues to be short HY. In Q4, we decided to neutralize the risk profile of this book for two reasons: a) the large realized gains around the AMR events, and b) given our large investment program in cash credit securities and related view.

Our attempt to neutralize the book has been unsuccessful. We ended up losing a predictable -575MM on HY shorts, however the IG hedge delivered only +50MM. Although investment grade performed very well in Q1 and the relationship between HY and IG also worked in our favour, two idiosyncratic factors rendered our hedge ineffective:

1. **Our longs, IG.9 and ITX.9 forwards, are in the off-the-run curves which steepened +24bps.** Excess liquidity and the pro-risk environment drove carry traders to the front-end.

2. **Our longs underperformed the on-the-run indices as they contain specific high-risk names** in the old series (CDX.IG.9 contains Radian, MBIA, Countrywide, ILFC, iStar Financial, RR Donnelly; ITraxx.S9 contains Hellenic Telecom, Banco Espirito Santo, Portugal Telecom, Dixons, Elec. de Portugal).

The reason, however that we have chosen these IG proxies is because these are the very names that we are short in HY instruments.

Therefore, although thus far unsuccessful, these IG proxies best neutralize and balance our synthetic books to event risk. This has been reflected in the VaR and Stress VaR. Overall, we still remain short these names with a pro-default jump risk profile.

The book is overall risk balanced, given the cross-market long/short and has positive carry of $2MM/day, while retaining upside on defaults (see graph below).

For final Q2 we estimate a P&L range of -150MM to +250MM. Intra-quarter P&L could exceed this range, but not significantly.

The above estimate does not include P&L on default events, which is significantly positive, as shown in graphs below.

It is my impression that the recent market attention to our IG.9 activities maybe due to the market's incorrect perception that we are outright long IG.9 index with a related default risk profile. We are not.

I think it would be much more likely that the significant market shorts in IG.9 10Y will need to be covered. Many dealers hold significant shorts in IG.9 against legacy CDO portfolios, and as hedges to illiquid single-name inventory.

Related to IG.9, the most rewarding, <u>short-term</u> catalyst for CIO would be an MBIA related default event and

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subsequent curve flattening. Alternatively, a settlement or positive case outcome for MBIA would be bullish and would support a rally in the forwards. Our P&L profile in this case would be in the above range of -150 to +250MM, and more carry dependent. Unfortunately this scenario would tie up augmented RWA further forward.

Best,
Achilles

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Mon, 09 Apr 2012 22:39:52 GMT
To: Serpico, Gina <Gina.Serpico@jpmorgan.com>
Subject: Fw: Deliverables for meeting tomorrow

Print

From: Wilmot, John
Sent: Monday, April 09, 2012 06:38 PM
To: Drew, Ina; Macris, Achilles O; macris@[redacted]Martin-Artajo, Javier X
Cc: Goldman, Irvin J
Subject: RE: Deliverables for meeting tomorrow

A couple of follow-ups separately from a conversation I had with Doug late this afternoon:

- Profile of maturity of the Index and Tranche positions (driven by the discussion on the handout Appendix: Position CDX IG position changes since June 2011 allocated to IG9 forward trade)
- Doug had the question of why we just didn't reduce the HY position to reduce our risk rather than going long the IG 9 (we discussed carry (ie associated p&l) but he makes the relevant point that from an RWA perspective this might be less economic)
- Lastly, Doug wanted some history relative to current positions (longs and shorts) and what were the relative indicative credit spreads at entry against current spreads

My follow-up question from this morning's discussion:

- On the Appendix page referenced above: Can you explain to me the trend in risk trend highlighted in the far right column "Net CDx IG index position on "5yr" bucket""? It went from -14.4bn in Feb to -0.96bn in Mar to +12.1bn in April. Did the $8bn in IG5.75yr exposure add between Mar and Apr solely drive the $13bn addition to the Net CDx IG position?
- I think for reference purposes we also need to consider any statements around market volumes and days to liquidation carefully especially as it relates to p&l impact

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

From: Drew, Ina
Sent: Monday, April 09, 2012 5:42 PM
To: Macris, Achilles O; macris@[redacted] Martin-Artajo, Javier X
Cc: Goldman, Irvin J; Wilmot, John
Subject: Deliverables for meeting tomorrow

▬ = **Redacted by the Permanent Subcommittee on Investigations**

-Index/Tranches -- Gross Notionals, nets -- itemized for central clearing or counterparty risk

Table with spreads and VIEWS on spread moves with p /l associated. This is for Jamie and Doug. It is an extension of the table you provided that shows spread moves monthly.

Redacted - Non-Public Supervisory InformationRedacted - Non-Public Supervisory Information

'st of questions that we MAY or may not use for specific discussion with the GR (Hill)

Permanent Subcommittee on Investigations
EXHIBIT #86

We can review all and start a process for follow up things we need to address for risk management etc.

John/Irv – anything to add.

ıease make sure ALL e mails are distributed to me John and Irv. We will vet together with you tomorrow and then send out as appropriate.

ACHILLES – your other follow up was with Daniel on FSA**

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>
ent: Wed, 11 Apr 2012 11:18:29 GMT
: Staley, Jes <jes.staley@jpmorgan.com>; Zinke, Steinar X <steinar.zinke@jpmorgan.com>
CC: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>
Subject: Fw: Credit risk limits

This is the governance used in the IB to control what is currently going on in CIO. We (obviously) need to implement this in CIO as soon as possible. John

----- Original Message -----
From: GREEN, IAN
Sent: Wednesday, April 11, 2012 06:53 AM
To: Bacon, Ashley; Goldman, Irvin J
Cc: Hogan, John J.
Subject: RE: Credit risk limits

CH uses a small number of limits (attached) and a significant reliance on the Structural Risk Measure (SRM - also attached) as the principal business limits. Directional limits tend to be small as the book is managed to be broadly neutral to spreads & correlation. All tranches and index trades are decomposed into Single Name positions and managed against spread-based limits and thru SNPR. We also rely heavily on the Stress Testing framework running 20 spread scenarios and 6 basis scenarios daily. An example Stress page for CH is attached.

ere is a also a significant reliance placed on the risk MIS and periodic reviews of the gross portfolio risks forums like the IRBC..I can send additional commentary on these if required.

Thanks
Ian

-----Original Message-----
From: Bacon, Ashley
Sent: 11 April 2012 00:14
To: Goldman, Irvin J; GREEN, IAN
Cc: Hogan, John J.
Subject: Re: Credit risk limits

Ian, could you please send Irv the structure of CH limits and thresholds (and the SRM).

Thanks

----- Original Message -----
From: Goldman, Irvin J
Sent: Tuesday, April 10, 2012 05:57 PM
To: Bacon, Ashley
Cc: Hogan, John J.
Subject: Credit risk limits

hley,
.n you tell me what IB risk limits and measures we use for credit hybrids outside of var, stress + cs 10 widening.

From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
nt: Wed, 11 Apr 2012 14:59:13 GMT
o: Drew, Ina <Ina.Drew@jpmorgan.com>
CC: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject: RE: Single names CDS basis relative to IG 9 CDS - URGENT update

---

Ina ,

the market is quiet today . To early to tell but so far about flat P/L . **The tension has stopped now .** The bank's communications yesterday are starting to work . I hope that it keeps this way tomorrow .

regards

From: Drew, Ina
Sent: 11 April 2012 15:53
To: Martin-Artajo, Javier X
Subject: RE: Single names CDS basis relative to IG 9 CDS - URGENT update

How is it going? Any market color today?

.om: Martin-Artajo, Javier X
Sent: Wednesday, April 11, 2012 10:52 AM
To: Staley, Jes
Cc: Drew, Ina; Braunstein, Douglas; Hogan, John J.; Macris, Achilles O
Subject: FW: Single names CDS basis relative to IG 9 CDS - URGENT update

Jes ,

further to your last question on the single names versus index I hope that this clarifies your question .

best regards

Javier

From: Martin-Artajo, Javier X
Sent: 11 April 2012 15:31
To: Drew, Ina
Cc: Macris, Achilles O
Subject: Single names CDS basis relative to IG 9 CDS - URGENT update

Ina ,

regarding the relationship of a CDS index versus its components that is not an exposure that we have in the book . But , it is likely to affect our book given that it is not driving the dynamics of our curve position . The demand for single names in the .st has not affected the index position if you look at the graph below . The basis to theoretical has been somewhere around - 20 bps at the beginning of the year (**Orange line**) and the CDX IG 9 10 Yr (5.75 maturity , ie our long in IG 9 5 Yr as we call

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From:	Drew, Ina <Ina.Drew@jpmorgan.com>
Sent:	Wed, 11 Apr 2012 00:16:29 GMT
To:	Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry.L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>
CC:	Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject:	FW: updated

ALL: Please see attached 2nd quarter scenarios for the Credit Book with descriptions.
We can review all assumptions and answer questions on the 8:30am call. We are working on Jamie's request for
Correlation of the credit book against the portfolio and will also have those numbers at 8:30am.

Synthetic Credit Summary

			Scenario									
			1	2	3	4	5	6	7	8	9	10
Scenarios for Q2	Realised P&L in Q1	Current Spread	IG Steepening	Dramatic event on Europe	Sluggish state growth	New Financial Crisis	Status Quo	Central scenario	Optimistic scenario	Currency crisis	End of QE	Many defaults
Carry	160		150	250	220	250	200	170	150	400	100	350
IG9 Projections	Initial curve											
IG9 0.75yr	132	68	26	112	74	95	66	46	44	249	1	201
IG9 2.75yr	141	90	53	131	98	117	90	72	67	298	30	198
IG9 5.75yr	150	111	79	150	122	139	111	95	90	222	53	194
Slope												
0.75yr / 5.75yr	18	43	53	38	48	43	43	47	46	-22	58	-7
Curve slope change (bps)	25	0	10	-5	5	0	0	4	3	-70	15	-40
Implied CSW	-35%	0%	-35%	35%	10%	25%	0	15%	-20%	100%	-60%	75%
P&L	-580		-650	-375	-355	-250	-150	350	702	900	1,528	1,126
			10% EXTREME			80% LIKELIHOOD			10% OPTIMISTIC			

Note regarding P&L Estimate of 10 April 2012

Today's P&L estimate of -$395MM represents a move 6.5x current VaR95 of $60MM.

Off the run IG.9 curves bear steepened avg +7bps (30% of YTD move), and spreads widened avg +10bps

- **Realised P&L in Q1**
  - Q1 Realised P&L -$580, driven by losses in short risk HY (670MM), vs. +128MM in CDX.IG, and -30MM in iTraxx
  - The IG component has been the main P&L driver of underperformance in Q1, as IG.9 forward long risk positions did not deliver anticipated profits given steepening of the curve. Current book is overall risk balanced, given the cross-market long/short and has positive carry of $2MM/day, while retaining upside on defaults
- **Q2 P&L Estimates - these scenarios do not include 10 April P&L, which would accrete back into each scenario +$400MM, if re-calibrated for today's market moves**
  - -$250MM (New Financial Crisis) implies an average spread widening of +25%, driven by banks/financials undergoing stress. In this case, the portfolio P&L is driven by:
    - +250MM carry
    - -100MM given relative underperformance of IG vs. HY (compression, led by banks/financials widening)
    - -$300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - -$100MM due to spread widening, not offset in this case by curve flattening (we assume here that curves remain 43bps steep in IG equivalents)
  - -$150MM (Status Quo) in this case we assume that market levels and curves 'freeze' at current levels; in this scenario CIO would delta hedge around volatility throughout the quarter
    - +200MM carry
    - -$300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - -$50MM due to long-dated tranche underperformance as observed in Q1
  - +$350MM (Central Scenario) in this case bull steepening of IG curves (+4bps), more than offset by outperformance of IG.9 curve vs. on the run
    - +170MM carry
    - -$280MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - +$110MM due to rally in credit spreads -15%
    - +$200MM due to relative outperformance of IG 9 curve vs. on the run IG curves (while counter-intuitive, the "compression" effect of IG.9 vs. on the run IG complex is driver of performance)
    - +$150MM due to long-dated equity tranche outperformance
  - In the section "10% Optimistic" the convexity of the portfolio in a highly positive or a highly negative market outcome is demonstrated.
    - +$702MM in the event of -20% tightening of spreads, decompression of HY vs. IG credit, and IG.9 forward outperformance (rolling down the curve)
    - $1,126 "End of QE" refers to a scenario of strong growth led by U.S., spreads avg. -50% tighter
    - +1,725MM in "Many Defaults" means wave of defaults among widest spread names (incl. MBIA, Radian, iStar) curve flattening, and +75% spread widening, driven by performance of HY shorts, IG flatteners and long protection positions in the portfolio
  - In the section "10% Extreme" it is estimated that the book would range -$355MM to -$650MM.
    - -$355MM in the event of bear steepening of curves, spreads wider by avg +10%
    - -$650MM in the event of bull steepening of curves, spreads tighter by avg -25%, driven by underperformance of IG.9 (forwards do not roll down curve in rally)

J.P.Morgan

From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: Wed, 11 Apr 2012 18:59:00 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
CC: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: synthetic credit information

Jamie,

Attached please find a presentation on the synthetic credit book that was reviewed this afternoon with Doug, Jes, Ina, Barry and John. It covers the relevant data requests from the past several days.

John

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Permanent Subcommittee on Investigations

EXHIBIT #90

Confidential Treatment Requested by J.P. Morgan & Co.

Synthetic Credit Summary: Notional Exposure

- Gross external (to CIO, including IB) notional is $836blo long risk vs. $678bio short risk across all index and tranche products
- External index notional faces Intercontinental Exchange (ICE) is *net* $96.7blo, 97% of total net external index exposure
- Tranche products are not eligible for ICE clearing and are bilateral counterparty exposures

(all figures in billions USD)	Long	Short	Net
Gross external trades	836.1	-678.8	157.3
Notionals outstanding with JPM	210.8	-197.7	13.0
- Index	162.2	-160.8	1.4
- tranche	48.6	-36.9	11.7
Notionals outstanding with ICE	250.1	-153.4	96.7
- Index	250.1	-153.4	96.7
- tranche			
Notionals outstanding with external counterparties	375.2	-327.7	47.5
- index	122.1	-118.8	3.3
- tranche	253.1	-208.9	44.2

- CDX.IG.9 net position for CIO is $82.2blo, which is approximately 10-15 days of 100% of trading volume
- ITX.9 net position for CIO is $35blo, which is approximately 8-12 days of 100% trading volume
- For on the run positions the numbers are much smaller, ranging from 0.25 days to 2 days volume in IG and HY, respectively.

Index Name	30 Mar 2012	1 Week ago	1m avg	LTM avg	CIO Net Position	No. Days Volume
ITRAXX EUROPE SERIES 17	23.9	26.2	25.1	25.1	6.0	0.24
CDX.NA.IG.18	23.6	37.5	30.6	30.6	15.8	0.52
CDX.NA.IG.17	8.3	35.8	17.7	16.9	11.5	0.65
CDX.NA.IG.9	7	8.6	8.1	10.6	82.3	10.16
ITRAXX EUROPE SERIES 16	6.8	26.7	16	18.6	12.8	0.80
CDX.NA.HY.17	6.6	3.6	4.3	3.5	8.1	1.86
CDX.NA.HY.18	6.3	0	6.3	6.3	0.0	-
ITRAXX EUROPE SERIES 9	5	5.1	4.3	5.5	35.8	8.33

J.P.Morgan

Synthetic Credit Summary: Maturity Profile

Factored Notional Sum	Maturity																	
Index	20-Jun-12	20-Dec-12	20-Jun-13	20-Dec-13	20-Jun-14	20-Dec-14	20-Jun-15	20-Dec-15	20-Jun-16	20-Dec-16	20-Jun-17	20-Dec-17	20-Jun-18	20-Jun-20	20-Dec-20	20-Jun-21	20-Dec-21	Grand Total
CDX HY	13,824	8,485	-2,455	3,197	517		-10,831	-5,735	-6,706	-7,828								-7,333
CDX LCDX			1,846															1,846
CDX IG		-53,065	0	-586	65	34,267	-7,657	-17,596	-16,479	11,493	15,791	91,664		257	-54	302		58,303
ITRAXX MN		7	28,276		-3,356		20,044	26	7,460	18,684	7,520	22	43,521			-2,132	-1,731	118,350
ITRAXX XO								-6	-1,767	-6,822	-118							-8,712
ITRAXX FINSUB	-121	-690	-2,210	-1,444		-1,014		1,705	-594	1,366	926							-2,074
ITRAXX FINSEN											72							72
SOVX WE										47								47
Grand Total	13,703	-46,262	25,457	1,187	-2,774	33,253	1,766	-21,000	-20,008	16,939	24,202	91,687	43,521	257	-54	-1,830	-1,731	158,498

10%CSW Sum	Maturity																	
Index	20-Jun-12	20-Dec-12	20-Jun-13	20-Dec-13	20-Jun-14	20-Dec-14	20-Jun-15	20-Dec-15	20-Jun-16	20-Dec-16	20-Jun-17	20-Dec-17	20-Jun-18	20-Jun-20	20-Dec-20	20-Jun-21	20-Dec-21	Grand Total
CDX HY	4	2	-6	-39	-7		136	99	123	166								478
CDX LCDX			1															1
CDX IG		76	0	0	-1	-39	17	55	64	-46	-73	-504		-2	0	-3		-453
ITRAXX MN		-8	68		10		-5	-0	-21	-111	-47	-1	-282			24	20	-344
ITRAXX XO								0	33	143	3							178
ITRAXX FINSUB	0	2	8	8		5		-20	8	-22	-16							-23
ITRAXX FINSEN											-1							-1
SOVX WE										-8								-8
Grand Total	4	80	72	-31	2	-30	150	134	206	130	-134	-505	-282	-2	0	22	20	-163

- Top table shows gross notionals across indices and tranches by underlying index family (can be confusing, adds notionals of indices and tranches)
- Bottom table shows the 10% credit spread widening per maturity bucket
- Largest short risk exposures in investment grade mature in Dec-12 for CDX.IG.9 and Jun-13for ITraxx S9
- Largest short risk exposures in high yield are concentrated in Dec-15 to Jun-16 for CDX.HY and Dec-16 for ITraxx.Crossover

J.P.Morgan

Synthetic Credit Summary: Risk & P/L Scenarios

- Total Synthetic Credit VaR 59.2mm
- **10% Credit Spread Widening**
  - The position, beta-adjusted has net directionality of -$163MM in 10% parallel move in spreads
  - **This is equivalent of $34.5bio of long risk in 5y IG equivalents**
- **Relative value Risk Exposures**
- IG vs. HY $27mm/bps of risk if IG underperforms HY by 1bps
- IG9 5/10s curve position $46MM/bps of risk if curve steepens 1bps
- XO vs. ITX $34mm/bps of risk if ITX underperforms XOVER by 1bps
- ITX9 5/10s curve position $19MM/bps if curve steepens 1bps

Index	Spr01	Spr+10%	Up50%
CDX HY	8,510,886	478,399,558	2,285,664,595
CDX LCDX	90,747	1,399,630	6,726,105
CDX IG	-35,121,719	-453,123,526	-2,144,460,027
ITRAXX MN	-22,056,110	-344,040,211	-1,771,899,467
ITRAXX XO	3,060,724	178,197,413	819,366,090
ITRAXX FINSUB	-560,652	-23,044,526	-107,358,388
ITRAXX FINSEN	-31,240	-727,797	-3,496,997
SOVX WE	-19,909	-437,811	-2,115,454
Synthetic Total	-46,127,273	-163,377,269	-917,573,542

Index	CS01	Beta Adj CS01	Compress01	Steepen01
CDX HY	8,510,886	42,554,432		
CDX LCDX	90,747	453,735		
CDX IG	-35,121,719	-35,121,719	-27,235,271	-45,080,715
US REGION	-26,520,086	7,886,448	-27,235,271	-45,080,715
ITRAXX MN	-22,056,110	-22,056,110	-34,256,803	-19,071,244
ITRAXX XO	3,060,724	12,242,896		
ITRAXX FINSUB	-560,652	-2,242,609		
ITRAXX FINSEN	-31,240	-124,961		
SOVX WE	-19,909	-19,909		
EUROPE	-19,607,187	-12,200,693	-34,256,803	-19,071,244
Total Synthetic Credit	-46,127,273	-4,314,245	-61,492,074	-64,151,959

J.P.Morgan

Synthetic Credit Summary: Exposure to steepness

- On a simple basis, curve could steepen by 20 bps more (on historical basis)
- Loss approx $1billion
- With hedges currently in place, we could steepen by 10bps approx
- Loss approx $550mm

- Bottom graph shows the behaviour of the slope of IG 9 1 yr versus IG 9 5 Yr that we have in our book . This shows the relationship between the slope of our position in the index versus the actual hedge that we have bouding the relationship that is the 5 Yr short that we have on the run five year IG and the short that we have in the HY OTR since Jan 2008 . This ratio is 85 % and 15% as per our book .

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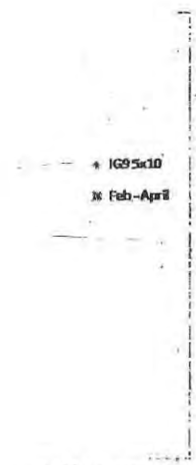

J.P.Morgan

Single Name Risk & Forward Jump to Default Risk

Table 1: default profile today and post December 2012

Portfolio	# of Names	# of names with default loss risk	Average P&L given Default ($mm)	Max P&L given Default ($mm)	# of names with default gain	Average Gain given Default ($mm)	Max Gain given Default ($mm)
Total portfolio today	588	62	-67	-205	526	133	600
Total portfolio post Dec 2012	585	228	-336	-716	357	133	600
IG9 only today	121	0	0	0	121	146	417
IG9 post Dec 2012	121	121	-572	-716	0	0	0

IG9 Hedge options	on-the-run IG18	covers 89 names out of 121
post Dec 2012	on-the-run HY18	covers 13 out of the remaining 32 names unhedged with IG18

- Today there is considerable default protection coming from IG9 tranches.
- Across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +146m on average per name to a loss of -572m per name post December 2012.
- This is because of the roll-off of two forms of protection:
  - The first is the 32bn of short-dated protection on 20th Dec 2012.
  - The second (and this is important) is the roll-off of nearly $4bn long protection on IG9 equity tranches. The equity tranche gives protection at an approximate ratio of 30 to 1, so the $4bn of equity tranche protection is equivalent to $120bn of index protection in terms of pure default risk.
- Post 20th December 2012, we would be able to partially hedge this exposure with the current on-the-run index but the overlap is 89 names out of the 121 in IG9.
- On the 32 remaining names we have a Jump-to-Default loss of $500mm on average per name that would need to be hedged by other means (HY on the run index, single name CDS, index tranches etc)

J.P.Morgan

Single Name Risk & Forward Jump to Default Risk

- Across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +146m on average per name to a loss of -572m per name post December 2012 as shown in the table

Table 2: Top 20 names Default Exposure Post Dec 2012

Names IG9	JTD post dec
BAXTER INTERNATIONAL INC.	
BRISTOL-MYERS SQUIBB COMPANY	
CAPITAL ONE BANK (USA), NATIONAL ASSOCIATION	
CENTEX CORPORATION	
COMCAST CABLE COMMUNICATIONS, LLC	
DUKE ENERGY CAROLINAS, LLC	
EMBARQ CORPORATION	
GOODRICH CORPORATION	
HONEYWELL INTERNATIONAL INC.	
INGERSOLL-RAND COMPANY	
INTERNATIONAL BUSINESS MACHINES CORPORATION	
INTERVAL ACQUISITION CORP.	
MCDONALD'S CORPORATION	
MCKESSON CORPORATION	
MEADWESTVACO CORPORATION	
RIO TINTO ALCAN INC.	
ROHM AND HAAS COMPANY	
THE WALT DISNEY COMPANY	
WELLS FARGO & COMPANY	
WYETH LLC	

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Synthetic Credit Summary: Risk & P/L Scenarios

			Scenario									
			1	2	3	4	5	6	7	8	9	10
Scenarios for Q2	Realised P&L in Q1	Current Spread	IG Steepening	Dramatic event on Europe	Sluggish stale growth	New Financial Crisis	Status Quo	Central scenario	Optimistic scenario	Currency crisis	End of QE	Many defaults
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IG9 Projections	Initial curve											
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IG9 2.75yr	141	90	53	131	98	117	90	72	67	236	30	196
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Slope												
0.75yr / 5.75yr	18	43	53	38	48	43	43	47	46	-27	58	-7
Curve slope change (bps)	25	0	10	-5	5	0	0	4	3	-70	15	-60
Implied CSW	-35%	0%	-35%	35%	10%	25%	0	-15%	-20%	100%	-50%	75%
P&L	-580		-650	-375	-355	-250	-150	350	702	900	1,129	1,725
			10% EXTREME			80% LIKELIHOOD			10% OPTIMISTIC			

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  - The IG component has been the main P&L driver of underperformance in Q1, as IG.9 forward long risk positions did not deliver anticipated profits given steepening of the curve. Current book is overall risk balanced, given the cross-market long/short and has positive carry of $2MM/day, while retaining upside on defaults
- **Q2 P&L Estimates - these scenarios do not include 10 April P&L, which would accrete back into each scenario +$400MM, if re-calibrated for today's market moves**
  - -$250MM (New Financial Crisis) implies an average spread widening of +25%, driven by banks/financials undergoing stress. In this case, the portfolio P&L is driven by:
    - +250MM carry
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    - +200MM carry
    - -$300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - -$50MM due to long-dated tranche underperformance as observed in Q1
  - +$350MM (Central Scenario) in this case bull steepening of IG curves (+4bps), more than offset by outperformance of IG.9 curve vs. on the run
    - +170MM carry
    - -$280MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches
    - +$110MM due to rally in credit spreads -15%
    - +$200MM due to relative outperformance of IG 9 curve vs. on the run IG curves (while counter-intuitive, the "compression" effect of IG.9 vs. on the run IG complex is driver of performance)
    - +$150MM due to long-dated equity tranche outperformance
  - In the section "10% Optimistic" the convexity of the portfolio in a highly positive or a highly negative market outcome is demonstrated.
    - +$702MM in the event of -20% tightening of spreads, decompression of HY vs. IG credit, and IG.9 forward outperformance (rolling down the curve)
    - $1,126 "End of QE" refers to a scenario of strong growth led by U.S., spreads avg. -50% tighter
    - +1,725MM in "Many Defaults" means wave of defaults among widest spread names (incl. MBIA, Radian, iStar) curve flattening, and +75% spread widening, driven by performance of HY shorts, IG flatteners and long protection positions in the portfolio
  - In the section "10% Extreme" it is estimated that the book would range -$355MM to -$650MM.
    - -$355MM in the event of bear steepening of curves, spreads wider by avg +10%
    - -$650MM in the event of bull steepening of curves, spreads tighter by avg -25%, driven by underperformance of IG.9 (forwards do not roll down curve in rally)

J.P.Morgan

Appendix: CDX.IG.9 Market Impact

- CIO Increased the CDX.IG.9 5.75y exposure by $36blo during January and February
- Compared to on the run equivalent spread moves this does not appear to have distorted market prices
- "Skew" or index to theo basis has been mean reverting / moving less negative since start of year (organge line on DataQuery graph)

CDX.IG.9 Spreads

	IG9 0.75y	IG9 2.75y	IG9 5.75y	0.75y / 5.75y slope	IG 5Y OTR	HY 5Y OTR	IG 5Y OTR adj for IG.9 HY names (est)
Jun-11	56	90	131	75	65	462	103.85
Sep-11	145	157	167	22	125	811	159.3
Dec-11	131	140	147	16	120	680	148
Jan-12	90	102	119	29	102	567	125.25
Feb-12	83	92	113	30	93	545	115.6
Mar-12	70	88	111	41	91	571	115
Apr MTD	80	98	126	46	103	630	129.35
YTD Chg	-61	-52	-36	25	-29	-109	-33
MTD Chg	10	10	15	5	12	59	14.35

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J.P.Morgan

From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Thu, 12 Apr 2012 15:19:17 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>
CC: Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: FW: Synthetic Credit Materials

Attached please find the three documents we discussed:

- Core Credit Executive Summary
- Synthetic Credit Q+A
- Market Structure Overview

Below is an explanation from a strategic point of view the construction, execution, risk profile and the extreme P/L outlook for the synthetic credit book or Core Credit Book .

The construction of the credit derivatives book : the Core Credit Book as we call it internally was designed since its inception to benefit from market downside risk with a profile that would offer the firm the best risk/reward for that downside protection .

At the beginning of 2007 we started a program that bought ABX and TABX protection on the subprime and since July 2008 we started a program that would benefit from large defaults on High Yield names as the Risk / Reward for having curve flatenners was a very good way to get this protection for the company. The book has kept its profile of pro-default risk for High Yield until the end of 2011 .

The execution of the High Yield Book from inception in 2007 was based on buying protection on the on-the-run series and tranches of this series and balancing the book with older series as the High Yield market tends to have wider names as times passes since it collects the most traded names and will include the large fallen angels too. So , this makes sense to do if we believe that we have a bad economy in front of us but has to be balanced to adjust for large spread moves and needs to offset with some positive carry to make the book with the smallest negative carry that we think is appropriate .

The way that we at CIO have book-run the Core Book to balance the negative carry cost of the High yield Book overtime has been using Investment Grade strategies that gave us some carry or buying optionality (or both) in the tranche market to offset the directionality of the High Yield Book if this was more efficient than using intra- High Yield hedging .

From an execution point of view the Book from the beginning of 2011 was a pivotal year since we started to realize that the Risk / Reward that this book offered started to have a Risk / Reward that was not as compeling as it had been in the past and started to reduce the book notionals and size until June 2011 when we increased the High Yield Book once again as the events of Europe and US started to gather momentum .

The P/L Outlook for the Core Book could be described as balanced in terms of directionality (without a short bias Beta adjusted) and with large default protection for all of 2012 of the top 12 High Yield riskiest names in HY and a positive carry of 2 MM/day .

In order to explain the P/L outlook for Q2/Q3/Q4 2012 I would like to describe the book in a more detail group of trades to better understand the risks that the book currently has.

The Core Credit Book has two main Books : the Investment Grade Book and the High Yield Book .

The Investment Grade Book (IG Book) has two strategies one for Europe (ITraxx Block) and one for the US (IG CDX Block)

The High Yield Book has just one strategy called HY Block.

The IG CDX Block would best be described as a long risk IG 9 CDX position and a short of equivalent size in IG On the run CDX (OTR) and an extra block of long risk OTR . The European iTraxx position would be described in the same way as long Series 9 and short the OTR. This position has positive carry of 4 MM USD /day. They way that we are positioned to go long risk in the IG 9 position is by going long risk the 3Yr and 5 Yr maturities and being short the 1 year maturity to be neutral default risk , positive carry and with a long beta risk to the 5 riskier names that are part of the short HY position that we have in the HY Book .

The HY Book would best be described as an on the run HY OTR short risk(that includes all the risky names (Rescap,TXU,Radian,MBIA,IStar) and a long risk HY10/HY 11 (Older series of CDX High Yield) that do not include these names . This is how we get protection for riskier names and has a negative carry of 2.7 MM/Day

These two books are also rebalanced relative to each other to reduce the overall VAR and sVAR of the whole book with what we would describe as an Net extra delta IG/HY on the run indexes only. This position would be best described as long IG OTR vs short HY OTR . This position is 0.5 MM USD carry/day.

The main exposures of these blocks are :

IG	Start Jan Book	Current Book
Forward vs OTR		
S9 Fwd	20,497,375,000	38,511,625,000
5yr IG OTR eq	-19,586,380,556	-36,799,997,222
Forward vs OTR		
IG9 fwd	54,651,951,114	94,540,640,003
IG OTR	-53,463,866,220	-92,485,408,699
HY OTR	Start Jan Book	Current Book
HY On the run	-8,555,429,927	-11,105,441,146
HY10-11	14,405,446,694	18,699,100,082
Net Extra Delta	Start Jan Book	Current Book
Net ITRAXX Main OTR	-4,116,519,444	11,496,447,222
Net CDX IG OTR	-21,886,277,212	3,249,309,790

The scenario that is most critical for CIO (large adverse scenario) happens to be the one that we experienced yesterday (10th April) which is a bear steepener of the IG Block both in the US and Europe and the rest of our positions remaining stable . This scenario is the one that caused us almost all of the loss since Feb 2012 . I do believe that this position will either mean revert because of the enhanced carry that has also increased from yesterdays move of the IG block or though a default or series of defaults in the most critical names MBIA , Radian , ISTAR , Sprint , and MGIC in the next year . The magnitude of the move over the weekend for this curve to steepen, i.e. our short in the front did not widen but the 5yr IG widened relative to our OTR by 7 bps . This is unprecedented for a day on a mark to market and it could still go wider on its own but the part of our book that should be protecting us from most of this widening is the HY short position OTR that contains these names too and should have mitigated around 70% of this move . It did not materialize . So this goes agains all economic sense , is due to the marks that we are experiencing on our large US IG Block that has caught the attention of the media . It could still go wider and we could face and additional loss if the same behaviour persists but at some point that we have already gone beyond the HY bucket should hedged our exposure . I believe that this mark to marked loss is going to mean revert for those reasons .

It might take some time but I am very confident that this outcome will be materialized in the coming months.

How do derivative instruments and the "synthetic credit" activity fit in with the overall CIO activity?
The Chief Investment Office has utilized the "synthetic credit portfolio," which is a portfolio of credit derivatives, to construct a hedge against other risks on JPMC's balance sheet. This activity has been part of the CIO portfolio construction and risk management since 2007. The related credit derivative instruments offer an efficient means to establish protection against adverse credit scenarios and "stress events".

This activity is among the key tools utilized by CIO to manage and hedge stress loss risks. The synthetic credit portfolio has benefited the Firm, especially in times of credit market dislocation, sudden spread widening and in the occurrence of defaults, which is typically a catalyst for credit spread widening scenarios.

In Q3 and Q4'11, CIO began to reduce the net stress loss risk profile of the hedges, as more positive macroeconomic data in the US and an improving situation in Europe post LTRO merited a reduction to the stress loss protection of the "synthetic credit portfolio." The book, as a dedicated hedge, continues to be balanced, and to protect our portfolio from stress events.

Have you met Bruno Iksil?
Yes – I've met Bruno in person. (Specifically on 29 March 2010 in a meeting at 100 Wood Street in Lonon). I am in regular contact with the team in CIO.

In your view, could this trading fall afoul of Volcker under a narrow definition (or even a broad one)?
As Barry Zubrow pointed out in our comments to the Regulators in February, the language in Volcker is unclear as it pertains to anticipatory hedging needs on the ALM side. The condition for the hedging exception appears to have been drafted with trading desks in mind, where both sides of a hedge are marked to market. It is a poor fit with ALM.

What is the P+L impact on JPM since this story was released?
The book is balanced, and the performance clearly is a function of market prices. The Chief Investment Office performance has been good, and that's reflected in our results.

How much have these positions made or lost for JPMC? What is the corresponding loss or gain in your book?
The "synthetic credit portfolio," since inception has positively benefited JPMorgan, in particular in times of dislocation and stress in credit markets globally, as was witnessed in 2008, 2009, and more recently in the high yield bond market in the US in late 2011.

Is most of the activity in the I9 index speculative bets by hedge funds?
Hedge funds are industry participants in CDX.NA.IG credit default swap indices. Other industry participants include banks, broker-dealers, insurance companies, pensions, sovereign wealth funds, and other investors who seek either to gain exposure to Investment Grade credit via credit default swap indices, or to hedge existing exposure to Investment Grade credit. Information related to hedge fund's relative size is difficult to estimate, however, can be thought of as proportional to the capital and funding available to the hedge fund manager employing CDX.IG.9 credit default swap indices in its portfolio.

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Hedge funds are industry participants in CDX.NA.IG credit default swap indices. Other industry participants include banks, broker-dealers, insurance companies, pensions, sovereign wealth funds, and other investors who seek either to gain exposure to Investment Grade credit via credit default swap indices, or to hedge existing exposure to Investment Grade credit. Information related to hedge fund's relative size is difficult to estimate, however, can be thought of as proportional to the capital and funding available to the hedge fund manager employing CDX.IG.9 credit default swap indices in its portfolio.

What risk or type of risk at JPMC does the IG.9 position hedge?
JPMorgan utilizes "IG.9," among other hedging instruments to mitigate or reduce portfolio "stress loss," associated with credit risks on our balance sheet, particularly in the investments securities portfolio.

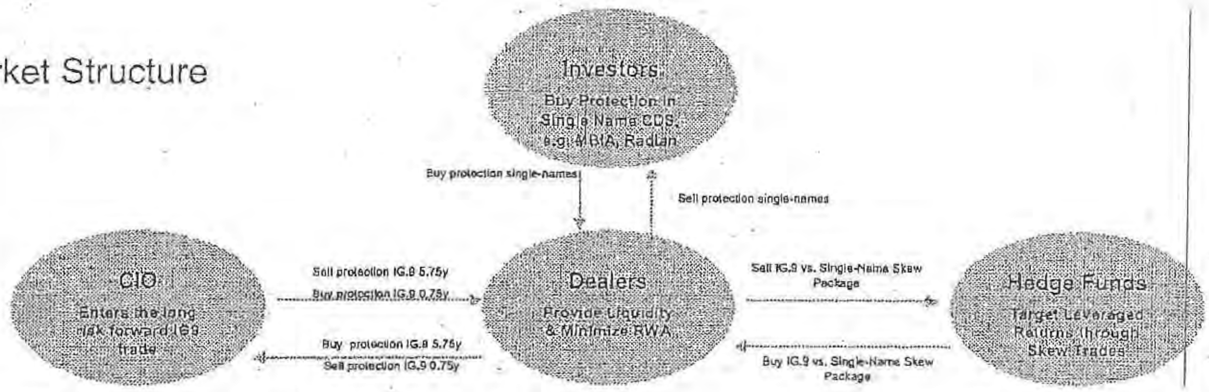
I understand that you're hedging you overall risk and the investments securities portfolio - can you give a sense of the relative size of hedging activity in the past – how big can the 'gross' get and what is the basis risk around this?
The size of hedging activity is a function of the size of the risks we manage, so it changes through time. If you look at the history, heading into the Crisis, the Firm's ALM team in CIO used credit derivatives to purchase protection on high yield credit default swap indices with short term maturities and to sell protection on high yield credit default swap indices with longer-term maturities—in effect, taking a high yield curve flattening position in the credit derivatives market. This strategy resulted in the Firm recognizing some gains as near-term default risks increased. The gains recognized on these derivatives strategies offset in part the losses that occurred on credit assets held by the Firm.

Are your examiners aware of this activity?
Yes, this activity is included in our regulatory reporting practices, in financial statements, and—as part of the Firm-wide Market Risk policy—this activity is captured in the Firm's risk measurement systems.

Do firms on the other side of these trades have an interest in forcing you out of them?
Clearly certain market participants have expressed an interest understanding what is the long-term nature of JPMorgan's hedging activity—particularly in CDX.IG.9. It would be speculative to assume participants on the "other side" of JPMorgan's activity want to "force us out," and we're in the business of risk management of our own positions, not theirs. JPMorgan's position in IG.9 is part of a portfolio balanced across a range of outcomes. It is conceivable that the opposite position may not be balanced, which could motivate those portfolio risk managers to seek to reduce those exposures.

Why would a bank need a synthetic credit portfolio?
A bank or investor may utilize a "synthetic credit portfolio," that is, a portfolio of credit derivatives, in particular to construct a hedge to other risks on it's balance sheet. It is an efficient means, given liquidity in the index market, to establish protection against adverse scenarios and "stress events." It is often more practical to buy protection on credit default swap indices than it is to establish a "short risk" position in a cash security.

Market Structure



- CIO is short risk / long protection in IG.9 0.75y
- CIO is long risk / short protection in IG.9 5.75y as part of a long forward risk position
- This position hedges HY shorts elsewhere in portfolio, provides "carry," yet retains convexity in spread widening (curve flattening), and upside on defaults

- In the context of market making activity dealers over time accumulate risk selling protection on single name CDS, beta-hedged through buying protection on the corresponding Index (IG.9 contains MBIA, Radian)
- In this way, the protection sourced from CIO covers the dealer's requirement for index protection on IG.9 5.75yr
- The residual "matched book" gives rise to the so-called a "skew" trade, which measures the basis between single names and their Index
- Dealers transfer this basis risk to hedge funds to reduce RWA. This is done for surprisingly low spreads (between 10-15bps for IG.9).

- Hedge Funds enter the "Skew trade" by selling protection on single names and buying protection on the index
- To fund this activity, HF's rely on Prime Brokers. HF's must provide capital to PB's upfront and to cover MTM overtime on both legs of the trade (i.e. they are not perfectly netted)
- HF's profit from this activity as the "skew" compresses (YTD has moved -16bps to -11bps)
- HF's are 'in the money,' and instead of holding to maturity to earn this as carry, given the PB capital requirements, they seek to exit & monetize

- Dealers look for CIO to buy protection on IG.9 5.75y, i.e. for CIO to unwind current position
- To allow the HF's to unwind and take profit, and to 'collapse' the trade, the Dealer needs to sell protection on the index to buy protection on single names, to maintain flat risk
- To exit the position and monetize carry as upfronts to boost performance, HF's seek to buy protection on the single names and sell protection on the index

J.P. Morgan

From: Zubrow, Barry L <barry.l.zubrow@jpmchase.com>
ent: Thu, 12 Apr 2012 21:07:12 GMT
ſo: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
CC: Dimon, Jamie <jamie.dimon@jpmchase.com>; Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>; Drew, Ina <Ina.Drew@jpmorgan.com>
Subject: If asked about London / CIO and Volcker

I suggest you add the following thoughts:

1.). Activity was NOT short term trading

2.). Was part of LONG TERM hedging of the banks portfolio

3). We do not believe that our activity in any way goes against the law as passed by Congress, nor the spirit or proposed rule as written.

Barry

Permanent Subcommittee on Investigations
EXHIBIT #92

From: Hogan, John J. <John.J.Hogan@jpmorgan.com>
Sent: Fri, 13 Apr 2012 14:35:10 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
Subject: RE: CIO

Doug and I asked that the first day. Answer was it most "efficient" way to do it. I would say they just wanted to improve the carry on the book by selling protection and taking in some premium. This is all part of the post mortem and we will fix it.

From: Dimon, Jamie
Sent: Friday, April 13, 2012 10:29 AM
To: Hogan, John J.
Subject: RE: CIO

Why didn't they just sell vs offset

From: Hogan, John J.
Sent: Friday, April 13, 2012 10:24 AM
To: Dimon, Jamie
Subject: CIO

Jamie-
Below confirms the net notional are truly net notionals with no basis. I spoke with Ashley this morning who is working with Achilles to implement a similar limit/governance structure on this book to the one we have in the IB—we will do this for all of CIO over coming weeks and I will keep you posted on that. Let me know if you need anything else.
John

From: Goldman, Irvin J
Sent: Friday, April 13, 2012 10:20 AM
To: Hogan, John J.
Subject: Re:

John,
Yes. To be perfectly clear there is no basis within each maturity.

From: Hogan, John J.
Sent: Friday, April 13, 2012 10:03 AM
To: Goldman, Irvin J
Subject: RE:

Irv,
Can you just confirm that the longs and the shorts from each maturity bucket net perfectly and that the net notional is truly the net amount that is shown below without any basis risk?
Thx,
John

From: Goldman, Irvin J
Sent: Thursday, April 12, 2012 7:05 PM
To: Dimon, Jamie; Hogan, John J.; Braunstein, Douglas
Cc: Drew, Ina
Subject:

All,

Enclosed please find IG 9 positions by maturity and related volume data and charts.

Irv

cid:image005.png@01CD18DD.D2B48F60

cid:image006.png@01CD18DD.D2B48F60

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CIO Synthetic Credit
CDX.IG.9 Positioning Detail
IG.9 Life-to-date Trading Activity per instrument
(USD billions)

Instrument	Maturity	Gross longs	Gross shorts	Net Notional	Daily Avg Volume
CDX.IG.9 5Y	12/20/2012	43.5	-76.2	-32.7	3.6
CDX.IG.9 7Y	12/20/2014	43.7	-9.7	34.1	1.6
CDX.IG.9 10Y	12/20/2017	88.4	-7.5	80.9	1.5

EDITED TRANSCRIPT

JPM - Q1 2012 JPMorgan Chase & Co. Earnings Conference Call

EVENT DATE/TIME: APRIL 13, 2012 / 12:30PM GMT

OVERVIEW:

JPM reported 1Q12 revenues of $27.4b, net income of $5.4b and EPS of $1.31.

CORPORATE PARTICIPANTS

Doug Braunstein *JPMorgan Chase & Company - CFO*

Jamie Dimon *JPMorgan Chase & Company - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Glenn Schorr *Nomura - Analyst*

Guy Moszkowski *BofA Merrill Lynch - Analyst*

John McDonald *Sanford Bernstein - Analyst*

Betsy Graseck *Morgan Stanley - Analyst*

Brennan Hawken *UBS - Analyst*

Mike Mayo *CLSA - Analyst*

Matthew O'Connor *Deutsche Bank - Analyst*

Ed Najarian *ISI Group - Analyst*

Chris Kotowski *Oppenheimer & Co. - Analyst*

Andrew Marquardt *Evercore Partners - Analyst*

Jim Mitchell *Buckingham Research - Analyst*

Paul Miller *FBR - Analyst*

Christopher Wheeler *Mediobanca - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's first-quarter 2012 earnings call. This call is being recorded.

Your line will be muted for the duration of the conference. We will now go live to the presentation. Please stand by.

At this time I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Doug Braunstein. Mr. Braunstein, please go ahead.

Doug Braunstein - *JPMorgan Chase & Company - CFO*

Thanks, operator. I am going to be taking you through the earnings presentation, which as you know is available on our website. I would also ask everyone to refer to the disclaimer regarding forward-looking statements at the back of the presentation.

And with that, if you all turn to page one, for the quarter we generated net income of a $5.4 billion, $1.31 per share. That is on revenues of $27.4 billion, up 6% year on year, 24% quarter on quarter. Return on tangible common equity of the 16% for the quarter and our characterized solid performance across most of our businesses, particularly strong results in the Investment Bank and significant improvement year over year in mortgage banking.

There are a number of significant items that we are highlighting here on this page. We do that every quarter. It includes DBA, reserve releases, litigation billed in the WaMu settlement.

Every quarter we also have some modest pluses and minuses. We don't put these up front, but if you did total these significant items they had an aggregate negative impact of $0.09 a share on our reported numbers this quarter. I am going to discuss them in much more detail as we go through the financials.

Strong capital generation in the quarter. We ended with Tier 1 common of $128 dollars, that is up $5 billion-plus; strong Basel I and Basel III ratios of 10.4% and 8.4%, respectively. And I wanted just to highlight a couple of trends for the quarter and then we will go into the businesses.

First is, if you look across our businesses, we have continuing signs of underlying fundamental growth. So 23% loan growth across wholesale year on year. Record middle-market loans this quarter, up 19% year on year. $4 billion of credit provided to small businesses, that is up 35% year on year.

Record retail channel mortgage originations, up 11% this year. Deposits CBB up 8% year over year. Sales volume in Card up 12% year over year. And so the underlying fundamentals year on year look strong.

On the credit side, we continue to have stable and good credit results in our wholesale business and on the consumer side real, continuing improvement in Consumer. I would say in aggregate we are putting on better quality loans today from that loan growth, but just two quick statistics. In Mortgage net charge-offs are down 25% year on year; in Card net charge-offs are down 37% year on year.

So with that it's sort of an underlying theme. Let's turn to the Investment Bank on page three.

For the quarter you see circled net income of $1.7 billion. That is on revenues of $7.3 billion, reported ROE of 70%.

On page one we did highlight $900 million in DVA losses pretax for the IB this quarter. And as we have mentioned consistently in the past, we don't consider the DVA as a part of our core business results. In fact, after the changes from this quarter, if you remember the spread widening, we saw in the third quarter of 2011 where we booked a $1.9 billion gain on DVA.

In the last two quarters we have now reversed $1.5 billion of that, and obviously if spreads returned to the level they were last summer we would have gone round trip. So I am going to focus on the IB numbers excluding all DVA.

So in the first quarter revenues were $8.2 billion, $2.2 billion in net income, and we had a 23% return on equity. Those numbers are all very comparable to what was a very strong first quarter of 2011, but I do want to remind everyone that we tend to have a seasonally strong first quarter to start the year.

IB fees in the quarter of $1.4 billion. That is down 23% year on year, up 23% quarter on quarter, and if you look on appendix page nine you will see we continue to maintain our number one market-leading share in fees.

Markets revenues were relatively flat year on year. On a linked-quarter basis revenues were up significantly. Fixed income revenue was $5 billion and that reflected continued solid client revenues across the products, particular strength this quarter in our global rates business.

Equities revenue of $1.4 billion really approved results across cash and derivatives, and we continue to have improving performance from our prime services. We are seeing increased balances there, a little improved leverage in the markets, and a modest uptick in spreads.

Credit portfolio revenue was a little over $400 million, up from the fourth quarter, and then expenses in the quarter of $4.7 billion were down 6% year on year. The comp-to-revenue ratio, ex DVA, which is the way we manage it, was 35% for the quarter.

If you go directly to page five, Consumer & Business Banking, you will see circled net income of $775 million. That is down 13% year on year. And an ROE for this business of 35% for the quarter.

Revenue of $4.3 billion. That is relatively flat quarter on quarter but down 4% year on year, and that reduction year over year is generally consistent with our guidance on the impact of the Durbin Amendment, which we had this quarter and didn't come through in the first quarter of last year.

We continue to see solid year over year underlying performance trends in the business, so the deposit is up $29 billion, which I talked about, up 8%. We believe that is a growth rate faster than the industry growth rate. Business banking originations up 8% year on year.

We had very strong investment sales this quarter as the markets improved and we continue to build out CPC, our Chase Private Client business, up 41% quarter on quarter. In fact, client investment assets of $147 billion is a record for Chase Wealth Management.

On page six you see Mortgage Production and Servicing. Circled net income of $460 million for the quarter, that compared with a net loss of $1.1 billion in the prior year, so $1.5 billion swing year on year. We had very strong production-related revenues of $1.6 billion and that is driven somewhat by higher volumes. Originations were up 6% year on year; applications, as I mentioned, up 33%; a very favorable refinancing environment including the impact of HARP 2.0.

But we also had higher margins this quarter as a function of those volumes and some mix issues. We should be cautious about that because we are likely to see those margins returned to more normalized levels on a go-forward basis.

Purchase losses in the quarter were $300 million. That is lower than our expectations on a quarterly basis, which remain $350 million plus or minus. In large part that was a function of timing.

If you now move to the servicing side, in the middle of the page you will see expenses there of $1.2 billion. That includes approximately $200 million of costs for the foreclosure-related matters associated with the settlement. So if you exclude that $200 million, servicing costs continue to remain very elevated at $950 million for the quarter. And of that number $700 million is related to default expense, which was essentially flat quarter on quarter but very, very high.

As we discussed at investor day, you should expect to see our servicing costs come down over time. Volume of delinquencies, as the units decline costs will come down. We are also working very hard to make our processes more efficient.

Over time you would expect, consistent with what we shared over at investor day, that our normalized expenses for servicing should be in the $300 million to $350 million range. But that will take a number of years to get to.

On page seven you see our Real Estate Portfolios. Circled net income of $500 million in the quarter, that compares to a loss of $160 million in the prior year. Revenues down 7% year on year. It's the result of the run-off we have been talking about for a while.

Loan balances are down $24 billion, 11% year on year, consistent with our guidance. And we have said that you can expect a reduction in NII in this portfolio of about $500 million, plus or minus, for the year as we continue to run off about WaMu portfolio and our other non-core mortgage assets.

Credit costs you see is a benefit of almost $200 million and that is a function of delinquency trends improving across all the mortgage asset classes, including home equity. You see a circled number of $808 million for the quarter in net charge-offs, and as I mentioned, that is down 25% year on year.

So based on the reduction in delinquencies, which, by the way, is in the appendix on page 16, the resolution of the foreclosure settlement and what we are seeing is stability in our severity numbers. We reduced our allowance this quarter by $1 billion. That is, again, part of the significant items on page one.

But I will say, even after that reduction, allowance coverage remains at 6% for the portfolio, $7.7 billion, which is a very conservative approach to our risks and, quite frankly, the $1 billion release is reflective of what we had to do as an accounting matter.

I would note one other reporting change here, which is due to the industrywide regulatory guidance we moved $1.6 billion of our high-risk seconds into the non-performing loan category. And that is despite the fact that $1.4 billion of those $1.6 billion are current today.

As you know, we have identified those high-risk seconds early. We put reserves up against them early and so our reserves remain unaffected. But if you excluded these changes, NPLs would have trended down year on year, down quarter on quarter, and the same would be true at the companywide level as you look at the company statistics.

On page eight, Card Services and Auto, circled net income of $1.2 billion. That is on revenues of $4.7 billion. Revenues and outstandings are lower year on year, that is the impact of runoff. And modestly lower quarter on quarter, and that is primarily due to the seasonal growth that we saw and we tend to see in the fourth quarter around the holidays.

We did see strong sales volume in Card. As I mentioned, up 12%. But if you exclude the sale of Kohl's, sales were actually up 15% for the system and the new product sales growth for our Freedom, Sapphire, and Ink products were actually in excess of that growth rate.

Auto originations also up 21% year on year and that, quite frankly, reflects higher industry sales.

Credit costs of $740 million really reflect two factors. Total net charge-offs are $1.5 billion that is down a little under $900 million year on year. We have got lower delinquency and net charge-off rates circled for Card at the bottom of the page.

We do expect, by the way, the net charge-off rate to be 4.25% plus or minus in the next quarter. I would also note loss rates in Auto remain very low. We recognized 28 basis points of charge-offs this quarter. As a result of all of that information, we released $750 million this quarter in Card and, again, reserves here remain very robust even after that release.

One other comment on Card, expenses were up 6% year on year and that really was related to exiting a non-core product in the business.

Page nine, Commercial Banking. Circled net income of almost $600 million on revenues of $1.7 billion; 25% return on equity and that is based on a higher capital allocation for this business this year. 9% year-over-year revenue growth. It has been driven by the themes we have been talking about, growth in loans and liability balances, and that is offset by the spread compression we have experienced year on year.

It is our seventh consecutive quarter of loan balance growth. You see the circled loan balances of almost $116 billion, up 16%. We had record revenue and record loan balances in our middle-market business for the quarter; that was up 19%.

C&I loans up 24% year on year and I think the best of what we have got in industry data, industry volumes are up 12% year on year. So if you think of all that it really does reflect two underlying trends – growth, we believe, in terms of demand, as well as a combination of improvements in market share across those product sets.

I will continue to note utilization does remain relatively stable where it has been at a low rate for the last several quarters. Credit costs were $80 million in the quarter here but net charge-offs were exceedingly low at 4 basis points.

Page 10, Treasury & Security Services, solid results here. Net income of $350 million, up 11% year on year, 40% quarter on quarter. Revenues of $2 billion, up 9% year on year and that is again resulting from some underlying fundamental trends that are offsetting that spread compression that we have talked about.

Liability balances are up 34%; international revenue was up 12%; assets under custody is a record $17.9 trillion, up 8%; and trade finance loan balances are up 40% year on year. You will notice there, by the way, we had a modest decline in trade finance quarter on quarter. Really a function of a little bit of seasonality and I would say an increased return of competition, particularly from some of our European competitors in the fourth – in the first quarter.

Page 11, Asset Management. We had improved quarter-on-quarter results in AM, largely driven by market conditions, but we are down from what was a strong first quarter 2011. Circled net income of $386 million, that is on revenues of $2.4 billion.

The results were really driven by some underlying growth as well as the market improvement we saw this last quarter. It's the 12th consecutive quarter of long-term flows – $17 billion, $43 billion over the latest 12 months. We did set records for assets under supervision and records for assets under management. Expenses were up year on year and that has largely been from the investment spending we have been talking about for a number of quarters.

Page 12, Corporate and Private Equity. Private Equity net income of $130 million. That is on $250 million of revenue, predominately mark-to-markets for public positions and some modest realizations this quarter.

So corporate we recorded a net loss of $700 million and the loss included two significant items. The first is a $2.5 billion addition to our litigation reserves, predominately mortgage related, and we identified that up on page one. So I am going to make a couple of comments here on the litigation reserve.

As you know, including the actions this quarter, we have been building very significant reserves. We believe that currently these reserves are both comprehensive in nature and appropriately conservative, given what we know about these exposures, including the information with the first quarter of this year.

And I would think, absent a material adverse development that could certainly change our views, we don't anticipate making material addition to these reserves over the course of the year. But I do want to caution facts and circumstances can change, reserves can go up, they can go down, but we feel based on what we know today that we are unlikely to add materially to this position.

We did book an addition of $1.1 billion pretax gain that was also identified on page one. That is from the WaMu bankruptcy settlement. And if you excluded those two items, corporate net income, excluding PE, we note on the bottom right was $175 million for the quarter.

Page 13, the Fortress balance sheet. I have covered a lot of the topics already but let me just add two comments to the page.

First, as you know, we authorized a new $15 billion share repurchase. We have spent approximately $450 million year-to-date on that new authorization, and for those that are likely to ask, it's at a price of about $44.75.

Second, on trust preferred or TRuPS, we have $20 billion outstanding as you all know. We do expect to redeem $10 billion of that $20 billion in total this year, and that is pursuant to the capital plan that we submitted in the CCAR process. For much of that, those securities we are going to wait until there is a regulatory call event to call those. We were in the market for a $400 million call on a single security that didn't require that trigger.

And for the remaining $10 billion currently our view is that is very attractive long-term financing.

On page 14 we do have the outlook. I think I have covered all of that. And so, before I turn it over to Jamie, I did want to talk about the topics in the news around CIO and just take a step back and remind our investors about that activity and performance.

We have more liabilities, $1.1 trillion of deposits than we have loans, approximately $720 billion. And we take that differential and we invest it, and that portfolio today is approximately $360 billion. We invest those securities in very high grade, low risk – we invest those dollars in high grade, low-risk securities.

We have got about $175 billion worth of mortgage securities, we have got government agency securities, high-grade credit and covered bonds, securitized products, municipals, marketable CDs. The vast majority of those are government or government-backed and very high grade in nature.

We invest those in order to hedge the interest rate risk of the firm as a function of that liability and asset mismatch. We hedge basis risk, we hedge convexity risk, foreign exchange risk is managed through CIO, and MSR risk. We also do it to generate NII, which we do with that portfolio.

The result of all of that is we also need to manage the stress loss associated with that portfolio, and so we have put on positions to manage for a significant stress event in Credit. We have had that position on for many years and the activities that have been reported in the paper are basically part of managing that stress loss position, which we moderate and change over time depending upon our views as to what the risks are for stress loss from credit.

All of those decisions are made on a very long-term basis. They are done to keep the Company effectively balanced from a risk standpoint. We are very comfortable with our positions as they are held today.

And I would add that all those positions are fully transparent to the regulators. They review them, have access to them at any point in time, get the information on those positions on a regular and recurring basis as part of our normalized reporting. All of those positions are put on pursuant to the risk management at the firm-wide level.

The last comment that I would make is that based on, we believe, the spirit of the legislation as well as our reading of the legislation and consistent with this long-term investment philosophy we have in CIO we believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker.

So with that, maybe, Jamie, I will turn it over to you before we open it up for questions.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Doug, thank you. So let me just -- let me talk about one thing and then we will open to questions.

When is the stock buyback? Obviously we got permission to buy back $15 billion worth of stock. We would have preferred to have been able to buyback substantial amounts below tangible book value, but we were unable to.

We will always, as a disciplined buyback of the approximately $3 billion we issue every year, and that is the $3 billion we issue mostly for comp. And that is not on a GAAP basis. It's [going to be] issued before investing, etc.

At 45 we will -- we reserve -- right now we are buying back at that rate, but we may do more. So we reserve the right at any point in time to do whatever we want and it's based upon basically for things.

What are the organic opportunities? They might be there, portfolios or more organic growth. What are the investment opportunities? There are a lot of things you can buy, both investments or acquisitions, which we don't really expect big ones now.

Our own desire to get quickly -- how fast do we want to get to our new capital requirements under Basel III. And the stock price. So it does not mean at $45 -- obviously when the stock goes up I think we will be consistent and we will buy less. When it goes down we will buy more.

We are a buyer in size around tangible book value. And then, obviously, we reserve the right to change that at will.

So let's open up to questions or comments about any subject at all.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Glenn Schorr, Nomura.

Glenn Schorr - *Nomura - Analyst*

Jamie, just because you brought it up, I think it's interesting. If you took the midpoint of the range that you outlined in the shareholder letter and you took the $23 billion, $24 billion of over-the-cycle earnings, that is a sub-7 times multiple. It seems very attractive at the midpoint of the range.

I am just curious on how you think through the valuation when you are thinking about the use proceeds on the buyback.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Well, I mean, look, you said it yourself, anyone can do the numbers. Our tangible book value is extremely attractive, at 40 it will probably be attractive and at 45 --I am not saying it's not attractive, but our best thing is to grow our business and not to worry about buying back the stock.

We are going to buy back the stock when it's a bargain, not just because we feel like it. And so you guys can all do the numbers, we are just not going to tell you what we are going to do.

Glenn Schorr - *Nomura - Analyst*

All right, fair enough. If you look on the quarter for year-on-year basis, expenses are up like 15%. Now there is litigation costs in there and things like that. I think on the investor day you had suggested flat expenses year on year. Obviously it depends on Investment Bank revenues, but can you just talk about the revenue expense dynamic?

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

We said flat expenses; we still expect that. The first quarter is a little bit higher because of FICA and payroll, a whole bunch of things like that, and some one-off expenses that run through there. And that is flat if you back out IB comp and extraordinary stock.

That number should be about $12 billion a quarter. Obviously it was a little bit higher this quarter to do that, but it will come down over time we think.

Glenn Schorr - *Nomura - Analyst*

Okay, so still flat --.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Remember, it's flat but we are still doing a lot of investing. So we are getting other efficiencies to help pay for the investing.

Glenn Schorr - *Nomura - Analyst*

Fair enough. And then maybe last one for me. I think the fear around issues in Europe has started to subside post the LTRO, and I think we discussed that last call. We got a little bit of a scare, though, the last week or two with Spain.

Just curious on your thoughts right now; where are we in that process and do you still feel comfortable on the counterparty exposures?

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Yes, I constantly read about counterparties. Our numbers -- we disclosed around $15 billion, a little bit higher than that now. They obviously move around.

I would still say exactly the same thing. The LTRO was a massive thing that took the real catastrophe in the short run off the table, but obviously the world is going to evaluate over time whether the fiscal union is tightened and given teeth and carrots and sticks and all that. It's going to look at Spain and Italy's both austerity and growth plans, and it's going to be like an accordion for the next 18 months. So I personally am not going to over react to that.

But I think they have to do some things to give it the real stability. The LTRO wasn't sufficient. It was not a -- it was a short-term fix not a permanent fix.

Glenn Schorr - *Nomura - Analyst*

Okay, I appreciate it. Thank you.

Operator

Guy Moszkowski, Bank of America.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Good morning. On the CIO question, which obviously you have addressed and has gotten so much attention in the press this week, can I just ask one further question, which is are all of the results of the CIO group reflected only within Corporate and Other? There is no sharing of any of those results with, say, FICC in terms of the reporting that we would see in the Investment Bank?

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

No, God, no. No, no. A lot of the NII is given to the businesses that generate that deposits on a consistent fund transfer methodology, which -- but not with the investment bank. Remember, most of that portfolio is an AFS portfolio, not all of it, but most of it.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Right, fair enough. It's just I (multiple speakers)

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

We disclosed both realized gains, unrealized gains, and mark-to-market gains. You get all of that.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Yes, that is just a question that I ask in order to assess the tempest in the teapot nature of the stories relative to the revenues that we see that just don't seem to be that big.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

It's a complete tempest in a teapot. Every bank has a major portfolio; in those portfolios you make investments that you think are wise to offset your exposures.

Obviously, it's a big portfolio; we are a large company and we try to run it -- it's sophisticated obviously with complex things. But at the end of the day that is our job is to invest that portfolio wisely, intelligently over a long period of time to earn income and to offset other exposures that we have.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Then turning to the capital questions, obviously you have had a rapid growth towards your eventual Basel III targets, although of course we still don't know exactly what they are, and you have alluded to the conditions under which you would return capital through buybacks. But what about the potential for special dividends along the way? If you felt that you had excess capital and that share buybacks were not that attractive, how would you think about that?

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Guy, I think the right way to look at that is ask that question in two years. I mean we are not at the Basel III targets yet. You should expect dividends on a regular -- we may change our minds, but on a regular annual basis from us that will look at what to do.

Obviously, this is a Board-level decision. But there is going to certainly be no special dividend before we know what the real capital rules are.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Fair enough.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

Take that off the table.

Guy Moszkowski - *BofA Merrill Lynch - Analyst*

Okay, that is completely fair. Mortgage origination you alluded to better spreads obviously, and maybe you could just give us a little bit more color of how that came through. Because it certainly does look like they improved meaningfully given how the revenue evolved versus last quarter versus the origination volumes.

Jamie Dimon - *JPMorgan Chase & Company - Chairman & CEO*

They were several hundred million dollars higher than what we would call normal for a whole bunch of different reasons, including HARP, supply/demand, the price at which Fannie Mae and Freddie Mac are securitizing things. So I would expect that to normalize over time.

From: Dimon, Jamie <jamie.dimon@jpmchase.com>
Sent: Fri, 11 May 2012 09:07:24 GMT
To:
CC: Will, Kathleen <KATHLEEN.WILL@jpmchase.com>
Subject: Fw: 10-Q call - Buyside and sellside comments (2)

From: Youngwood, Sarah M
Sent: Thursday, May 10, 2012 10:31 PM
To: Dimon, Jamie; Braunstein, Douglas; Drew, Ina; Staley, Jes; Cutler, Stephen M; Evangelisti, Joseph; Lemkau, Kristin C; Miller, Judith B.
Cc: Investor Relations
Subject: 10-Q call - Buyside and sellside comments (2)

Here is the balance of calls for the evening. All calls returned. See below regarding comments. We have also left messages to the extent we couldn't connect (see bottom of mail).
For reference, we had 3,248 people on the webcast and 4,543 people on the telephone lines. A total of 7,791 people on the call.

Betsy Graseck – Morgan Stanley – Sellside

- Appreciate Jamie's public apology
- How long will it take to unwind the trades?
- Why not offset the whole thing with unrealized gains in the AFS book?
- Is this something that happened in the month of April? Did you become aware of this while closing your books or was this something you were aware of in the first quarter?
- What was the sequence of the events?
- Why did you go back to the old model?
- What can you point to in terms of market movements?
- Can we approximate the size of your position based on the losses?
- Anyone in particular that is putting on these types of trades in? How did this happen?
- Will you still do your buybacks?
- Please detail changes in Basel III

Glenn Schorr – Nomura

- Everyone should give up on trying to figure what the trades are
- There weren't any issues with credit in the market. Why the big loss?
- The loss was not that big in the grand scheme of things so why have a call on it?
- I want to understand for intellectual reasons what happened
- Obviously not about the P&L impact and the capital ratio impact
- One of the few companies that trades on a premium will now lose some of that premium
- So nothing gets changed for Q1 except VaR and BIII Tier 1?
- This is just something you found in your internal risk management, right?

Andrew Marquardt – Evercore – Sellside

- Is this something we should be concerned about in terms of the culture and risk management across the firm?
- Is this just a strategy gone wrong? On the wrong side of a trade?
- Is this a red flag for regulators? Are the regulators now going to review your controls?

Permanent Subcommittee on Investigations
EXHIBIT #95

- Can you explain what happened in terms of reducing the credit protection? What was the strategy? What was the change?
- Any impact on buybacks?
- Anything else in the Q that changed?
- Thought it was a good call; appreciate the conversation being upfront, the JPMorgan way

Guy Moszkowski – BACML – Sellside

- Thank you for the public apology
- What does the repositioning of hedges mean?
- Is the $127B of derivative disclosure related to the $2B losses?
- How sweeping are the changes not just in model but in personnel?
- Did you restate the 12/31 VaR?
- Did Jamie say that the old model was inadequate?
- Can you continue to do buybacks? Any updates to that? What about the Fed? They just issued $12-$15B in buybacks. Are they going to rescind their authorization?
- The 20 bps decline in Basel III, was that related to the stressed VaR?
- Is it fair to say that if you had suffered theses losses in the IB you wouldn't have had this call but because this was in CIO and you were so far off guidance that you felt you had to have this call?
- This will look like prop trading to a lot of people; already had Senator Levin on the tapes saying this is why Volcker has to be in place; not good from a Washington stand point
- Embarrassment for JPMorgan but worst for GS and the industry because of the timing of the whole Volcker rule
- Jamie was clearly falling on his sword – very noble

Richard Ramsden – GS – Sellside

- Restated VaR. On what?
- Change in VaR must be because you changed your risk model correct?
- So you want from a standard model to an advanced model and the model didn't work as you thought?
- You didn't give disclosure on your position. Does that mean your position is still open?
- You must have considerable gains in that portfolio as well correct?
- Are you disclosing this because the auditors thought you should or you thought you should? Was this your decision?
- Did this have to do with all the articles Bloomberg has written?
- Did this hedge have to do with tail-risk? Would have thought you would have made money; unless you were reducing the hedge?
- Are there going to be other type of effects?
- Does this impact the buyback program?
- The impact doesn't really change anything; don't think it was that big; don't think it changes the earnings power and doesn't impact the capital return story; financially, don't think it was a big deal
- Problem is that people don't expect this from you

Jim Mitchell – Buckingham Research – Sellside

- Was this set up to hedge your previous hedges?
- Was it meant to hedge your AFS portfolio from tail risk?
- Why would the VaR change retroactively? In light of this situation, you re-evaluated the prior model?
- What does it mean when you say "not monitored well"?
- This was not related at all to the IB correct?
- When were these positions put on?
- Did the fourth quarter number changed?

Marty Mosby – Guggenheim – Sellside

- Please confirm this was mark-to-market
- This was in the corporate division correct? Not related to clients?

- Can you give details on your hedge?
- Is CIO taking proprietary positions? What do you mean by excess liabilities?
- Was this related to hedge ineffectiveness?
- What was the core thing that you were trying to hedge?
- Have you given the principal outstanding related to the position?

Jeff Harte – Sandler O'Neil – Sellside

- How profitable has the portfolio been?
- Why shouldn't we be concerned about all of JPMorgan's risk management?
- Was the jist of this that you hedged the portfolio, had the hedges for a long time and you were trying to take the hedges off?
- Can you still buyback stock?
- Is it fair to assume this is new guidance? Does this contradict guidance you had given before?
- What was the $7B+ of unrealized gains?
- Is this related to a hedge being ineffective?
- Would the gains or losses show up in the P&L?
- How has the reaction been so far?

Dan Marchon – Raymond James – Sellside

- What is a synthetic credit portfolio?
- On the call, Jamie had mentioned that these were trading losses, but then in the 10Q the language was different, is that the same thing as mark-to-market?

Ben Hesse – Fidelity – Buyside

- Over the Easter weekend we spoke and you said there was no losses related to this
- Have a lot of contacts in Washington who said this is going to be a big deal for Volcker; need to manage this in DC because the hit there is going to be a lot bigger than the hit on earnings

Greg Wachsman – Lord Abbett – Buyside

- Is the $2B realized or unrealized?
- So from my understanding it sounds like you're managing exposure at the top of the house, and then you have some repositioning and re-hedging of the portfolio – can you go over it again what transpired because I need to better understand what happened?
- Synthetic credit portfolio – what is that? Is that CDS? What does that entail?
- What did he mean when he said, "it could be another billion on top of that"?
- Can you quantify the absolute long-term loss?
- Do you know what the notional loss amount was?
- The VaR changed from $67mm to $129mm – can you talk about the model behind it?
- Was this a hedge or prop trading?
- Any capital plan changes?
- Since it wasn't that material, why did you guys host the call?

Matthew Antle – Putnam Investments – Buyside

- When you gave your Basel III hit, did you consider the multiplier effect?
- Soc Gen had to adjust their VaR even higher after their rogue trading incident – is this considered rogue trading?
- Did the Fed confirm that you can continue to do share repurchase?

Jeff Busconi – Viking – Buyside

- What does the $67mm in VaR represent in the restated supplement?
- Is the real problem in the marking of the position? Was it mismarked, or did it move against you?
- Why did you come out and do this call? It seems like to numbers aren't that big. "I'd say the $800mm loss is immaterial." All the dealers on the Street know what the position is, and my guess is other people would know

what the position is before long. Seems like you've exacerbated the issue. Most of the dealer community is aware of the positions

- What are the changes you've made in risk management?
- How is the CIO office actually structured? Does the CIO report to Jamie?
- Was part of the losses an adjustment to your mark?
- There are probably other counterparties on the other side of the trade if these are synthetic that are aware of the position. And, I'd guess the dealer community is aware of the position as well. It must be a pretty big notional amount to have lost $2B in a short amount of time. $2B is not large relative to your balance sheet, but it is big in the context of tranches.

Bill Rubin – Blackrock – Buyside (e-mail)

This note further below from Ed Najarian says it all.
I've spoken with several of our team members at Blackrock.
Please forward the following comments to executive management if you deem appropriate.
We are very disappointed by this turn in events, not so much by the size of the loss, but more by the bad stumble in risk management/controls.
Major reputation and sentiment hit, damaging.
Stepping up and coming clean, mea culpa, was the right thing to do. Appreciated.

We expect aggressive response on 4 fronts:
1) As smoothly as possible exiting riskiest remaining positions with least amount of further damage to balance sheet and inc statement, and fixing policies/procedures/risk controls,...as Jamie Dimon discussed.
2) Offsets...are tax implications from reaping further securities gains really that prohibitive?
3) Yet another look at cost reductions where possible/feasible...especially with weaker capital markets revenues in 2Q and likely 2H12, we believe the cost structure remains too high. We believe JPM's revenue opportunity will not be hurt by reducing costs further - the company and most of its people are too good to not capture opportunities when they arise, and being another -1%2% lighter in costs will not materially diminish that capability.
4) Buy back stock more aggressively. For what it's worth, at ~ $38 price, we believe P/BV 0.8x, P/TBV 1.1x, and P/E 7x is stupid cheap. The market cap of JPM will be down at least $10 billion tomorrow. If the company can truly generate $24 bn in net income in a couple years, any stock repurchase anywhere remotely close to these stock prices will be very, very attractive prices indeed.

Just ideas and suggestions to consider.
Please forward to executive management if you deem appropriate.

(Ed Najarian's note below.)

ISI: JPM - JPM announces $2bn trading loss
Company Note: JPMorgan Chase (Buy, $52 PT)
Maintain Buy; stock over-discounting the loss

* **After the market closed, JPM announced a slightly more than $2bn mark-to-market trading loss in a synthetic credit portfolio** that was initially designed to hedge global credit exposure. The hedge was initially designed to deliver positive revenue in a credit stressed environment. However, a first quarter strategy to reduce the hedge was poorly designed, poorly executed, and poorly monitored and have resulted in more than $2bn in mark-to-market losses thus far in 2Q. JPM plans to partially offset the loss by reaping $1bn of investment securities gains. Thus, the net loss to 2Q EPS thus far is about $800mn after tax or equal to about $0.21 per share. Additionally, the loss could grow or shrink over the balance of this quarter and is likely to lead to more earnings volatility over the balance of this quarter and next quarter. For example, it is not unreasonable to assume that JPM could lose another $1bn on this position. Accordingly, based on this loss and our perception that core trading revenue has been weaker than expected thus far in 2Q, we are reducing our 2012 EPS estimate by $0.35 from $5.05 to $4.70. We are maintaining our 2013 and 2014 EPS estimates at $5.50 and $6.10. We are also maintaining our one year price target of $52.

* **However, JPM stock is now off nearly 7% in after hours trading or about $2.70 per share.** We would note that with JPM stock off $2.70/sh that represents about $10bn of lost market cap based on only a $2bn pre-tax trading loss. We find it very difficult to imagine that this poorly structured synthetic credit position will ever lead to $10bn of cumulative after-tax losses. We would expect the cumulative loss figures to remain significantly below that threshold (perhaps in the several billion dollar range and thus not more than $1 per share). Additionally, we remind investors that JPM recently received approval to repurchase up to $15bn of stock over the 12 months from 3/31/12 - 3/31/13 and we fully expect JPM to use near term weakness in the stock to buy it back aggressively. Furthermore, at a current after-hours price of about $38 this stock is yielding 3.2%. Accordingly, we would advise investors to not sell into tomorrow's weak JPM stock price. In fact, we would regard tomorrow's weakness as a buying opportunity.

* **While this incident is unfortunate and clearly represents a major error of judgment, risk management, and execution within the Chief Investment Office of JPM,** we have confidence that JPM will work diligently, aggressively, and thoughtfully to resolve it in the best way possible with a focus on minimizing its additional damage to shareholder value. Finally, we note that based on this position JPM did revise its 3/31/12 Basel 3 Tier 1 Common equity ratio to 8.2% from 8.4%. But the company remains well positioned to repurchase significant amount of stock and surpass a 9.5% Basel 3 threshold by the end of 2013.

Voicemails (calls returned; left vm; will connect tomorrow)

- Sellside: Thang To (ISI junior), John Dunn/Marc Lombardo (Meredith Withney), Paul Miller (FBR)
- Buyside: Kush Goel (Neuberger), Dick Manuel (Columbia), Bill Auslander (Alliance Bernstein), Patrick Hughes (Olayan), Ryan Long (Chesapeake), Jay Mai (Glenview), Ryan Lentell (Manulife), John Baldi (Clearbridge), Ravi Chopra/Jeff Barnes (Samlyn), Greg Anderson (UBS AM)

Sarah

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Raw Transcript

10-May-2012

JPMorgan Chase & Co. *(JPM)*

Business Update Call

MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We are about to begin. This call is being recorded. Your lines will be muted for the duration of the call. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon. Mr. Dimon, please go ahead.

Jamie Dimon

Operator, thank you. Good afternoon, everybody. I would like to thank you all for joining on short notice. I want to update you on a few items that we have in our just filed 10-Q.

Specifically, we had given prior guidance that Corporate – that net income in the Corporate segment – notice it's not the corporation, it's one of the segments – ex Private Equity and litigation would be approximately plus or minus $200 million. This includes the CIO's overall performance.

We currently estimate this number to be minus $800 million after-tax. This change is due to two items, both in CIO this quarter – I'm going to get back to give you pre-tax numbers now – slightly more than $2 billion trading loss on our synthetic credit positions and a $1 billion of securities gain, largely on the sale of credit exposures.

I want to remind you that CIO has over $200 billion in its investment portfolio and unrealized gains as of March 30th of $8 billion. CIO manages all its exposures in total as a whole, and it doesn't in light of the Firm's total requirements.

We are also amending a disclosure in the first quarter press release about CIO's VAR, Value-at-Risk. We'd shown average VAR at 67. It will now be 129. In the first quarter, we implemented a new VAR model, which we now deemed inadequate. And we went back to the old one, which had been used for the prior several years, which we deemed to be more adequate. The numbers I just gave are effective March 30th, the first quarter.

Regarding what happened, the synthetic credit portfolio was a strategy to hedge the Firm's overall credit exposure, which is our largest risk overall in its trust credit environment. We're reducing that hedge. But in hindsight, the new strategy was flawed, complex, poorly reviewed, poorly executed and poorly monitored. The portfolio has proven to be riskier, more volatile and less effective than economic hedge than we thought.

What have we done? We've had teams from audit, legal, risk and various control functions all from corporate involved in an extensive review of what happened. We have more work to do, but it's obvious at this point that there are many errors, sloppiness and bad judgment. I do remind you that none of this has anything to do with clients.

We've had many lessons learned and we've already changed some policies and procedures, as we've gone along. In addition, you should know that all appropriate corrective actions will be taken, as necessary, in the future. Most important, some of our best talent from across the company, particularly traders and risk managers, are fully engaged in helping to manage the portfolio.

The portfolio still has a lot of risk and volatility going forward. So how are we going to manage that? So, number one, we're going to manage it to maximize the economic value for shareholders. What does that mean? It means that we're not going to do something stupid. We're willing to hold as long as necessary inventory, and we're willing to bear volatility.

Therefore, the volatility for the rest of this quarter and next quarter or so will be high. It could cost us as much as $1 billion or more. Obviously, we're going to work hard to have that not be a negative at all. But it is risky, and it will be for a couple of quarters.

Clearly, markets' and our decisions will be a critical factor here. Hopefully, this will not be an issue by the end of the year, but it does depend on the decisions and the markets – the decisions we make in the markets we have.

However unfortunate this event is, I do want to put this in perspective. One of the reasons we keep a fortunate balance sheet is to handle surprises, although this is not the kind of surprise we wanted to have. Our Basel I ratio will stay very strong and it doesn't change at all as a result of – March 31 result is, our Basel III ratio, which remembers a rough estimate anyway will be amended down to 8.2% from 8.4% effective March 30. We will however in the future continue to meet our very conservative targets for both Basel I and Basel III.

While we don't go – I also want to say, while we don't give overall earnings guidance and we are not confirming current analyst estimates, if you did adjust current analyst estimates for the loss, we still earned approximately $4 billion after-tax this quarter give or take.

Neither of these things absorbs us from blame. So speaking for the Senior Management team and myself, while we can't assure you we won't mistakes, we will – we can assure you we are going to try not to. These were grievous mistakes, they were self inflicted, we were accountable and we happened to violate our own standards and principles by how we want to operate the company. This is not how we want to run a business.

We will discuss all these matter and more and in fulsome detail on our second quarter analyst call and we are going to take some questions on this call. I do want to tell you now we are not going to take questions about specific risk positions, strategies or specific people.

Finally, however unfortunate incident is, we will do what we always do, we admit it, we will learn from it, we will fix it, we will move on, hopefully in the end, it will make us a better company. We are business to serve clients and nothing here distracts all the great things that our 203,000 employees around the world do every day for our clients and communities.

So thank you for spending a little time with us and we'll be happy to take a few minutes of questions.

QUESTION AND ANSWER SECTION

Operator: Your first question is from Glenn Schorr with Nomura.

Glenn Schorr **Q**

Hi thanks. Just curious on when this was caught, if it wasn't caught internally or caught by a regulator when you update the regulators, when you talk to the rating agencies, just curious on how all inner workings works?

Jamie Dimon **A**

You should assume that we try to keep our readers update about what we know and when we know it and it's just a constant practice of the company. And when I said, it was caught, we started dig into this more and more, most of things were bearing big losses in the second quarter. And of course, when you start to see something like that you act probably – obviously we should have acted sooner.

Glenn Schorr **Q**

So I am not clear when did the losses accumulate? In other words was this something that happened most recently or this was an era in the past and is just updating your risk amount now?

Jamie Dimon **A**

There were small ones in the first quarter, but real ones that we talked about the $2 billion were all in the second quarter. And it kind of grew as the quarter went on. And obviously it got our attention, that and other things, which come to our attention.

Glenn Schorr **Q**

Got it. Okay, thanks, Jamie.

Jamie Dimon **A**

You are welcome.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Jamie Dimon **A**

Hey, Guy. Guy?

Operator: Guy, your line is open. Please make sure that your line is not muted. There is no response from Guy. So we will move to the next question, that question is from Matt Burnell with Wells Fargo Securities.

Matthew Burnell Q

Good afternoon, Jamie. Just two interrelated question, does this change your capital plan for 2012, or does this have any effect of the regulatory plan that submitted earlier this year to the regulators?

Jamie Dimon A

No. I do want to say one other thing that a lot of us have analysis week, buy-side and sell-side and we feel terrible because we obviously knew a lot but because of FD we couldn't say anything. So on behalf of all of the JPMorgan people who did that and I personally know that it's the [indiscernible] this week we do obviously apologize for that.

Matthew Burnell Q

Thank you.

Operator: Your next question is from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch Q

Great, thanks. Was that – the 1 billion of securities gain you said was related to that coming out of CIO was that part of the same reduction and could you talk a little bit about the process of kind of mitigating the risk of the balance of the next couple of quarters?

Jamie Dimon A

Yeah, we wanted to reduce our overall credit exposure and there were AFS securities in CIO gains we sold those and took gains.

Moshe Orenbuch Q

And in terms of the process of getting the exposure down over the next several quarters, I mean can you talk a little bit about – about how that...

Jamie Dimon A

We're going – we have the top teams involved we've reviewed a couple of – probably a couple of times a day at this point and I've always said that the principle wise how we're going to do that. Maximize economic value, volatility obviously you can lose more money and I mean I can repeat it five times but that's what we're going to do.

Moshe Orenbuch **Q**

Okay, thanks.

Jamie Dimon **A**

Yeah.

Operator: Your next question is from Matt O'Connor with Deutsche Bank.

Jamie Dimon **A**

Hi, Matt.

Matthew O'Connor **Q**

Hi. I hope this is another stupid question but I guess when I sit back and I think about the earnings power and all the moving pieces of your company my first thought is on a net basis $1 billion I guess I still like the message maybe it's worst than what the numbers are and I'm trying to better understand you know why you felt like you need to disclose it in the Q, what's – because last quarter you had 2.5 billion of litigation and you absorbed that then some.

Jamie Dimon **A**

Yeah.

Matthew O'Connor **Q**

So it just seems like...

Jamie Dimon **A**

No, it's a very good question and that fact is, first of all – we've already said it could get worse and it's been going on for a little bit, unfortunately. That's number one. Number two is, so soon after the end of the first quarter when we basically gave you different kind of guidance.

And number three just what to tell you what we know, we're not telling its worse, not could I completely agree what you said. It's not going to stop us to building a great company. But it's unfortunate and of course it's going to raise questions and we just want to answer those as best we can.

Matthew O'Connor **Q**

Okay. Thank you.

Operator: Your next question is from John McDonald with Sanford Bernstein.

John McDonald — Q

Yes.

Jamie Dimon — A

Hi, John.

John McDonald — Q

Yeah. Hi, Jamie. So just – while we have you, did – was there any other items in the Q that changed in terms of your outlook not having any chance to go through it yet?

Jamie Dimon — A

I don't know it they were running it on CNBC, the litigation and potential future, but I think it was like almost the same number from the past. And I think most of the guidance was approximately the same, right?

A

A little bit of guidance around the investment bank trading and...

Jamie Dimon — A

Right, okay.

A

And mortgage margin?

John McDonald — Q

Okay. No, change on your expense. You're still looking to keep you adjusted at the 49 billion this year?

Jamie Dimon — A

There was – yeah, there was no comment in there at all.

John McDonald

Q

Okay. So we should assume you're still shooting for that?

Jamie Dimon

A

Well, of course. Yeah. But that can change too, but yes.

John McDonald

Q

Okay. And then, any – too early to kind of just think about a broader rethinking of CIO and how it's structured or how you managed the risk that you're looking to hedge there. Is it too early on that or any comments just from a big picture there?

Jamie Dimon

A

Yeah, so all – remember all banks have fairly big – all banks have portfolio and big banks have basically large portfolios. You have to invest excess cash, have invested around the world in deposits and remember the CIO has done a great job for a long extended period of time. This was a unique thing we did and obviously it had a lot of problems and we are changing appropriately as we are getting our hands around it, but we are going to have a CIO who is going to have talented people there, continue to do what they've always done.

John McDonald

Q

Okay. And a last thing, the $800 million for this quarter, that's only for this quarter, you are not talking about continuing we will see on the future quarters but that's just for this quarter right.

Jamie Dimon

A

It's this quarter currently. So we were telling you, there is going to be a lot of volatility here and could easily get worse this quarter or better, but could easily get worse and the next quarter we also think we have a lot of volatility next quarter. I am not going to update about number changes a lot. We are not going to make calls every time the number moves around, by $0.5 billion.

John McDonald

Q

Okay. Thanks.

Jamie Dimon

A

Okay. Yes.

Operator: Your next question is from Bill Rubin from BlackRock.

Bill Rubin

Q

Yes. I don't know if this was asked or ranched [ph] yet, but this doesn't change anything with the c-core [ph] capital plan or the buyback capability at all, does it?

Jamie Dimon

A

I don't think so because our capital is strong, we are going to meet all our commitments, we can handle highly stressed environment, so no, we don't think so.

Bill Rubin

Q

So you can be in the market tomorrow after this?

Jamie Dimon

A

I believe so.

Bill Rubin

Q

Okay. Thanks.

Jamie Dimon

A

My general counsel is sitting right here, so he would have kicked me if I was wrong.

Bill Rubin

Q

Thank you.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski

Q

Hi hopefully this will work better.

Jamie Dimon

A

Hey Guy, did you hear my little apology?

Guy Moszkowski **Q**

No, I didn't. But I didn't hear anything for a few minutes. So – but, thank you.

Jamie Dimon **A**

I apologize. When you were here, I knew you were here and I didn't have – obviously I couldn't tell you about this and, of course, I feel terrible about that.

Guy Moszkowski **Q**

Well, that's okay. Thank you. Listen, I'd really like to understand what type – why you felt that you needed to add this kind of synthetic credit exposure? Were you...

Jamie Dimon **A**

Okay.

Guy Moszkowski **Q**

Were you not esteemed that you had enough exposure through core lending businesses, and what was going on?

Jamie Dimon **A**

Exactly. The original premise of the synthetic credit exposure was to hedge the company in a stress credit environment. Our largest exposure is credit across all forms of credit. So we do look at the fat tails that would affect this company. That was the original proposition for this portfolio.

In re-hedging the portfolio, I've already said, it was a bad strategy. It was badly executed. It became more complex. It was poorly monitored. We don't – obviously, we don't have to do anything like this at all, if we don't want. And I understand you can ask that question. So I don't want to give you specifics because we've already said we're not going to talk about the actual positions or anything like that.

Guy Moszkowski **Q**

And, Jamie, the $1 billion that you referred to in your prepared remarks about – of incremental loss potential, is that the max that you envision above and beyond this sort of net $800 million...

Jamie Dimon **A**

No.

Guy Moszkowski

Q

... after-tax number?

Jamie Dimon

A

No. That is – I said the volatility could easily be that. Obviously, it could be worse than that. We're going to manage this for economics. Hopefully, by the end of the year, it's the hope that this won't be a significant item for us. We want to maximize the economic value of these positions and not panic to do anything stupid. Therefore, we're willing to bear volatility.

Guy Moszkowski

Q

And the final question is how liquid do you view these exposures as being? In other words, granted you don't want to, you know, make economically silly decisions and just cut it off right here, but how easy would it be for you to exit completely and just call it a day and be done with it?

Jamie Dimon

A

I think, I have already said, I am not going to talk about specific risk positions at all.

Guy Moszkowski

Q

Okay, I am not asking specific positions just liquidity.

Jamie Dimon

A

Yet, you are getting specific. We will do what we have to do to maximize the shareholder value. We've got to stay in power and we are going to use it.

Guy Moszkowski

Q

Okay, fair enough. And thanks very much and thanks for putting me back in the queue. Appreciate it.

Operator: Your next question is from Brennan Hawken with UBS.

Brennan Hawken

Q

Hi. Just kind of curious to the extend that you can comment, if you – if the regulators are aware of this and whether there has been any regulatory response, if there is heaven forbid any kind of vocal related implications on this matter?

Jamie Dimon

A

I think you should assume, I can answer this 100 times, you should assume that we keep our regulators up to date. That is a policy of the company. Sometimes you don't give them great information, we don't have great information. You can assume they are up to date. They will take their own point of view on this.

Brennan Hawken

Q

Okay. I just didn't know whether they made...

Jamie Dimon

A

We always said, this violates our principles whether or not it violates Volcker principles and you know we want to run and build a great company. We do believe we need to have the ability to hedge in a CIO type position and that Volcker allows that. This trading may not violate the Volcker rule but it violates the diamond principle.

Brennan Hawken

Q

Okay. And you had mentioned that this was a new strategy that you had decided to exit, is it possible for you to let know how new that strategy was?

Jamie Dimon

A

Not new, it was the – I said new but what I meant is it was the strategy to reduce the credit hedge. So it's kind of a new strategy was devised. And as I already said it was poorly constructed and poorly monitorial that and that's the place over the course of less couple of months.

Brennan Hawken

Q

And the implication I guess might have been that there was all this fresh speculation about certain trading individuals out of London where some staff fairly new that came into execute this new or this some of this new angle and are those folks no longer in that that's been retriggered I think you said, right?

Jamie Dimon

A

No, no nothing new folks a little bit to do with the Oracle the press so it was somewhat related to that it's obviously more than that but somewhere related to that. And I also think we acted a little too defensively to that.

Brennan Hawken

Q

Okay, thanks for the color.

Jamie Dimon

A

Yeah.

Operator: Your next question is from Mike Mayo with Credit Agricole Securities.

Mike Mayo

Q

Hi.

Jamie Dimon

A

Hi.

Mike Mayo

Q

How much of the $2 billion trading loss is due to terrible execution which you mentioned versus the environment you seem to be implying none of this is due to the environment?

Jamie Dimon

A

No, no I'm sorry. I think in hindsight their strategy that execution obviously the environment because these are mark to market positions. So obviously that. I just don't want to make excuses and start talking about market and dislocational stuff like that because that's truly just an excuse.

Mike Mayo

Q

And so would this be a JPMorgan specific issue or is there a chance to others also have some losses on similar positions?

Jamie Dimon

A

I don't know just because we are stupid doesn't mean everybody else was. I have no idea what the people are doing.

Mike Mayo

Q

And just in real simple terms in six weeks you lost $2 billion so – and as simple as you can simple it what went wrong?

Jamie Dimon

A

You already mentioned, there're huge moves in the market place, is a – we made this position more complex. The strategy was barely executed, barely monitored. And like I repeated 800 times, I'm not going to get into too more specifics than that.

Mike Mayo

Q

And you mentioned...

Jamie Dimon

A

But Mike, we will be – I already said, at the end of the quarter we will be talking more about this to satisfy your needs and ours.

Mike Mayo

Q

And you – can you say what recon [ph] this was done and you're not going to disclose any of that?

Jamie Dimon

A

Global.

Mike Mayo

Q

Global. And what caused you to change the VaR model in the first place? I mean you had something that was working and you changed it.

Jamie Dimon

A

There are constant changes and updates to models, always trying to get them better than they were before. That is an ongoing procedure.

Mike Mayo

Q

And this is kind of sensitive, but you've – probably just helping the company of having – being great risk managers and this is mistake and you'll – as you say, you'll learn from that. But is there any sense that the mistake made in the CIO office could also be in place where at JPMorgan?

Jamie Dimon

A

Mike, we operate in a risk business and obviously it puts egg on our face and we deserve any criticism we get, so feel free to give it to us. We'll probably agree with you. But we think we run a pretty good company, with pretty good risk controls and pretty risk management. We are not in a business where we're not going to make mistakes; we are going to make mistakes.

We've always said that, hopefully this small, hopefully few and far between. I'm sorry, could never promise you no mistakes. This one, we will put in egregious category and I understand full why you or anybody else will question us generally.

Mike Mayo — Q

And lastly, just one last follow-up. You said you had some smaller losses in the first quarter whether – even in retrospect were there any sings that perhaps you should have paid more attention to looking back?

Jamie Dimon — A

Yes. In retrospect, yes.

Mike Mayo — Q

What would those be?

Jamie Dimon — A

Trading losses.

Mike Mayo — Q

Okay. So actually...

Jamie Dimon — A

There is some stuff in the newspaper and bunch of other stuff.

Mike Mayo — Q

Got it.

Jamie Dimon — A

Hindsight is – even in hindsight, it's not 20/20. But with hindsight, yes, obviously, we should have been paying more attention to it.

Mike Mayo — Q

All right. Thank you.

Jamie Dimon

A

Yeah. You're welcome.

Operator: Your next question is from Chris Kotowski with Oppenheimer.

Chris Kotowski

Q

Yeah. Hi. You said that you still have an $8 billion gain in the AFS securities portfolio. So should we assume that that's the combination of some gains and sort of the plain vanilla investment portfolio securities that you normally have and then a negative position here?

Jamie Dimon

A

No. The $8 billion – the synthetic credit is mark-to-market. There are no unrealized gains or losses. The AF portfolio is held at cost. The $8 billion is an unrealized gain in the AFS portfolio. And if you go to our 10-Q, you could see exactly where those gains reside as of December 31st.

Chris Kotowski

Q

Okay.

Jamie Dimon

A

Okay. They're in positions all over from mortgages, etcetera.

Chris Kotowski

Q

All right.

Jamie Dimon

A

And we can take some of those gains...

Chris Kotowski

Q

Okay.

Jamie Dimon

A

We can take some of those gains, and we can take them to offset this loss. We can take them because we want to reduce other exposures. But usually, it's tax inefficient. So we're very careful about taking gains.

Chris Kotowski

Q

Right. And so when you said this quarter there was $1 billion of gains and a $2 billion trading loss, the $1 billion of gains, that was in other portfolios. It had nothing to do with these.

Jamie Dimon

A

No. The $1 billion of gains is in the AFS portfolio. On March 31st, it had an $8 billion unrealized gain. We realized $1 billion of it, bringing it down to $7 billion, but it's higher today than it was then. So it should be something 7-plus right now.

Chris Kotowski

Q

Okay. And I have a feeling, I know the answer, but obviously in a skittish world where people are always worked about exposures to pigs and all these kinds of things and there is always a feeling that one can rarely get the real exposures, is there any way you can draw a box around how big the bread box is and...

Jamie Dimon

A

I've already done that for you, to the extent I am going to do it.

Chris Kotowski

Q

Okay. Thank you.

Jamie Dimon

A

You're welcome.

Operator: Your next question is from Keith Horowitz with Citigroup.

Keith Horowitz

Q

Hey Jamie. Thanks for coming clean on this and I think it's important that you did, I guess the question I really had is you are open about the strategy that was poorly monitored, but the real question I guess I had is do you feel that the hedge put on, the position put on, was the intention really to hedge or do you feel like the person you put it on, his intention for profits [ph] or to make sure...

Jamie Dimon

A

It's been on for a long time, it actually made money. I won't talk about what it did, it actually did quite well. It was there to deliver a positive result in a quite stressed environment and we feel we can do that and make some net income. And that was – and in the process of changes new environments, new markets and all that, I've already described the outcome.

Keith Horowitz

Q

So we had a stressed environment in terms of credit and so this is where your strategy [ph] didn't work but you feel that as you go back and put money more in quarter back and you look at how the position got so big, do you feel that it was done with the intention of trying to hedge the tail risk for JPMorgan?

Jamie Dimon

A

I know it was done with the intention to hedge the tail risk for JPMorgan, but I am telling you, it morphed over time and the new strategy which was meant to reduce the hedge overall made it more complex, more risky and it was unbelievably ineffective. And poorly monitored and poorly constructed and poorly reviewed and all that.

Keith Horowitz

Q

Okay. The other thing on that is you had guidance of 200 million per quarter for corporate and its mostly for 2012 but as you kind of think longer term for that business line is that a business line you still think will continue to make money or is this kind of meant to be more just hedge...

Jamie Dimon

A

It's not a business line for the most part it is net corporate expenses which move around we always give you what we think that number is going to be so you can put in your models. And it's the net income that is not allocated from CIO's portfolio to the businesses. The net income from CIO's portfolio is allocated on the consistent basis and this is the net residual space here. There are also other things in corporate that run through this. You know there is just a lot of things that run through corporate. So as you know the 200 million was its kind of a guidance that bounce around overtime.

Keith Horowitz

Q

And then the last question is I guess when you thought about the business when you took over and you thought about this corporate line business is going to shape up investment office do you feel like the mandate has changed over the last five years or do you feel that the mandate is still the same as it was five years ago?

Jamie Dimon

A

You know a little change I mean first of all when we got here remember the portfolio went from $150 billion to 300 there were a lot of cash coming in which we had to invest. And we did – I think we improved – I read somewhere that we made it more aggressive I wouldn't call more aggressive I would call better which we added different types of people, talented people and stuff like that. That is what we were supposed to do. We will manage that fixed income portfolio to maximize the returns to the shareholders and we've been very, very careful. So look at all the things we've done we've been very careful. So if you look at all of the things we've done, we've been very careful and, I think, quite successful. And this is obviously not in that category.

Keith Horowitz **Q**

Okay. Thank you.

Jamie Dimon **A**

All right. I should point out to all the folks on the phone, you could see – you can go to the 10-Q and see what people have those portfolios. And some banks do some things and some do others, but to invest it in actual [ph] deposits, you buy securities. That's been going on for 100 years in banking.

Operator: [Operator Instructions] Your next question is from Nancy Bush with NAB Research.

Jamie Dimon **A**

Hey, Nancy.

Nancy Bush **Q**

Good afternoon. Obviously, Jamie, the timing of this could not be much worse. And I kind of go back to the Volcker issue. If Dick Durbin stands on the floor of the Senate tomorrow and says this is why we need the Volcker Rule, what's your replay?

Jamie Dimon **A**

It is very unfortunate. But the fact of it is this does not change analyses, facts, detailed argument. It is very unfortunate. It plays right into all the hands of a bunch of pundits out there, but that's like not to do with that.

Nancy Bush **Q**

Okay. Thank you.

Operator: There are no further questions at this time.

Jamie Dimon

Folks, thank you very much. We're sorry to have to call you on a short notice for something like this, but we appreciate you taking the time. Thank you.

Operator: Thank you for participating in today's teleconference. At this time, you may now disconnect.

JPMORGAN CHASE & CO.

February 4, 2013

Douglas L. Braunstein
Vice Chairman

Zachary I. Schram, Esq.
Senior Counsel
U.S. Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Schram:

I am writing to clarify one aspect of my interview with you and others on September 12, 2012, as to which I understand from discussions with my counsel that there may be some misunderstanding.

By way of background, between April 5 and April 13, I received information from a number of sources regarding the CIO/London Whale issue. During that period, I had numerous conversations with Ina Drew, J.P. Morgan's Chief Investment Officer, members of her London-based team, including CIO's Chief Risk Officer and Chief Financial Officer, as well as with John Hogan, J.P. Morgan's Chief Risk Officer. I also reviewed several presentations relating to the CIO's trading strategy and the status of the Synthetic Credit Book as of April. During the interview, I specifically recalled, and directed your attention to, the "Synthetic Credit Summary: Risk & P/L Scenarios," an eight-page presentation prepared by the London team, with input from C.S. Venkatakrishnan and Olivier Vigernon in Risk Management. That presentation was provided to me and others on April 11. I specifically recall that I referred to page seven of that presentation as one of the bases for my statement on April 13 that J.P. Morgan was "very comfortable" with the positions, and I directed your attention to the central scenarios included on that page describing an 80% likelihood of a range of outcomes between a loss of $250 million and a gain of $350 million.

I wish to clarify two points. First, I did not state during the interview that I had relied on page seven of the April 11 presentation for my understanding regarding the hedging characteristics of the portfolio. Second, my statements on April 13 regarding those hedging characteristics were references to the portfolio's design and historical performance as a hedge. I was not commenting on the hedging effectiveness of the portfolio as of April 13.

I hope this information is helpful to you and your colleagues. Please contact Reg Brown (202-663-6430) or Harry Weiss (202-663-6993) if you have any further questions.

Sincerely yours,

Doug Braunstein

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Permanent Subcommittee on Investigations
EXHIBIT #97

Report of JPMorgan Chase & Co. Management Task Force Regarding 2012 CIO Losses

January 16, 2013

TABLE OF CONTENTS

This Report summarizes the review of the JPMorgan Chase & Co. ("JPMorgan" or the "Firm") Management Task Force regarding the losses incurred in 2012 by the Firm's Chief Investment Office ("CIO").[1] These observations are based on a review conducted by the Task Force and its legal advisors, which has included a significant number of interviews of current and former JPMorgan employees, and an examination of millions of documents and tens of thousands of audio files. The Task Force has shared and discussed these observations with the Review Committee established by the Board of Directors (the "Board") as well as the full Board.

I. <u>Executive Summary</u>

This Report addresses three basic questions. First, it addresses *what happened* by describing the trading strategies and activities that in 2012 led to large losses in a portfolio managed by CIO (the "Synthetic Credit Portfolio"). Second, the Report addresses *how it happened* by offering observations about the flawed trading strategies, lapses in oversight, deficiencies in risk management, and other shortcomings this incident has highlighted. Finally, the Report addresses *where the Firm is now* by summarizing the comprehensive remedial measures the Firm has undertaken in light of the lessons learned.

[1] The Task Force was led by Michael Cavanagh, currently co-Chief Executive Officer of the Corporate and Investment Bank.

A. Summary of Events[2]

The Synthetic Credit Portfolio managed by CIO was intended generally to offset some of the credit risk that JPMorgan faces, including in its CIO investment portfolio and in its capacity as a lender. The Synthetic Credit Portfolio was composed of both long and short positions in credit default swap indices and related instruments.[3]

By late December 2011, CIO was considering major changes to the Synthetic Credit Portfolio, both because senior Firm management and CIO management had a more positive view of the economy, and because the Firm was in the midst of an effort to reduce its "risk-weighted assets" ("RWA"), in connection with which senior Firm management directed CIO to reduce RWA. In particular, CIO was considering reducing the size of the Synthetic Credit Portfolio and, as explained afterwards by CIO, also moving it to a more credit-neutral position (a shift from its short risk orientation in the fourth quarter of 2011). CIO was led at this time by the

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[2] The description of "what happened" is not a technical analysis of the Synthetic Credit Portfolio or the price movements in the instruments held in the Synthetic Credit Portfolio. Instead, it focuses on the trading decision-making process and actions taken (or not taken) by various JPMorgan personnel. The description of activities described in this Report (including the trading strategies) is based in significant measure on the recollections of the traders (and in particular the trader who had day-to-day responsibility for the Synthetic Credit Portfolio and was the primary architect of the trades in question) and others. The Task Force has not been able to independently verify all of these recollections.

[3] In simple terms, positions in credit default swap indices can be analogized to buying protection similar to insurance policies on the credit risk presented by groups of companies. Trader A sells Trader B protection (in the form of credit default swaps) against a range of corporate credit events (for example, bankruptcy, failure to pay, and/or restructuring) in exchange for periodic premiums. In this scenario, Trader A is said to be "long risk" and Trader B is "short risk." Unlike most insurance policies, it is unnecessary for the buyer of protection to own the underlying credit risk.

Firm's Chief Investment Officer, Ina Drew, and responsibility for implementing these changes belonged primarily to her, together with the Synthetic Credit Portfolio's managers and traders.[4]

CIO initially considered achieving these goals by unwinding some of the positions in the Synthetic Credit Portfolio, including certain high-yield short positions. In mid-January, however, one of the traders advised Ms. Drew that their unwind efforts had been costly. In response, Ms. Drew said that the team might have additional flexibility on the RWA reduction mandate, and that the team should be more sensitive to the profit-and-loss impact of their trading activities. Thereafter, that trader informed another of the traders who managed the Synthetic Credit Portfolio that he was not to worry as much about RWA reduction, and that he should instead focus on profits and losses. Around this same time, this latter trader was also directed to ensure that the Synthetic Credit Portfolio was well-positioned for future corporate defaults.

In the ensuing weeks, the traders began to add substantially to their investment-grade long positions, and by January 26, the Synthetic Credit Portfolio had a roughly credit-neutral position[5] (as reflected in a measure called CSW 10%).[6] By the end of January, the portfolio's

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[4] The names of certain UK-based individuals have been excluded from this document in order to comply with United Kingdom data privacy laws.

[5] It continued to fluctuate thereafter.

[6] Credit spread widening of 10% ("CSW 10%") is one of several different measurements of how long or short risk a credit book is. CSW 10% stresses all credit spreads in a book upwardly by 10% and then calculates the resulting profit-and-loss effect. This one measure is not determinative of the overall risk status of a portfolio as complex as the Synthetic Credit Portfolio. CSW 10% assumes that all spreads on all instruments for all maturities change by the same percentage at the same time. CSW 10% ignores the historical relationships among various instruments as well as any relationships among them that may be inferred from the market, both of which might provide a more realistic risk predictor. In addition, CSW

year-to-date, mark-to-market losses were approximately $100 million. The traders continued to add to the investment-grade long positions in February. The concept of "defending" their positions may have played a role in these transactions.[7] The traders also at this time began to add substantial high-yield short positions. The traders hoped that the combined effect of these additions would allow them, among other things, to earn premiums (from the addition of the long positions); position the Synthetic Credit Portfolio to earn revenues in the event of corporate defaults (from the short positions); and potentially prevent RWA from substantially increasing (from a combination of both). The losses continued to grow, however: by the end of February, the Synthetic Credit Portfolio had experienced an additional $69 million in reported mark-to-market losses.

The traders continued to grow the Synthetic Credit Portfolio throughout much of March. In the latter half of the month, the traders concluded that the portfolio remained short (notwithstanding the fact that under CSW 10%, it appeared relatively balanced), and they therefore significantly added to its long exposure over the course of several days. By the time Ms. Drew suspended trading in the portfolio on or about March 23, the traders had significantly increased both the overall notional size and the long exposure of the Synthetic Credit Portfolio.

10% does not reflect the impact on a portfolio of a corporate default. The CSW 10% measure is explained in more detail in Section II.D.3.

[7] For an explanation of "defending" positions, see Section II.C.1.

The portfolio's year-to-date mark-to-market losses as of the end of the first quarter of 2012 were approximately $718 million.[8]

On April 5, Ms. Drew informed the JPMorgan Operating Committee that the *Wall Street Journal* and Bloomberg were planning to run stories about CIO's trading and specifically about one trader, who was referred to in the articles as the "London Whale." CIO was asked to and did provide information and analyses about the Synthetic Credit Portfolio to JPMorgan Chief Executive Officer Jamie Dimon, Chief Financial Officer Douglas Braunstein and Chief Risk Officer John Hogan. These analyses concluded, in broad terms, that the Synthetic Credit Portfolio was generally "balanced," that the market was currently dislocated, and that mark-to-market losses were temporary and manageable. One of the traders in particular expressed confidence that mark-to-market prices in the Synthetic Credit Portfolio would "mean revert."[9] On an April 13 analyst call, Mr. Dimon agreed with an analyst's characterization of the publicity surrounding the Synthetic Credit Portfolio as a "tempest in a teapot" and Mr. Braunstein stated that the Firm was "very comfortable" with its positions.

The losses in the Synthetic Credit Portfolio, however, increased in the weeks after the April 13 earnings call. These losses prompted senior Firm management in late April to direct

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[8] This figure includes a $155 million liquidity reserve that was taken on certain of the portfolio's positions, but does not reflect the additional losses reported in the Firm's first-quarter restatement described in Section II.C.5.

[9] In this context, the phrase "mean revert" refers to the potential for the prices or correlations of certain instruments held in the Synthetic Credit Portfolio to return to their historic average relationships to other instruments.

non-CIO personnel to review and, ultimately, assume control of the Synthetic Credit Portfolio. A team led by a senior member of Firm-wide Market Risk examined the portfolio, and after analyzing, among other things, correlations of the positions and sensitivities under a range of market scenarios, the team concluded – and informed senior Firm management – that the portfolio faced much greater exposure than previously reported by CIO. The team also found that the market's knowledge of CIO's positions would make it even more challenging to reduce the risks presented by those positions.

In addition to this risk-related review, in preparation for the filing of its Form 10-Q for the first quarter of 2012, the Firm undertook a review relating to the valuations of certain positions in the Synthetic Credit Portfolio. Based on this review, the Firm concluded that its marks at March 31 for the Synthetic Credit Portfolio complied with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). This conclusion was reached in consultation with the Firm's outside auditors, PricewaterhouseCoopers LLP ("PwC").

On May 10, the Firm disclosed that there were significant problems with the trading strategy for the Synthetic Credit Portfolio. In Mr. Dimon's words, the strategy was "flawed, complex, poorly reviewed, poorly executed, and poorly monitored." The Firm disclosed that the Synthetic Credit Portfolio had incurred slightly more than $2 billion in mark-to-market losses up to that point in the second quarter, with the possibility of additional future losses and volatility.

Shortly after May 10, a Task Force was formed to investigate the causes of the losses. In the course of the Task Force's ensuing work, it became aware of evidence – primarily in the form of electronic communications and taped conversations – that raised questions about the integrity of the marks in the Synthetic Credit Portfolio in March 2012. After consulting with PwC, the Firm concluded that it was no longer confident that the March 31 marks reflected good-faith estimates of the fair value of all the instruments in the Synthetic Credit Portfolio. Accordingly, on July 13, the Firm announced that it would be restating its first-quarter net income, to lower it by $459 million. At the same time, the Firm also announced that it had been expeditiously reducing risk in the Synthetic Credit Portfolio and that the cumulative year-to-date losses through June 30, 2012 had grown to approximately $5.8 billion.

B. Key Observations

The Task Force has made five key observations based on its review. These observations reflect the Task Force's view that direct and principal responsibility for the losses lies with the traders who designed and implemented the flawed trading strategy. They also reflect the Task Force's view that responsibility for the flaws that *allowed* the losses to occur lies primarily with CIO management but also with senior Firm management.

To this end, and before outlining its Key Observations, the Task Force offers its perspective on the roles of some of the Firm's senior-most managers in these events. In particular, the Task Force believes that as the Firm's Chief Investment Officer, Ina Drew failed in three critical areas with respect to the Synthetic Credit Portfolio: *first*, by failing to ensure that CIO management properly understood and vetted the flawed trading strategy and appropriately monitored its execution; *second*, by failing to ensure that the CIO control functions – including the CIO Risk and Finance organizations – were performing well and were providing effective oversight of CIO's trading strategy; and, *third*, by failing to appreciate the magnitude and significance of the changes in the Synthetic Credit Portfolio during the first quarter of 2012, including the increases in RWA, size, complexity and riskiness of the portfolio.

The Task Force also believes that Barry Zubrow, as head of the Firm-wide Risk organization before he left the position in January 2012,[10] bears significant responsibility for failures of the CIO Risk organization, including its infrastructure and personnel shortcomings, and inadequacies of its limits and controls on the Synthetic Credit Portfolio. The CIO Risk organization was not equipped to properly risk-manage the portfolio during the first quarter of 2012, and it performed ineffectively as the portfolio grew in size, complexity and riskiness during that period.

As the Firm's Chief Financial Officer, Douglas Braunstein bears responsibility, in the Task Force's view, for weaknesses in financial controls applicable to the Synthetic Credit Portfolio, as well as for the CIO Finance organization's failure to have asked more questions or to have sought additional information about the evolution of the portfolio during the first quarter of 2012. This includes the failure by CIO Finance to have sufficiently questioned the size of the positions, the increase in RWA notwithstanding the RWA reduction mandate and the Synthetic

[10] John Hogan, who succeeded Mr. Zubrow as the Firm's Chief Risk Officer in January 2012, did not have sufficient time to ensure that the CIO Risk organization was operating as it should. Nevertheless, the Task Force notes that there were opportunities during the first and second quarters of 2012 when further inquiry might have uncovered issues earlier.

Credit Portfolio's profit-and-loss performance. And while the Task Force believes that the principal control missteps here were risk-related, the CIO Finance organization could have done more. That they did not stems, in part, from too narrow a view of their responsibilities – *i.e.*, a view that many of the issues related to the Synthetic Credit Portfolio were for the Risk organization and not for Finance to flag or address.

The Task Force's views regarding Firm Chief Executive Officer Jamie Dimon are consistent with the conclusions he himself has reached with respect to the Synthetic Credit Portfolio. Mr. Dimon has stated:

> CIO, particularly the Synthetic Credit Portfolio, should have gotten more scrutiny from both senior management, and I include myself in that, and the Firm-wide Risk control function. . . . . Make sure that people on risk committees are always asking questions, sharing information, and that you have very, very granular limits when you're taking risk. . . . . In the rest of the company we have those disciplines in place. We didn't have it here.
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> These were egregious mistakes. They were self-inflicted, we were accountable and what happened violates our own standards and principles by how we want to operate the company. This is not how we want to run a business.

As Chief Executive Officer, Mr. Dimon could appropriately rely upon senior managers who directly reported to him to escalate significant issues and concerns. However, he could have better tested his reliance on what he was told. This Report demonstrates that more should have been done regarding the risks, risk controls and personnel associated with CIO's activities, and

Mr. Dimon bears some responsibility for that. Importantly, once Mr. Dimon became aware of the seriousness of the issues presented by CIO, he responded forcefully by directing a thorough review and an internal program of remediation. Mr. Dimon reports to the Board, and the Board will weigh the extent of Mr. Dimon's responsibility.

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The Task Force's five key observations are summarized as follows:

First, CIO's judgment, execution and escalation of issues in the first quarter of 2012 were poor, in at least six critical areas: (1) CIO management established competing and inconsistent priorities for the Synthetic Credit Portfolio without adequately exploring or understanding how the priorities would be simultaneously addressed;[11] (2) the trading strategies that were designed in an effort to achieve the various priorities were poorly conceived and not fully understood by CIO management and other CIO personnel who might have been in a position to manage the risks of the Synthetic Credit Portfolio effectively; (3) CIO management (including CIO's Finance function) failed to obtain robust, detailed reporting on the activity in the Synthetic Credit Portfolio, and/or to otherwise appropriately monitor the traders' activity as closely as they should have; (4) CIO personnel at all levels failed to adequately respond to and escalate (including to senior Firm management and the Board) concerns that were raised at various points during the

[11] As discussed below, these priorities included (1) balancing the risk in the Synthetic Credit Portfolio, (2) reducing RWA, (3) managing profits and losses, (4) managing or reducing VaR, and (5) providing "jump-to-default" protection.

trading; (5) certain of the traders did not show the full extent of the Synthetic Credit Portfolio's losses; and (6) CIO provided to senior Firm management excessively optimistic and inadequately analyzed estimates of the Synthetic Credit Portfolio's future performance in the days leading up to the April 13 earnings call.

The Task Force has also considered whether compensation might have played a role in these matters. Here, the Task Force has concluded that, although the Firm could have done a better job in communicating to the traders that they would be fairly compensated notwithstanding the eventual wind-down of the Synthetic Credit Portfolio, the Firm's compensation system did not unduly incentivize the trading activity that led to the losses.

Second, the Firm did not ensure that the controls and oversight of CIO evolved commensurately with the increased complexity and risks of CIO's activities. As a result, significant risk management weaknesses developed within CIO that allowed the traders to pursue their flawed and risky trading strategies. On this point, the Task Force has concluded that senior Firm management's view of CIO had not evolved to reflect the increasingly complex and risky strategies CIO was pursuing in the Synthetic Credit Portfolio; instead, they continued to view CIO as the manager of a stable, high-quality, fixed-income portfolio. As a result, they were less focused on CIO relative to client-facing businesses, and did not do enough to verify that CIO was well managed or that the Firm was fully applying its various risk and other controls to the

Synthetic Credit Portfolio's activities.[12] Compounding the matter, the CIO Finance function failed to ensure that its price-testing procedures for the Synthetic Credit Portfolio were being properly and rigorously implemented, and that it produced robust reporting and analytics regarding the portfolio's performance and characteristics. More generally, although primary responsibility for managing risk lies with the business head and Risk organization, the CFO of CIO (like the other members of CIO senior management) missed a number of opportunities during the first quarter to meaningfully challenge the trading strategy.

Third, CIO Risk Management lacked the personnel and structure necessary to manage the risks of the Synthetic Credit Portfolio. With respect to personnel, a new CIO Chief Risk Officer was appointed in early 2012, and he was learning the role at the precise time the traders were building the ultimately problematic positions. More broadly, the CIO Risk function had been historically understaffed, and some of the CIO risk personnel lacked the requisite skills. With respect to structural issues, the CIO Risk Committee met only infrequently, and its regular attendees did not include personnel from outside CIO. As a result, the CIO Risk Committee did not effectively perform its intended role as a forum for constructive challenge of practices, strategies and controls. Furthermore, at least some CIO risk managers did not consider themselves sufficiently independent from CIO's business operations and did not feel empowered

[12] The Task Force recognizes that, by the time the Firm's new Chief Risk Officer was appointed in January 2012, separate initiatives were underway both to ensure that appropriate risk management practices were in place throughout the Firm, and to review and revamp risk limits within CIO. These initiatives came too late to prevent the losses.

to ask hard questions, criticize trading strategies or escalate their concerns in an effective manner to Firm-wide Risk Management. And finally, the Task Force has concluded that CIO management, along with Firm-wide Risk Management, did not fulfill their responsibilities to ensure that CIO control functions were effective or that the environment in CIO was conducive to their effectiveness.

CIO Risk Management made a number of key missteps, including failures to (1) review the appropriateness of the CIO risk limits used from 2009 to 2012; (2) ensure that the change to the CIO Value-at-Risk ("VaR") model for the Synthetic Credit Portfolio in January 2012 was appropriate and being properly implemented;[13] and (3) appreciate the significance of the changes in the Synthetic Credit Portfolio during early 2012.

Fourth, the risk limits applicable to CIO were not sufficiently granular. There were no limits by size, asset type or risk factor specific to the Synthetic Credit Portfolio; rather, limits in CIO were applied only to CIO as a whole. The absence of granular limits played a role in allowing the flawed trading strategies to proceed in the first quarter, especially as the positions grew in size.

Fifth, approval and implementation of the new CIO VaR model for the Synthetic Credit Portfolio in late January 2012 were flawed, and the model as implemented understated the risks presented by the trades in the first quarter of 2012. As discussed in detail in Appendix A, the

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[13] For more information on the issues that were identified by the Task Force with respect to the action plans embedded in the CIO VaR model's approval, see Appendix A below.

model suffered from significant operational shortcomings that received inadequate scrutiny by CIO Market Risk, the Model Review Group, and the model's developer in the model approval process. Moreover, although the model produced significantly different results from its predecessor, the personnel involved in reviewing and approving the new model required only limited back-testing.

C. Remedial Measures

The Firm has taken comprehensive remedial steps to address deficiencies identified since the losses. These include the following:

First, the Firm has replaced the individuals within CIO responsible for the losses. It has terminated the employment or accepted the resignations of the traders and managers who were responsible for the trades that generated the losses, and is pursuing the maximum clawback of their compensation. It has also accepted Ms. Drew's retirement, as well as her voluntary agreement to return or waive amounts that the Firm otherwise deemed subject to a clawback.[14] The Firm has also substantially reduced (in some cases, to zero) the 2012 incentive compensation for a number of employees and, in addition to reductions for specific CIO employees, has also reduced the 2012 incentive compensation pool for all of CIO.

[14] Three of the individuals whose employment was terminated also subsequently agreed to the Firm's clawback demands. In addition, as described in Section IV.A.2, the Firm also expanded the existing protection-based vesting provisions in certain equity awards to include a specific threshold for CIO. These provisions permit the Firm to conduct a review of an employee's compensation in the event the financial results for that employee's business or function fall below a certain threshold and, as appropriate, claw back portions of that employee's compensation.

Second, the Firm has appointed a new, experienced CIO leadership team, headed initially by Matthew Zames and now by Craig Delany as the new Chief Investment Officer,[15] Marie Nourie as the new CIO Chief Financial Officer, and Chetan Bhargiri as the new Chief Risk Officer for CIO, Treasury and Corporate. The new leadership team began promptly to reposition CIO to focus on its basic mandate, and the Firm also has increased resources for key support functions within CIO, including Finance and Risk Management.

Third, the Firm has adopted a variety of governance measures to improve its oversight of CIO, and ensure that CIO is better integrated into the rest of the Firm. For example, the Firm has instituted new and robust committee structures within CIO, and has taken steps to enhance the Firm's internal audit coverage of CIO activities and ensure tight linkages among CIO, Corporate Treasury and other operations within the Firm's Corporate sector.[16] The Firm has also integrated the existing CIO Valuation Control Group ("VCG") staff into the Investment Bank's Valuation Control Group. In addition, the Firm has established a CIO Valuation Governance Forum ("VGF") as part of a Firm-wide initiative to strengthen the governance of valuation activities. The Firm has also mandated that the CIO Corporate Business Review be conducted with increasing frequency, and with the same rigor as similar reviews for the Firm's client-facing lines of business.

[15] Mr. Delany reports to Mr. Zames, who has been named co-Chief Operating Officer of the Firm.

[16] The Corporate sector (also referred to as the "Corporate/Private Equity" sector) comprises Private Equity, Treasury, Chief Investment Office, and Other Corporate, which includes corporate staff units (such as Audit, Finance, Human Resources, and others) and other centrally managed expense.

Fourth, the Firm has overhauled the Risk Committee for CIO and enhanced the independence of the CIO Risk function. For example, the new CIO Chief Risk Officer's functional reporting practices now conform to his official reporting line; there is no confusion about his accountability to the Firm-wide Risk function. His compensation and career advancement will be controlled by the Firm Chief Risk Officer, with input about his performance from others, as appropriate. CIO's Risk Committee has been renamed the CIO, Treasury and Corporate Risk Committee, and now has broader responsibilities, covering Treasury and Corporate functions as well as CIO, and significant representation beyond CIO. The committee now meets on a weekly basis. Meetings are chaired by Mr. Bhargiri as the Chief Risk Officer for CIO, Treasury and Corporate, and Mr. Zames as the Firm's co-Chief Operating Officer. Attendees also now include other members of senior management, from within and outside of CIO.

Fifth, CIO has implemented more than 200 new or restructured risk limits covering a broad set of risk parameters, including geographic and concentration risks. With respect to the Synthetic Credit Portfolio in particular, a total of 25 new granular limits were applied in May 2012, including limits specific to the Synthetic Credit Portfolio and limits measuring geographic exposure, credit-type exposure, single-index positions (effectively a notional-type limit), and curve shifts and compression.

Finally, under the guidance of its Chief Risk Officer, the Firm has conducted a comprehensive self-assessment of its entire Risk organization and, as a result, has implemented a series of improvements both Firm-wide and within the lines of business. In addition to working to improve model development, review, approval, and monitoring, the Firm is reaffirming and, where appropriate, revising its market risk limits across all of its lines of business, and has already introduced additional granular and portfolio-level limits. It has strengthened the Firm-wide limit excession policy to provide for more rapid escalation and a more thorough review. It is working to further improve market-risk reporting, and has made substantial enhancements to risk reports presented to the Board of Directors' Risk Policy Committee ("DRPC").[17] The Firm also has restructured its Firm-wide Risk Operating Committee in order to increase focus on identifying and implementing best practices across the Firm. Finally, the Firm has enhanced the structure of its Risk Governance Committee and established a Firm-wide Risk Committee.

The Task Force noted that while substantial progress has been made with respect to each of these initiatives, the Firm considers the improvement of its risk practices to be a continuing exercise and thus, its work in this area is ongoing.

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[17] According to its charter, the DRPC is responsible for oversight of management's responsibilities to assess and manage the corporation's credit risk, market risk, interest rate risk, investment risk, liquidity risk and reputation risk, and is also responsible for review of the Firm's fiduciary and asset management activities.

II. Key Facts

A. Relevant Personnel

The key individuals discussed in this Report include:

Senior Firm Management

- **Jamie Dimon**: Mr. Dimon is the Chief Executive Officer and Chairman of JPMorgan. Mr. Dimon became CEO on January 1, 2006, and one year later also became Chairman of the Board. He was named President and Chief Operating Officer upon the Firm's merger with Bank One Corporation on July 1, 2004.
- **Douglas Braunstein**: Mr. Braunstein was the Chief Financial Officer and a member of the Operating Committee[18] of JPMorgan between 2010 and the end of 2012, reporting until July 2012 to Mr. Dimon and thereafter to Mr. Zames. He recently stepped down from his role as CFO and currently serves as a Vice Chairman of the Firm. Marianne Lake, the former Chief Financial Officer of the Firm's Consumer & Community Banking business, succeeded Mr. Braunstein as CFO.
- **John Hogan**: Mr. Hogan is the Chief Risk Officer and a member of the Operating Committee of JPMorgan, reporting to Mr. Dimon. Mr. Hogan was

[18] The Operating Committee is the most senior management committee responsible for the major lines of business and functions of the Firm.

appointed to this position in January 2012, and previously served as the Chief Risk Officer for JPMorgan's Investment Bank since 2006.

- **Barry Zubrow**: Mr. Zubrow is the Head of Corporate and Regulatory Affairs. He previously served as Chief Risk Officer of JPMorgan. He reported to Mr. Dimon from the date he joined the Firm in 2007 until July 2012, when he began reporting to Mr. Zames. He served on the Firm's Operating Committee from 2007 until October 2012. Mr. Zubrow announced his retirement from JPMorgan in October 2012; his retirement is effective February 2013.

<u>CIO Management and Traders</u>

- **Ina Drew**: Ms. Drew was JPMorgan's Chief Investment Officer from 2005 until May 2012, when she retired from the Firm. She was a member of the Firm's Operating Committee and reported to Mr. Dimon.
- Other UK-based CIO managers and traders with responsibility for the Synthetic Credit Portfolio who are not named in this document due to United Kingdom data privacy laws.

<u>CIO Risk Personnel</u>

- **Irvin Goldman**: Mr. Goldman was CIO's Chief Risk Officer from January through mid-May 2012, reporting to Mr. Hogan with "dotted line" reporting to Ms. Drew. Prior to becoming Chief Risk Officer, Mr. Goldman had served as CIO's Head of Strategy. He resigned in July 2012.

- **Peter Weiland**: Mr. Weiland was the Head of Market Risk for CIO and the most senior risk officer within CIO prior to mid-January 2012, when he began reporting to Mr. Goldman. Mr. Weiland resigned in October 2012. From 2009 until mid-January 2012, Mr. Weiland reported to Mr. Zubrow, with “dotted line” reporting to Ms. Drew. From January 2012 until May 2012, Mr. Weiland reported to Mr. Goldman. Thereafter, Mr. Weiland reported to Mr. Bhargiri until October 2012.

<u>CIO Finance Personnel</u>

- **John Wilmot**: From January 2011 to mid-May 2012, Mr. Wilmot was CIO’s Chief Financial Officer, reporting to Ms. Drew, with “dotted line” reporting to Mr. Braunstein. Prior to serving as the CFO of CIO, Mr. Wilmot was responsible for Bank Owned Life Insurance and JPMorgan Partners Private Equity Investments within CIO. Mr. Wilmot has announced his resignation and is expected to leave JPMorgan in 2013.

<u>Other CIO Personnel</u>

- Other UK-based CIO personnel who were involved at various times with the Synthetic Credit Portfolio but who are not named in this document due to United Kingdom data privacy laws.

Risk Personnel

- **C.S. Venkatakrishnan**: Mr. Venkatakrishnan is the Head of Model Risk and Development. Mr. Venkatakrishnan assumed this position in February 2012, and reports to Mr. Hogan. Prior to February 2012, Mr. Venkatakrishnan was the Head of Investment Bank Structuring and Pricing Direct.
- Other UK-based Risk Personnel who were involved at various times with the Synthetic Credit Portfolio but who are not named in this document for data protection purposes.

B. Overview of CIO and its Functions

JPMorgan is a global financial services firm and one of the largest banking institutions in the United States, with more than 250,000 employees. The Firm had $2.3 trillion in assets and $183.6 billion in stockholders' equity as of December 31, 2011. The Firm's major businesses include financial services for consumers and small businesses (including mortgage lending, student and auto lending, credit card lending and branch banking), commercial banking, financial transaction processing, investment banking and asset management.

JPMorgan's businesses take in more in deposits than they make in loans and, as a result, the Firm has excess cash that must be invested to meet future liquidity needs and provide a reasonable return. The primary responsibility of CIO, working with JPMorgan's Treasury, is to manage this excess cash. CIO is part of the Corporate sector at JPMorgan and, as of December 31, 2011, it had 428 employees, consisting of 140 traders and 288 middle and back office employees. Ms. Drew ran CIO from 2005 until May 2012 and had significant experience in CIO's core functions.[19] Until the end of her tenure, she was viewed by senior Firm management as a highly skilled manager and executive with a strong and detailed command of her business, and someone in whom they had a great deal of confidence.

CIO invests the bulk of JPMorgan's excess cash in high credit quality, fixed-income securities, such as municipal bonds, whole loans, and asset-backed securities, mortgage-backed securities, corporate securities, sovereign securities, and collateralized loan obligations. The bulk of these assets are accounted for on an available-for-sale basis ("AFS"), although CIO also holds certain other assets that are accounted for on a mark-to-market basis.

Beginning in 2007, CIO launched the Synthetic Credit Portfolio, which was generally intended to protect the Firm against adverse credit scenarios. The Firm, like other lenders, is structurally "long" credit, including in its AFS portfolio, which means that the Firm tends to perform well when credit markets perform well and to suffer a decline in performance during a credit downturn. Through the Synthetic Credit Portfolio, CIO generally sought to establish positions that would generate revenue during adverse credit scenarios (*e.g.*, widening of credit

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[19] Prior to assuming her role as the Firm's Chief Investment Officer, Ms. Drew had more than 20 years of experience performing asset-liability management for the Firm and its predecessors, including as head of the Treasury function.

spreads and corporate defaults) – in short, to provide protection against structural risks inherent in the Firm's and CIO's long credit profile.[20]

The positions in the Synthetic Credit Portfolio consisted of standardized indices (and related tranches[21]) based on baskets of credit default swaps ("CDS") tied to corporate debt issuers. CIO bought, among other things, credit protection on these instruments, which means that it would be entitled to payment from its counterparties whenever any company in the basket defaulted on certain payment obligations, filed for bankruptcy, or in some instances restructured its debt.[22] In exchange for the right to receive these payments, CIO would make regular payments to its counterparties, similar to premiums on insurance policies. As described in greater detail below, the actual trading strategies employed by CIO did not involve exclusively

[20] Although the Task Force has reviewed certain general background information on the origin of the Synthetic Credit Portfolio and its development over time, the Task Force's focus was on the events at the end of 2011 and the first several months of 2012 when the losses occurred.

[21] CDS index tranches are financial instruments based on a CDS index, where each tranche references a different segment of the loss distribution of the underlying CDS index. Tranches have been issued on several indices, including the CDX North American Investment Grade Index (the "CDX.NA.IG"). The lowest tranche, known as the equity tranche, absorbs the first losses on the index due to defaults up to a maximum of 3% of the total index. The next tranche (mezzanine) absorbs losses of 3–7%. Further losses are absorbed by higher-ranking tranches (senior and super-senior tranches). In return for being more likely to suffer losses, the equity tranche yields the highest coupon (or stream of payments); conversely, the super-senior tranche yields the smallest coupon.

[22] For certain indices, the triggering criteria include other types of adverse credit scenarios. The list of events that trigger payment is established in the CDS contracts, and the question of whether a triggering event has occurred is determined by an industry panel convened by the International Swaps and Derivatives Association.

buying protection or always maintaining a net credit short position (under CSW 10%);[23] rather, CIO traded in an array of these products, with long and short positions in different instruments.[24]

The standardized indices in which CIO traded are created by a company named Markit, and like equity indices, such as the Dow Jones Industrial Average or the S&P 500, these credit indices can be used by market participants to express general market views rather than a view as to one particular company. There are two primary CDS index groups, CDX and iTraxx. CDX is a group of North American and Emerging Markets indices, and iTraxx is a group of European and Asian indices. Each index group has a number of more specialized indices, such as those focused on "investment-grade" ("IG" for CDX, or "MN" for iTraxx) or "high-yield" ("HY" for CDX, or "XO" for iTraxx) companies.

Markit creates a new series of each index every six months; by way of example, the CDX investment-grade index issued in September 2012 is "IG-19" and a corresponding index issued in September 2007 is "IG-9." The newly created indices have updated reference entities: new companies are added to replace those no longer qualifying for inclusion in a particular index

[23] The Synthetic Credit Portfolio's trading strategies sought, among other things, to take advantage of changes in the relative prices (the "basis") among different CDS indices and tranche instruments. These relationships reflect supply and demand in the market, theoretically driven by views on such matters as the relative strength of U.S. versus European credit, or investment-grade versus high-yield corporate credit; the likelihood of deteriorating credit in the short term versus strengthening credit in the longer term; and the likelihood that there will be some, but not too many defaults. In addition, some market participants trade the "skew," or the basis between the index CDS price and prices for the single name CDS that make up the index.

[24] Even when the Synthetic Credit Portfolio was net long under CSW 10%, it could still maintain "jump-to-default" protection.

because of corporate actions, ratings changes, lack of liquidity or other reasons. The date on which a new index is published is referred to as the "roll" date, and because many market participants seek to take positions in the new index, the roll date is typically a time when there is a significant amount of trading and liquidity in the market. After the roll date, the older ("off-the-run") series continue to be traded, and some of those series are liquid, but liquidity typically is concentrated in the newly issued "on-the-run" series. All of these instruments are issued in different maturities, of which the most widely traded are the five and ten years.

As of December 31, 2011, the Synthetic Credit Portfolio contained[25] approximately $51 billion in net notional positions of credit index and tranche positions.

C. Key Events[26]

1. *Trading*

From its inception until late 2011, the Synthetic Credit Portfolio generated roughly $2 billion in gross revenues.[27] Coming into the end of 2011, the Synthetic Credit Portfolio contained sizeable long and short positions in many of the CDX high-yield and CDX investment-

[25] The Synthetic Credit Portfolio, on a gross basis, held a larger total of long and short positions. However, when the long and short positions are netted against each other, these positions result in a portfolio of approximately $51 billion in net notional positions.

[26] This Report sets out the facts that the Task Force believes are most relevant to understanding the causes of the losses. It reflects the Task Force's view of the facts. Others (including regulators conducting their own investigations) may have a different view of the facts, or may focus on facts not described in this Report, and may also draw different conclusions regarding the facts and issues. In addition, the Task Force notes that its mandate did not include drawing any legal conclusions, and accordingly, this Report does not purport to do so.

[27] This figure reflects the aggregate mark-to-market net gains (profit) for all Synthetic Credit Portfolio transactions, including the impact of premiums paid and received.

grade series, among others, including both off-the-run and on-the-run series and spanning multiple maturities and tranche positions. In the fourth quarter of 2011, the Synthetic Credit Portfolio was in an overall short risk posture (as measured by CSW 10%), with a short risk position in high-yield offset to some extent by a long-risk investment-grade position.

In late 2011, CIO considered making significant changes to the Synthetic Credit Portfolio. In particular, it focused on both reducing the Synthetic Credit Portfolio, and as explained afterwards by CIO, moving it to a more credit-neutral position. There were two principal reasons for this. First, senior Firm management had directed that CIO – along with the lines of business – reduce its use of RWA. Second, both senior Firm management and CIO management were becoming more optimistic about the general direction of the global economy, and CIO management believed that macro credit protection was therefore less necessary.

Under a series of international agreements known as the Basel Accords, banking organizations must maintain certain capital ratios. The amount of capital that a banking organization is required to hold, under most regulatory capital ratios, is measured against the amount of its RWA, which, broadly speaking, considers the nature of the assets held by the banking organization, and certain off-balance sheet exposures. Two of the recent Basel Accords, commonly referred to as "Basel II.5" and "Basel III," alter the RWA calculation for JPMorgan and other banking organizations. As the new standards become effective over a phase-in period, certain assets held by banking organizations such as JPMorgan will generally be assigned a higher risk-weighting than they are under the current standards; in practical terms, this means

JPMorgan will be required to either increase the amount of capital it holds or reduce its RWA. Basel III has not yet become effective, but JPMorgan has begun voluntarily disclosing estimated calculations under Basel III in its financial reporting.

In 2011, JPMorgan was engaged in a Firm-wide effort to reduce RWA in anticipation of the effectiveness of Basel III. The Synthetic Credit Portfolio was a significant consumer of RWA, and the traders therefore worked at various points in 2011 to attempt to reduce its RWA. As part of this effort, in late 2011, CIO discussed unwinding certain positions in the Synthetic Credit Portfolio.

In the last week of December, Mr. Braunstein asked CIO to evaluate the impact of a further reduction of $20, $40 or $60 billion of RWA (in addition to a $30 billion reduction that, according to Mr. Wilmot, was already called for under the initial 2012 CIO RWA budget).[28] Ms. Drew, Mr. Wilmot and two senior members of the Synthetic Credit Portfolio team conferred as to how they could accomplish this in a manner that would minimize costs and trading losses, and in their internal discussions on the matter considered the possibility of unwinding additional positions in the Synthetic Credit Portfolio. According to one of the traders, on or about December 26, one of the Synthetic Credit Portfolio team members who had been party to these discussions called him and informed him that Ms. Drew wanted to know how much it would cost to reduce RWA by an additional amount. The trader informed him that, under the circumstances,

[28] Contemporaneous e-mails suggest that the initial 2012 CIO RWA budget called for a $20 billion reduction.

he believed that the solution would be an unwind and that he would ask another trader to prepare an estimate of how much it would cost. Shortly thereafter, an analysis prepared by another trader and provided to Ms. Drew, Mr. Wilmot and an executive from the Synthetic Credit Portfolio team indicated that a 35% proportional unwind of the Synthetic Credit Portfolio would result in a $10 billion RWA reduction, but could cost slightly more than $500 million. These cost estimates included trading and execution costs associated with reducing the positions, as well as the prospective loss of premiums received for any long-risk positions that CIO unwound.[29] Ultimately, the Firm chose not to modify its initial RWA budget, and for 2012, CIO as a whole was only required to make the RWA reduction contemplated by its original budget.

In early January, the Synthetic Credit Portfolio incurred mark-to-market losses of approximately $15 million. On January 10, one of the traders informed Ms. Drew that the losses resulted from the fact that (among other things) it "ha[d] been somewhat costly to unwind" positions in the portfolio. Ms. Drew responded that there might be additional flexibility on the RWA reduction mandate, and requested a meeting to review the unwind plan to "maximize p [&] l."[30]

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[29] Other materials from this time indicate that the traders also believed that an unwind of short positions would cause them to forfeit revenue that they were positioned to earn upon the occurrence of defaults.

[30] Shortly before this exchange, Ms. Drew and Mr. Wilmot had notified Messrs. Dimon and Braunstein that CIO (as part of its budgeted RWA reduction) would reduce the Synthetic Credit Portfolio's RWA by year-end 2012, from $43 billion to $20.5 billion. They explained that this would be accomplished by allowing existing positions to expire ($13 billion), as well as via "active reduction" ($10 billion). Ms. Drew discussed the RWA mandate around this time with Mr. Braunstein, who informed her that the deadline for CIO to meet its RWA requirement was the end of 2012.

Around this time, Ms. Drew participated in a conference call with Mr. Wilmot and members of the Synthetic Credit Portfolio team, during which the RWA reduction mandate was discussed. According to one of the traders, he informed Ms. Drew during that call that the only certain approach to RWA reduction was to unwind positions, and he advised her that unwinding 25% of the Synthetic Credit Portfolio would cost approximately $500 million. After the meeting, one of the more senior members of the Synthetic Credit Portfolio team who attended the meeting instructed the trader to formulate multiple options for RWA reduction for Ms. Drew to consider.

On or about January 18, Ms. Drew, Mr. Wilmot, Mr. Weiland and two senior members of the Synthetic Credit Portfolio team met to further discuss the Synthetic Credit Portfolio and RWA reduction. According to a trader who had not attended the meeting, after the meeting ended, one of the Synthetic Credit Portfolio team members who had attended the meeting informed him that they had decided not to reduce the Synthetic Credit Portfolio, and that the trader's focus in managing the Synthetic Credit Portfolio at that point should be on profits and losses. Nonetheless, RWA continued to be a matter of real concern for that individual and CIO, and he thus also sent a follow-up e-mail to the meeting participants in which he set out a number of options for achieving RWA reduction by the end of 2012. In that e-mail, he stated that the preferred approach was to select an option under which CIO would attempt to convince the Firm to modify the model that it used to calculate RWA for the Synthetic Credit Portfolio, and delay any efforts to reduce RWA through changes in positions in the Synthetic Credit Portfolio until mid-year.

At approximately the same time as the mid-January discussions were taking place, a significant corporate issuer defaulted on its debt. The Synthetic Credit Portfolio was not well positioned for this event, and a number of the portfolio's positions suffered significant losses as a result.[31] These losses caused management to become concerned that the Synthetic Credit Portfolio was not providing sufficient credit loss protection. Management therefore instructed the relevant trader to avoid similar losses on defaults in the future, and to ensure that the Synthetic Credit Portfolio had appropriate "jump-to-default" protection in place.[32]

In response to this instruction, the traders began to discuss adding high-yield short positions in order to better prepare the Synthetic Credit Portfolio for a future default.[33] The traders, in late January, also added to their long positions, including in the IG-9 index (and related tranches).[34] These long positions generated premiums, and (among other things) would help to fund high-yield short positions; the traders also believed that these long positions would

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[31] One of the traders expressed the view that these losses stemmed from the expiry or unwind of certain high-yield short positions in late 2011. The trading data confirms that certain high-yield short positions did expire or were unwound during this time, but also indicates that the traders largely replaced them at or around the same time.

[32] "Jump-to-default" exposure refers to the risk that a position will experience losses through the instantaneous move to a default on a reference name as a result of a credit event, such as a bankruptcy.

[33] Trading data shows that the traders had been adding some high-yield short positions throughout much of January, prior to this instruction. However, the additions increased substantially in the period after this instruction.

[34] As described below, the traders continued to build this position in February.

help offset (from both a credit risk and, potentially, an RWA perspective) their high-yield short positions. The traders chose to use the IG-9 index for this offset because, as one of them explained, it had the liquidity of investment-grade credit derivatives but with a feature that allowed the traders to hedge part of the high-yield structural short as well. The feature to which that trader was referring is the fact that the IG-9 index contained a number of so-called "fallen angels," which are companies whose debt had been considered investment-grade at the time of the IG-9's issuance in September 2007, but had subsequently become high-yield. Because the IG-9 index contained these high-yield reference entities, the traders believed that a long position in the IG-9 would offset to some degree the high-yield short positions.[35]

By the end of January, the Synthetic Credit Portfolio traders had added approximately $20 billion in long-risk notional positions to their 10-year IG-9 position. At the same time, however, they also added $12 billion in 5-year IG-9 short risk notional positions – *i.e.*, they bought credit protection on the same companies for which they were selling protection – except that the maturities for this short position were five years from the creation of the index rather than ten years.[36] The net effect of these additions was to increase the Synthetic Credit Portfolio's long credit exposure, both because they added more long positions than short positions, and also

[35] Because not all of the reference entities in the IG-9 instruments overlapped with those in the high-yield instruments, this strategy also introduced new risks into the Synthetic Credit Portfolio.

[36] The traders referred to this trade (the "IG-9 Forward Trade") as the forward trade, or at times, as a flattener.

because longer-dated trades are more sensitive to movements in credit spreads than shorter-dated trades,[37] due to the fact that the exposure to risk is for a longer period.[38]

Ms. Drew did not receive detailed trading or position reports on the Synthetic Credit Portfolio in the ordinary course, did not request any such reports during this time,[39] and regularly monitored only the Synthetic Credit Portfolio's profits and losses, VaR and stress VaR.[40] She did understand generally around this time that the traders were planning to add long positions in order to balance the Synthetic Credit Portfolio, and she also participated in a number of meetings at which RWA and the profits and losses of the Synthetic Credit Portfolio were discussed.[41]

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[37] A longer-dated CDS instrument will move more in price to a given change in a credit spread in the same way that a longer-dated bond's price moves more to a given change in credit spreads or interest rates than a shorter-dated bond.

[38] A trader from the Synthetic Credit Portfolio team appears to have described this trading strategy in a January 26 "Core Credit Book Highlights" PowerPoint that he circulated to other traders on January 26 and on February 2. In that PowerPoint, the trader described the technical details of the "trades that make sense," which involved building a long position and then adding various short positions in the event of a market rally.

[39] Among other things, there is no evidence that Ms. Drew received the January 26 PowerPoint described in Footnote 38.

[40] Stress VaR is a charge for market risk under Basel II.5 based on a 10-day, 99%-confidence level VaR that incorporates inputs using historical data from a one-year period of significant financial stress relevant to the Firm's portfolio. While VaR assumes volatility consistent with recent market conditions, stress VaR assumes difficult market conditions.

[41] With respect to RWA reduction, Mr. Weiland sent an email to a member of the Synthetic Credit Portfolio team on February 3 expressing concern that the member was providing overly optimistic estimates to Ms. Drew as to the likelihood that CIO would be able to convince the Firm to modify its RWA calculation model.

By January 26, the Synthetic Credit Portfolio was roughly balanced, as measured by CSW 10%.[42] One of the trader's contemporaneous e-mails reflect that he understood this, but also reflect that he began to have concerns – which he shared with other members of the Synthetic Credit Portfolio team – about the continued mark-to-market losses in the Synthetic Credit Portfolio. Around the same time, in light of these losses, an executive responsible for the Synthetic Credit Portfolio directed the senior-most trader to focus solely on the Synthetic Credit Portfolio to the exclusion of his other responsibilities. On January 31, that executive sent an e-mail to the same trader – which he also forwarded to Ms. Drew – in which he stated that the Synthetic Credit Portfolio was not behaving as intended and described the Synthetic Credit Portfolio's performance as "worrisome." In the same e-mail, he included one of several late January e-mails reflecting another trader's concern about the Synthetic Credit Portfolio's positions.[43] In that e-mail, the trader explained that, as designed, the Synthetic Credit Portfolio "would lose money now on a default in us hy and make money if the default occurs in ig world." According to this trader, however, the high-yield positions were losing more money than expected, and the investment-grade positions were earning less money than expected (*i.e.*, the price movements were not correlating as expected, leading to mark-to-market losses).

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[42] By January 31, the Synthetic Credit Portfolio had moved to a modest net long position as measured by CSW 10%, and it continued to fluctuate thereafter. Although the Synthetic Credit Portfolio was long as measured by CSW 10% by this time, it could continue to maintain substantial protection against corporate defaults.

[43] This was one in a series of e-mails that the other trader wrote to himself and to other traders in the last two days of January, all expressing similar views about the performance of the Synthetic Credit Portfolio, and the options available as to how best to manage it.

In separate e-mails on January 30, the same trader suggested to another (more senior) trader that CIO should stop increasing "the notionals," which were "becom[ing] scary," and take losses ("full pain") now; he further stated that these increased notionals would expose the Firm to "larger and larger drawdown pressure versus the risk due to notional increases." While the documentary record does not reflect how, if at all, the more senior trader responded to these concerns, the traders nonetheless continued to build the notional size of the positions through late March.

By early February, the trader's concern about the losses – including his lack of understanding as to why they were occurring – prompted him to request a meeting with his managers, including Ms. Drew, in order to discuss the Synthetic Credit Portfolio. He prepared a presentation for the meeting, which he sent to the more senior trader on February 2. The presentation was provided to Ms. Drew and an executive responsible for the Synthetic Credit Portfolio on February 3.[44]

The trader did not present his slides at the meeting. Ms. Drew did ask the trader how much more he thought CIO could lose if they reduced the Synthetic Credit Portfolio. According to this trader, he explained that he thought that the Synthetic Credit Portfolio could lose a significant amount, perhaps an additional $100 million, and that it was possible that they did not have the right long position in light of the characteristics of the IG-9 position and the relevant

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[44] According to a calendar invite sent by Ms. Drew's executive assistant for a February 3 meeting (likely the meeting in question), Mr. Wilmot, Mr. Goldman, Mr. Weiland and various members of the Synthetic Credit Portfolio team were invited, among others.

market dynamics. Ms. Drew appeared not to be overly concerned by this potential $100 million loss for the portfolio, and instead focused on the Synthetic Credit Portfolio's RWA profile.[45]

One week after this meeting, the same trader conferred with the attendees of that meeting (but not Ms. Drew) regarding an anticipated credit event involving another company.[46] He explained that in order to be better positioned for this event, he would need to buy further protection on the high-yield index, and finance that protection by adding long positions in an investment-grade index. He explained that this trading would increase RWA, but was instructed to proceed, and to concentrate on managing profits and losses. The executive with whom he conferred also instructed a senior trader to travel to JPMorgan's New York offices to see what could be done to remove the RWA constraint from the Synthetic Credit Portfolio.

Throughout February, the traders continued to add to their investment-grade long positions, and also at this time began to add significantly to their high-yield short positions. It appears that among the reasons for at least some of this trading (and possibly other trading during the first quarter) was that the traders sought to "defend the position" or "defend the P&L." The phrase was not defined in a consistent way by the traders who used it, but it appears to be a response to one or more concerns expressed by the traders throughout much of the first quarter.

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[45] Also on February 3, Mr. Wilmot sent an email to Mr. Braunstein requesting "approval to raise [CIO's] 1Q12 RWA by $7bn to $167bn." Mr. Wilmot explained that it was a "one quarter request" and that CIO believed they were "on target to achieve the $160bn level for 2Q12-4Q12." Mr. Wilmot wrote that CIO was "less confident in the RWA reduction from the MTM book, specifically the tranche book which is where [CIO hoped] to continue to achieve significant reductions throughout the year."

[46] The company in question ultimately filed for bankruptcy in the second quarter.

First, the traders appeared to be concerned about creating a perception in the market that CIO was reversing course on its trading strategy, which would cause other market participants to take advantage in pricing and trading behavior. Second, they expressed concern that the prices they were receiving from other market participants were distorted because those with opposing positions (*e.g.*, CIO was long where they were short) were engaged in tactical trading or were providing indicative prices that they would not stand behind. The traders appeared to believe that if they did not respond through additional trading, they would be forced to recognize losses.

Notwithstanding the continued trading, the Synthetic Credit Portfolio continued to experience mark-to-market losses. On February 13, 2012, a trader advised Ms. Drew of mark-to-market losses in the Synthetic Credit Portfolio, explaining in an e-mail that "we report a loss of 28m from last Tuesday close" and attributing most of the losses to the IG-9.[47] The trader in question subsequently forwarded this e-mail to senior members of the Synthetic Credit Portfolio team (but not Ms. Drew).

By late February, the Synthetic Credit Portfolio had experienced year-to-date losses of approximately $169 million. A trader observed around this time that, although credit spreads had stayed relatively constant, the IG-9 continued to lose ground. This was contrary to his expectations, and he therefore advised another Synthetic Credit Portfolio trader not to trade IG-9 because he wanted to observe its behavior. He also advised a more senior trader of his plans, but

[47] Ms. Drew also received separate daily profit-and-loss reports on the Synthetic Credit Portfolio.

the latter instructed him to trade because they needed to participate in the market to understand the price at which parties were actually willing to transact.

The trader engaged in a significant amount of trading at the end of February, after being directed by at least one senior member of the Synthetic Credit Portfolio team to increase the default protection in the Synthetic Credit Portfolio. The trader also traded at this time in order to determine the market prices of the positions. His trading was not limited to short positions; he also added a significant amount of long positions – specifically in the IG-9 index – in order to offset the cost and risk of the additional short positions. In an e-mail sent to another trader late in the evening of February 29, he explained, "I have sold important amounts of protection in ig9 10yr (close to 7bln all day or 3.5m cs01) and this will push the cs01 beyond the 25m limit. This is related to month end price moves that were all adverse although we could limit the damage…. I picked [the IG-9 10-year index] because this is the most obvious one when we analyze the lags we have in the core book…. This trade will also increase the rwa snapshot at month end I am afraid."[48]

On February 29, Ms. Drew, Mr. Wilmot, Mr. Goldman and an executive from the Synthetic Credit Portfolio participated in a regularly scheduled "business review" meeting with Messrs. Dimon, Braunstein, Hogan, Zubrow and others. The meeting covered all of CIO's activities. With respect to the Synthetic Credit Portfolio, the primary focus of the discussion was

[48] It is unclear to what limit the trader was referring because neither CIO CS01 limit was $25 million (the mark-to-market CS01 limit for CIO was $5 million and the aggregate CS01 limit was $12 million), and both limits had been exceeded by this point.

RWA reduction, and the written materials, which were prepared by individuals from Market Risk and the Synthetic Credit Portfolio team, indicate that CIO was taking steps to reduce RWA. CIO management did not disclose any significant problems or concerns with the Synthetic Credit Portfolio, and CIO management did not explain that CIO was not pursuing the expected course of action of achieving the RWA reduction via an unwind and was instead embarking on a more complicated and different strategy that entailed adding significantly to the size of the positions. The written materials prepared by CIO described the Synthetic Credit Portfolio at a very high level as a "Tail Risk Book," and as an "option with positive convexity, positive carry and upside on large spread widening and default waves (similar to 2008-2009)."[49] The materials do not explain under what scenarios the Synthetic Credit Portfolio could be expected to lose money, or that:

- CIO had decided not to reduce the size of the Synthetic Credit Portfolio (at least in the near term);
- the Synthetic Credit Portfolio had increased substantially in both gross and net notional size; and

[49] A *tail event* is generally understood to be one that arises when the market environment moves more than three standard deviations from the mean based on predictions from a normal distribution of historical prices. *Carry* is generally understood to be the profit or loss experienced by a portfolio with the passage of time but with no change in any other market variable or additional trading. *Positive convexity* exists when a portfolio is predicted to profit more (or lose less) on a larger market move than the profits (or losses) predicted for a smaller market move would imply. *Negative convexity* exists when a portfolio is predicted to profit less (or lose more) on a larger market move as compared to the predicted profits (or losses) on a smaller market move. Using CSW 10% and CSW 50% as an example, if a portfolio is predicted to lose $100 if credit spreads widen by 10%, but to lose $400 if credit spreads widen by 50%, then the portfolio reflects positive convexity (a portfolio with no convexity would lose $500). It is unclear if the written materials for the February 29 meeting were employing these definitions.

- the plan was no longer to reduce RWA by $23 billion by allowing positions to expire and by active reduction (to the contrary, the February Business Review materials suggest that CIO was unwinding the portfolio, explaining that "the change in regulatory capital regime is likely to force a re-size / run-off of synthetic portfolio in order to maintain RWA targets for the Firm" and "CIO is currently working to reduce [RWA])."

By the end of February, the Synthetic Credit Portfolio had experienced an additional $69 million in mark-to-market losses, from approximately $100 million (year-to-date through January) to $169 million (year-to-date through February).

On March 1, the day after the CIO Business Review, an executive with responsibility for the Synthetic Credit Portfolio e-mailed one of the traders to express concern that if the traders needed to "[a]ctually reduce the [Synthetic Credit Portfolio]" in order to decrease RWA, they would not be able to "defend" their positions. This e-mail appears to address the concern that an unwind of positions to reduce RWA would be in tension with "defending" the position. The executive therefore informed the trader (among other things) that CIO would have to "win on the methodology" in order to reduce RWA. This phrase refers to the traders' goal, described above, to convince the Firm that it should change the methodology of the model used to calculate RWA for the Synthetic Credit Portfolio.

On March 7, Mr. Venkatakrishnan reported to Ms. Drew, Mr. Hogan, Mr. Goldman, Mr. Weiland and a member of the Firm-wide Market Risk team on the results of model-related work he had been performing relating to the accuracy of CIO's RWA calculation. Mr. Venkatakrishnan had gotten involved in early March in response to concerns in CIO about the increase in RWA. Mr. Venkatakrishnan reported on March 7 that RWA for the Synthetic Credit Portfolio had increased significantly since the beginning of the year, and explained that this increase was "entirely explained by a $33bn notional increase in short protection (long risk) in [CIO's] portfolio between [January] and [February]." Ms. Drew forwarded this information to Mr. Goldman, Mr. Weiland and two members of the Synthetic Credit Portfolio team. In response, one of the recipients from the Synthetic Credit Portfolio team expressed the view that the notional amounts reflected in Mr. Venkatakrishnan's calculations were incorrect,[50] despite the fact that this information had been provided by CIO's middle office, and asked to discuss the methodology used to calculate RWA.[51]

By mid-March, the Synthetic Credit Portfolio was still experiencing mark-to-market losses.[52] A trader performed a detailed analysis around this time and determined that, even though the Synthetic Credit Portfolio appeared to be balanced under CSW 10%, its actual performance – and in particular, the fact that it lost money when the markets rallied – suggested

[50] The relevant recipient may have been expecting Mr. Venkatakrishnan to calculate the notional amounts on a monthly basis (*i.e.*, January 1 to 31 and February 1 to 29) and not January 18 to February 22, as Mr. Venkatakrishnan had done.

[51] Mr. Venkatakrishnan's analysis, which was only of those positions that drove the increase in RWA, did not trigger further inquiry or concern within or outside CIO at this time regarding the size of the portfolio. CIO management likewise appears to have focused on the notional increase only insofar as it affected RWA. In addition, at that time, there were discussions within CIO and with Mr. Hogan that some of the positions in the Synthetic Credit Portfolio would more appropriately receive a different treatment for capital purposes than under the currently used method, and that this change would result in a reduction of RWA to acceptable levels. At the time, the rules under Basel II.5 and III, which alter the RWA calculation for JPMorgan and other banking organizations, had not been finalized by U.S. regulators.

[52] As discussed below, the losses during this period were likely more substantial on at least some days than were being reflected in CIO's daily valuation estimates.

that it continued to have a short bias. The trader attributed this to the significant amounts of protection that he had purchased since January, and he therefore considered what steps he might take to finally balance the Synthetic Credit Portfolio. He concluded that he did not want to sell more protection in IG-9 because the instrument had not behaved as he had expected all year and the position was already quite large and "dangerous"; he also understood that he could not reduce his high-yield position because of the expense associated with that projected liquidation. The remaining option, in his view, was to increase his long exposure in on-the-run investment-grade instruments, such as IG-17 and IG-18, with a goal of stemming the losses that he attributed to its imbalance, and ultimately "put[tin]g [the Synthetic Credit Portfolio] to sleep." Once the portfolio was balanced, he believed he could wait for CIO Management to decide how to proceed.

Consistent with this strategy, by March 15, the trader proposed to add a very large position in an on-the-run investment-grade index. He reasoned that this was the best way to balance the Synthetic Credit Portfolio because: using the on-the-run index would make the positions less transparent to other market participants, especially if the positions were acquired on or near the roll date (presumably because of increased liquidity); and if he could put on a large position very quickly near the roll date (March 20), Risk Management personnel would have sufficient time in advance of the quarter-end to calculate the attendant changes in RWA, VaR and other risk metrics.

The trader described his plan in a series of e-mails to another trader. On March 15, he sent an e-mail explaining that "[t]his [] may be the solution: let the book run off. So I prepare it for this outcome." Similarly, on March 19, he wrote to some of the other traders that his proposed strategy was to "let the P&L fluctuate while not defending, just maintaining the upside on defaults over time." Further, he wrote, "the solution proposed amounts to be longer risk and let the book expire carrying the upside on default: I think we own [] a very good position for a size that is also significant . . . ."

Beginning on March 19 and continuing through March 23, the trader added significant long positions to the Synthetic Credit Portfolio. These additions roughly coincided with the roll date and the issuance of the IG-18, and included additions to the 5-year IG-17 long position (a notional increase of approximately $8 billion), the 5-year IG-18 long position (a notional increase of approximately $14 billion), and several corresponding iTraxx series, most notably the 5-year-S16 ($12 billion) and the 5-year-S17 ($6 billion).

While this trading was being considered and implemented, on March 20, a review of CIO was presented to the DRPC (a summary of which was later presented to the full Board), in which Ms. Drew and Mr. Goldman provided a structural risk summary and addressed overall portfolio allocations within CIO, how interest rate movements would affect the company, and how CIO manages the attendant risk. CIO management did not disclose the increasing mark-to-market losses, the recent breaches in certain of CIO's risk limits, the substantial increase in RWA, the significant growth in the Synthetic Credit Portfolio's notionals, or the breaches in the VaR limit earlier in the year.[53] Further, CIO management did not explain that CIO was embarking on a complicated strategy that differed from the unwind that had been previously described to senior Firm management.

On March 23, a trader explained to CIO Market Risk the trading he had done: "[I] switched the book to long risk[.] [I] am done[.]" He explained his view that "this is it for a neutral profile[, and] right now we have a market neutral ratio between HY and IG." He further explained that "the reason why I did that is because [I] wanted to have the position set in order to prepare for month end and avoid defending the pnl [] because it would have resulted in larger positions[.] This one position I put [on] is different and liquid." The relevant individual from CIO Market Risk noted that, "somehow I think the percep[tion] was that you would be add[ing] to the [on-the-run index] and reducing elsewhere[.] [I am n]ot sure how this was established[, but I] think what happened is that people seeing [that] the book is longer in 5y maturity[, and has] bigger risk[,] and bigger capital[,] and the issue is RWA." The trader stated, "ok the RWA[,] this is what kills me." He proceeded to explain that, because of pressure to reduce

[53] Under the Firm-wide Risk Appetite policy in effect at the time, either the CEO or the CRO was required to notify the Chairman of the DRPC of modifications to or breaches of the prescribed DRPC market risk stress or VaR "limits." The Firm-wide Market Risk Management policy likewise required the CRO to "report all material excesses to the Chairman of the DRPC." (These DRPC-approved limits were not identical to Firm-wide limits; as a result, not all breaches of Firm-wide limits necessarily required reporting to the DRPC.) As of January 2012, the DRPC-approved VaR limit was $200 million (as opposed to the Firm-wide VaR limit of $125 million). Although Firm-wide Market Risk provided the DRPC with an update on Market Risk Limits at the March 20, 2012 DRPC meeting, this update only covered (as intended) developments through year-end 2011. The breaches in the CIO and Firm-wide VaR limits that occurred in January 2012 were not discussed. (The highest the Firm-wide VaR reached in January 2012 was approximately $160 million.)

RWA, the market could come to the conclusion that he did not like his position, and he therefore wanted to "[drop] out of the radar screen and earn carry." He predicted that "eventually" the Synthetic Credit Portfolio would profit, and in the meantime, "the carry is 2-3m a day[, and] the protection I sold grossly added 1.1M a day of carry."

On March 21 (*i.e.*, while the traders were adding large long positions), one of the traders met with Ms. Drew to discuss both the mark-to-market losses and the increase in RWA for the Synthetic Credit Portfolio. Before the meeting, he informed Ms. Drew that he believed the Synthetic Credit Portfolio's positions had been leaked to the market (a concern he and another trader voiced previously), and explained that he was nervous that other market participants could use this information against CIO in their trading. He also e-mailed Ms. Drew that the traders had already reduced RWA by $10 billion in the Synthetic Credit Portfolio, and recommended that they "sligh[t]ly" increase the investment-grade long position, and address RWA the following quarter. In fact, RWA for the Synthetic Credit Portfolio had increased from the beginning of the year.

The day after the meeting, Ms. Drew learned that the positions in the Synthetic Credit Portfolio were significantly larger than had been reflected in the figures discussed at the prior day's meeting, as the figures used during the March 21 meeting were from March 7 and did not reflect trading activity during the intervening two weeks.[54] Ms. Drew reacted strongly to this

[54] The written materials prepared for the March 21 meeting noted that the figures were as of March 7, but did not indicate that there had been significant changes in the positions since then.

and a meeting was scheduled for March 23. A senior member of the Synthetic Credit Portfolio team informed her at that time that he believed the Synthetic Credit Portfolio had the "right position," because the Synthetic Credit Portfolio was "long IG [and] the market [was] moving tighter and tighter." Around this time, a trader informed Ms. Drew that he wanted to continue trading in order to defend the position; Ms. Drew reacted strongly to this as well and informed him that he was not permitted to do so. Either on Friday, March 23, or soon after, Ms. Drew directed the traders to suspend trading, and shortly thereafter, trading in the Synthetic Credit Portfolio largely stopped.[55] By this point, the Synthetic Credit Portfolio had assumed an overall net-long credit-risk orientation on a CSW 10% basis.[56]

On March 30, the executive responsible for the Synthetic Credit Portfolio requested assistance from Firm-wide Market Risk in understanding the relationship between their trading and RWA. In an e-mail to Mr. Hogan on the subject, the executive stated that the Synthetic Credit Portfolio's "prox[y]ing" of the IG-9 position as an offset of the high-yield short "did not work and resulted in almost total loss of hedging effectiveness." He also stated that he was no longer confident in his team's "ability to achieve the targeted RWA and their understanding of the synthetic levers to achieve the RWA objectives." He therefore requested that an expert from

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[55] There was a change in position on March 28, when the IG-9 5-year short position was reduced by $4.2 billion notional, from $36.9 billion to $32.7 billion notional.

[56] Even after these trades, the traders did not view the Synthetic Credit Portfolio as net long despite the fact that the Synthetic Credit Portfolio's CSW 10% profile showed a long risk bias.

the Investment Bank be assigned to CIO for the second quarter of 2012 to help the Synthetic Credit Portfolio traders understand and meet their RWA targets.

2. *Valuation*

As noted, the Synthetic Credit Portfolio was experiencing regular mark-to-market losses throughout much of the first quarter. We describe here the valuation process and how, from at least mid-March through early April, the Synthetic Credit Portfolio's losses appear to have been understated.

One of the junior traders in CIO had responsibility for estimating the fair value of each position in the Synthetic Credit Portfolio on a daily basis. Because the market for at least some of these instruments is small and relatively illiquid, he – like other market participants – generally could not simply look to a single definitive source to perform that task. Rather, he collected data from a number of different sources about the value of the positions and, after exercising judgment and often in consultation with another trader, assigned a value to each position.

In general, the trader looked to three different sources in order to value the positions in the Synthetic Credit Portfolio: (1) recently executed trades; (2) indicative, or non-binding, price quotes received from dealers and counterparties (including for both the specific instrument and, at times, similar instruments); and (3) his observations of and judgment regarding market conditions, including the relationships between and among different instruments. The information he received from other market participants was typically in the form of a bid-offer quotation. However, in order to perform the daily valuation process, he was required to identify a specific price. For each instrument, he therefore selected one quote (often among several he received) and then assigned a price within the bid-offer spread for that quote. Once he had identified a price for each position, he would input this data into a series of programs that would generate an estimate of the daily profit or loss, known as the "P&L Predict." He would also draft, often together with another trader, an explanation for the gains or losses, which would be included in the daily P&L Predict. The daily profit-and-loss numbers were circulated within CIO and to certain personnel within the Firm-wide Risk organization. Ms. Drew received the daily P&L information (although not the P&L Predicts themselves), and also received some or all of the commentary in her daily reports.

At certain points throughout early 2012, the information the trader was collecting from the market indicated losses in the Synthetic Credit Portfolio. But on a number of days beginning in at least mid-March, at the direction of his manager, he assigned values to certain of the positions in the Synthetic Credit Portfolio that were more beneficial to CIO than the values being indicated by the market. The result was that CIO underreported the losses, both on a daily basis and on a year-to-date basis. The traders variously referred to the aggregate differential between the prices being assigned and the unadjusted mid-market price (*i.e.*, the mathematical mid-point between the best bid and best offer in the market, often referred to as the "crude mid") as the "divergence," "lag" or "distance."[57] In the view of one trader, the divergence resulted from the fact that the price information supplied by this illiquid market was distorted. Along these lines, the traders believed that CIO's counterparties had obtained information about the Synthetic Credit Portfolio's positions, and that CIO's counterparties were engaging in strategic pricing behavior and intentionally providing prices that did not accurately reflect market values, *i.e.*, they were not prices at which the counterparties would actually be willing to transact.[58] Furthermore, one trader expressed the belief that the market prices would ultimately correct, vindicating the CIO valuations.

Notwithstanding any genuinely held views on the validity of quoted prices or the integrity of counterparties' trading activities, both U.S. GAAP and Firm policy required that CIO make a good-faith estimate of the exit price[59] for a reasonably sized lot of each position, and

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[57] Certain traders also, at times, appeared to use the term "lag" to refer to the amount by which the Synthetic Credit Portfolio was underperforming a theoretical or fundamental valuation of the positions – *i.e.*, how far behind their expectations it was.

[58] The prices provided by market participants that were considered in valuing certain positions in the Synthetic Credit Portfolio were "indicative," which meant that CIO could not expect counterparties to transact at those prices. On occasion, CIO would attempt to transact at an indicated price, and a market participant, who had posted the bid or offer, would decline. The Synthetic Credit Portfolio traders referred to this behavior as the market participants "framing" prices.

[59] Neither U.S. GAAP nor the Firm policy required CIO to mark to the "crude mids." Accounting Standards Codification paragraph 820-10-35-36C notes that "if an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value . . . ." While paragraph 820-10-35-36D notes that mid-market pricing is not precluded from being used "as a practical expedient," such conventions are not required and good faith estimates of the appropriate exit price are necessary.

assign values reflecting those estimates.[60] At the direction of a more senior trader, however, the relevant trader may not have always done so.[61] The Task Force has found no evidence that others beyond three of the Synthetic Credit Portfolio traders were aware of or part of this directive.

One instance of "divergence" occurred on or about March 12, when a trader informed another trader that the "crude mids" had moved away from where he and the third trader expected them to be. He told the trader that, as a result, the mark-to-market losses in the Synthetic Credit Portfolio based on "crude mids" had grown to approximately $50 million, and that he viewed these losses as a warning sign. He recommended that they reflect this as a loss on the books, even though they could not explain the market movement. The trader in question disagreed with his recommendation, apparently because he did not believe that the market moves around this time were real. He then informed the first trader that they should discuss this issue the following week.

According to a trader-maintained spreadsheet reflecting prices from March 12 to March 16, the divergence from the crude mids for at least some of the positions had grown to approximately $292 million[62] year-to-date for the Synthetic Credit Portfolio.[63] On March 16, a

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[60] *See* n. 59. By convention, the exit price is estimated for normal trading size, and CIO was not required to estimate the prices it would have received if it attempted to sell its entire (large) position at once.

[61] As noted, the more senior trader may have believed that his view of the true value of these positions would ultimately be realized once the market returned to normal.

[62] This figure may include amounts by which the traders believed that the positions were underperforming vis-à-vis their expectations, including as a result of market participants distorting the prices; it is not

trader informed another trader that he estimated that the divergence would likely reach $400 million in the near future.

By March 19, the relevant trader had showed a small loss on the daily P&L Predicts every day for seven consecutive days. He told another trader that a more senior trader had pressured him throughout this period not to show large losses in the Synthetic Credit Portfolio. On March 20, that other trader apparently directed the relevant trader to show the full loss he had calculated for that day and said that he himself would accept responsibility for the loss with the more senior members of the team.

The relevant trader reflected a loss on his March 20 daily P&L Predict of approximately $40 million. Shortly thereafter, a more senior trader called the other trader to discuss the loss. The senior trader expressed two related concerns. First, he stated that the report would cause problems for him during a meeting scheduled for the following day with Ms. Drew (the March 21 meeting described above), and stated that he wished that he could have raised the loss issue with Ms. Drew in person during that meeting.[64] Second, he expressed concern that Ms. Drew might prohibit his team from adding to their long positions.

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necessarily a measure of the aggregate amount of any mis-mark since the crude mid is not necessarily reflective of the price at which market participants are transacting.

[63] The spreadsheet showing the divergence from March 12 to March 15 was circulated to a senior member of the Synthetic Credit Portfolio team on March 15. The Task Force also located an additional copy of the spreadsheet that included the divergence for March 16.

[64] Ms. Drew would historically follow up with the more senior trader in the evening if the Synthetic Credit Portfolio experienced losses greater than $5 million for a particular day.

The estimated mark-to-market losses continued to grow throughout the end of March. On March 23, a trader sent another trader an informal loss estimate – likely year-to-date – of $300 million using, for each position, the "best" bids or asks and $600 million using the "mids." The third trader also continued to report losses to him during this period, and continued to be directed by the other trader to show them. The year-to-date losses reported by the traders totaled about $400 million through March 29.

These valuation issues received additional attention from the traders on March 30, which was the last trading day of the first quarter.[65] As shown by the following four sets of conversations, one of the traders was very focused on the impact of showing significant losses on that day.

First, throughout the day, that particular trader (who was more senior and to whom the other traders reported) repeatedly discussed with a second trader the size of the estimated losses. Early in the day, the second trader had informed the more senior trader that the daily loss would be approximately $250 million. The senior trader asked him if he could reduce the loss to $200 million and encouraged him to trade, even though, as discussed above, Ms. Drew had just ordered the team to stop trading. The second trader declined to continue trading. Nevertheless, throughout the day, a third trader reported to the second trader that the prices he was observing in the market were improving, and the second trader therefore reported improved numbers to the

[65] The marks on the final trading day of the quarter are subject to VCG price-testing procedures described below.

senior trader as the day progressed. Each time he or the third trader showed a smaller loss figure, the senior trader urged him to reduce the size of the loss further.

Second, the more senior trader and Mr. Goldman discussed the estimated losses for the day. During this conversation, Mr. Goldman pressed the trader for estimates, and he responded that he was expecting the losses to be significant because he would not be "defend[ing]" the position. He further stated that he did not want to "fight" and increase the position, and added that they should have "stopped doing this three months ago and just rebalanced the [Synthetic Credit Portfolio]."[66] He also asked Mr. Goldman (who had called him at Ms. Drew's request) not to share these estimates with Ms. Drew because the market had not yet closed and, given the size of CIO's positions, a small movement could result in a significant change in the profits and losses.

Third, at the end of the day, the same more senior trader directed another trader to stay late and monitor prices until the markets closed in New York, in the hopes that he would be able to use later – and more advantageous – prices in marking the Synthetic Credit Portfolio.

Fourth, the same more senior trader directed another (more junior) trader on March 30 to use the "best" prices, which appears to have prompted that more junior trader to take two steps. First, for at least one instrument, he selected the most beneficial dealer quote when marking his positions. Another trader encouraged him to use this more beneficial quote – which was more

[66] This statement is difficult to reconcile with another trader's statement that, at the same time, the more senior trader was encouraging him to trade.

advantageous than the quotes he had received earlier in the day – telling him that it was not too aggressive and that it was "very good." Second, the more junior trader priced many of the positions at or near the most advantageous boundary of the bid-offer spread. And for at least one position, he consulted with the other trader, who advised him to be slightly less aggressive. Later in the evening of March 30, he reported an estimated loss for the day of $138 million. Unlike the January and February month-end prices, the marks for March 30 were not generally at or near the mid.

The quarter-end prices generated on March 30 were to be used as the basis of the Firm's financial reporting. Accordingly, per standard practice in CIO, they were subjected to a separate review by CIO's VCG, a price-testing group that is part of the Finance function and analyzes market data to test month-end front office marks. VCG is responsible for confirming the traders' marks or making necessary adjustments to the front office marks to arrive at the fair value for purposes of the U.S. GAAP for the Firm's books and records.

Under the applicable policy, CIO VCG's price-testing procedures involved multiple steps, including the following: First, the relevant member of the VCG team received the March 30 front office marks. Second, that individual reviewed information about the value of each position derived from third-party sources – principally, quotes from dealers, recent transaction data, and consensus pricing data from third-party pricing services such as Markit and Totem – and generated a price (the "VCG mid price") for each position. He then compared the trader's prices to the VCG mid price.

As noted above, Firm policy called for the positions to be marked at fair value, which in accordance with accounting rules, it defines (consistent with U.S. GAAP) as the exit price for a reasonably sized lot. CIO VCG recognized that, given the nature of the market, market participants could arrive at different yet reasonable conclusions as to the fair value of a particular position. When comparing the VCG mid price to a trader-provided price, CIO VCG's policy was to consider a VCG-generated price-testing threshold designed to reflect the bid-offer spread to the VCG mid. For example, if the CIO VCG mid price was 35 and the threshold was 2, the acceptable valuation range for the trader-provided price would be 33 to 37. If the trader's price fell within that range, under the Firm's policy, CIO VCG could adopt that price as final. If the trader's price fell outside that threshold, under the Firm's policy, CIO VCG was to adjust the price to the closest outer boundary of the threshold. Thus, in the above example, if the trader had a price of 38, CIO would make a one-point adjustment to move the mark back to the closest outer boundary of 37.[67] PwC was aware of CIO VCG's use of thresholds prior to the first quarter of 2012.

CIO VCG conducted its price testing on the March 30 valuations for the Synthetic Credit Portfolio in April. In the course of this price testing, it observed that many of the positions were marked at or near the boundary of the bid-offer spread. However, because it concluded that they

[67] VCG did not, as a technical matter, actually adjust the trader's marks for individual instruments, rather it provided information to the CIO Middle Office, which simply made an aggregate dollar amount adjustment that resulted from the adjusted marks.

were within VCG thresholds (with exceptions for which an adjustment was made), it concluded that the trader marks were acceptable.[68]

Although CIO VCG's independent price-testing process, including the use of thresholds, was appropriately designed to determine whether a trader's mark is a reasonable estimate of fair value, CIO VCG price testing had been identified as having some deficiencies and inconsistencies in its price-testing practices. Specifically, on March 30, 2012, the Firm's Internal Audit group issued a report on EMEA CIO Credit Market Risk and Valuation Practices in which it assigned a rating of "Needs Improvement."[69] This assessment of CIO VCG was due, in part,[70] to the lack of "a formally documented price sourcing hierarchy to govern the consistent use and appropriate application of independent prices for price testing purposes" and "the lack of formally documented/consistently applied price testing thresholds." With respect to the latter, Internal Audit concluded that thresholds were applied by CIO VCG "without sufficient transparency or evidence." The "root cause" of the deficiencies and inconsistencies in CIO

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[68] VCG's calculation of the March month-end pre-adjustment difference between VCG prices and the traders' marks contained mathematical and methodological errors; as these errors were discovered, the figure was revised upwards to $512 million on May 9. In July, the difference between the VCG mid and the front office marks was adjusted to $677 million before the application of the thresholds, $660 million after the application of thresholds, and $472 million after the subsequent application of a liquidity reserve. *See* Section III.B.

[69] Internal Audit issues three ratings: Satisfactory, Needs Improvement, and Inadequate. The latter two are considered "adverse" ratings. CIO VCG received a "Satisfactory" rating in its prior audit of CIO EMEA Credit on February 26, 2010.

[70] As part of this same report, Internal Audit also identified weaknesses in CIO's risk management practices, such as the use of unapproved risk and valuation models, a lack of documented stress testing methodology, and a need to enhance controls around certain aspects of the VaR calculation.

VCG's price-testing practices was identified as "insufficient assessment/formalisation of certain price testing methodologies and poorly documented CIO VCG practices."[71]

The Internal Audit report included an action plan for VCG to, among other things: (1) define and implement a price sourcing hierarchy to ensure a consistent and appropriate price sourcing and testing approach; (2) ensure price testing is performed consistently with front office marking policy; (3) document the rationale for and clearly define certain price-testing thresholds; and (4) improve evidence of certain price-testing processes. The individual who was the "issue owner" for this action plan had a target date of July 31, 2012, to complete the action plan. As part of his response to Internal Audit's recommendation to more clearly demonstrate and document the use of thresholds, this individual immediately made certain adjustments to formulas in the spreadsheets he used. These changes, which were not subject to an appropriate vetting process, inadvertently introduced two calculation errors, the effects of which were to understate the difference between the VCG mid-price and the traders' marks.

3. *The "London Whale" Story and Senior Management's Response*

On April 5, Ms. Drew sent an e-mail to the JPMorgan Operating Committee (which included Messrs. Dimon and Braunstein) in advance of articles that the *Wall Street Journal* and Bloomberg would be publishing the following day about one of the Synthetic Credit Portfolio

[71] Although the report was formally issued on March 30, consistent with Internal Audit's processes, Internal Audit personnel interacted with CIO VCG, market risk management and Finance personnel during the audit process. In mid-to-late March, members of the audit team shared findings, communicated about management's action plan, and obtained other input from Messrs. Goldman, Wilmot, Weiland and other members of CIO Market Risk, Finance and VCG, among others.

traders, whom the articles referred to as the "London Whale." In her e-mail to the Operating Committee, Ms. Drew provided a brief overview of CIO's investment strategies, explaining that the strategies had turned pro-risk and the Synthetic Credit Portfolio was moved into a long position, and that it had not performed as expected in 2012.[72] She acknowledged that (1) the position was not sized or managed well; (2) mistakes were made, which she was in the process of addressing; (3) the losses to date were approximately $500 million, which netted to negative $350 million as a result of gains in other positions; and (4) Firm earnings for the first quarter had not been affected "since [CIO] realized gains out of the [$]8.5 billion of value built up in the securities book."

Mr. Braunstein and Ms. Drew met the following day, on April 6. Mr. Braunstein asked Ms. Drew to provide a detailed overview of the Synthetic Credit Portfolio's position by the following Monday, April 9. Later on April 6, Mr. Braunstein sent Mr. Dimon a brief update on his discussions that day regarding the Synthetic Credit Portfolio. He informed Mr. Dimon that he "[s]poke with Ina. Would like to add a liquidity reserve[73] for [the] Series 9 Tranche Book (approx 150mm). Wilmot will be sending e-mail detailing analysis." Mr. Braunstein also informed Mr. Dimon of the overview he had just asked Ms. Drew to prepare by April 9, and added that he was "working with [the Investment Bank] to make sure there are no similar

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[72] Although the Synthetic Credit Portfolio had shifted to a net long position by early April under CSW 10%, it also continued to hold short risk positions and substantial "jump-to-default" protection.

[73] A liquidity reserve is taken to mitigate uncertainty when a price is not available or where the exit cost may be uncertain due to illiquidity.

positions in the [Investment Bank's] book…. Separately think we need to look at coordinating between the CIO and [Investment Bank] approaches. Have talked to John Hogan about this as well."[74]

Meanwhile, Ms. Drew reached out to a senior member of the Synthetic Credit Portfolio team on the afternoon of April 6 and asked for a "full diagnostic," explaining that the analysis should be "[m]ore focused on p [&] l than rwa at [the] moment[.]"[75] This individual said he would perform the work, and explained that any further losses would be the "result of further distortions and marks between the series where we are holding large exposures." He added that he had "no doubt that both time and events are healing our position," and stated that a trader with whom he had consulted was "convinced that our overall economic risk is limited." He also noted that the traders were concerned that information about CIO's Synthetic Credit Portfolio position had been leaked to the market – a concern they had expressed previously – suggesting that the losses may have been driven by their counterparties who, they believed, knew of CIO's positions and were distorting the market. In a separate e-mail to Ms. Drew, a trader estimated

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[74] Late on April 6, Mr. Braunstein also received an e-mail from Mr. Venkatakrishnan, via Mr. Hogan, stating that Mr. Venkatakrishnan had noticed that the notional exposures at CIO were very large, totaling about $10 trillion in each direction. Mr. Venkatakrishnan – who had become involved in early March to assist with RWA calculations – was concerned about counterparty credit risk (*i.e.*, risk that a counterparty would fail), and pointed out that $6.5 trillion of these positions came from just four trades. Mr. Venkatakrishnan subsequently determined that these numbers were incorrect, however (he had not recognized that many of these trades were internal and thus netted out), and the total notionals were much smaller than he had initially thought (although still large). Upon learning of this, on April 9, he informed Messrs. Hogan and Goldman that he was "more comfortable now."

[75] This focus differed from the focus at the end of March, which at that time was principally on RWA.

that, although he would conduct a confirmatory analysis, the worst-case scenario for the second quarter (excluding "very adverse" outliers) would involve losses of no more than "-200 MM USD . . . with the current book as it is."

Over the weekend of April 7 and 8, two of the traders prepared the requested analysis. One of them initially attempted to formulate a loss estimate by constructing numerous loss scenarios that were very harsh, and then evaluating how those scenarios would impact the Synthetic Credit Portfolio's positions. For example, he assessed how the market might behave in a "bond market crash" or a "Middle East shock," and then attempted to determine how that market behavior could affect the Synthetic Credit Portfolio. In this way, he generated a number of probability-weighted profit-and-loss estimates for the second quarter; the estimates ranged from losses of $750 million to gains of $1.925 billion, with six of the nine scenarios generating losses (the smallest of which was a loss of $350 million).

This trader sent his loss estimates to the other on April 7. According to the trader who prepared the loss estimates, the other trader responded that he had just had a discussion with Ms. Drew and another senior team member, and that he (the latter trader) wanted to see a different analysis. Specifically, he informed the trader who had generated the estimates that he had too many negative scenarios in his initial work, and that he was going to scare Ms. Drew if he said they could lose more than $200 or $300 million. He therefore directed that trader to run a so-called "Monte Carlo" simulation to determine the potential losses for the second quarter. A Monte Carlo simulation involves running a portfolio through a series of scenarios and averaging the results. The trader who had generated the estimates did not believe the Monte Carlo simulation was a meaningful stress analysis because it included some scenarios in which the Synthetic Credit Portfolio would make money which, when averaged together with the scenarios in which it lost money, would result in an estimate that was relatively close to zero. He performed the requested analysis, however, and sent the results to the other trader in a series of written presentations over the course of the weekend. This work was the basis for a second-quarter loss estimate of -$150 million to +$250 million provided to senior Firm management, described below.

On April 8, the same trader sent a draft presentation – prepared based on the Monte Carlo analysis – to the other trader, and advised him that "[w]e should stress that some standalone economic scenarios can cost up to 500M although, mixing all the stress scenarios we get to a more decent number of 150 to 250 depending on whether spreads widen in Q2. The book keeps a useful optionality [i]f things turn really bad again. This is what it is meant for. I am reviewing now the names in IG on the run that could be damaging to us.. they are very few given that we still have a short risk in IG14-IG15 and IG16 . . . ."

On the afternoon of April 8, the trader who had generated the estimates was asked by a more senior team member for an estimate of potential profit-and-loss for the second quarter, with an 80% degree of confidence, assuming CIO held the positions and that they "maintain the book as balanced and 'neutral' as possible . . . ." The trader responded that he was "80pct confident the pnl for q2 is going to range between -150m and 250m…. This forecast includes the fact that I am NOT optimistic for now about the impact of the recent press releases. I prefer to forecast q2 results in light of what happened in end of q1." His senior responded "Got . . . it – let'[s] hope it['s] true – we must prove the point today[.]"[76]

That evening, Ms. Drew led a call with Mr. Goldman and the senior members of the Synthetic Credit Portfolio team – who, along with CIO Market Risk and others, had been involved with the profit-and-loss analysis and discussions over the weekend – to prepare for the following day's meeting with Mr. Braunstein. After the call, one of the attendees from the Synthetic Credit Portfolio team e-mailed Ms. Drew, copying Messrs. Dimon, Braunstein and others, and provided an overview of the trading strategies. He explained that CIO had decided to neutralize the Synthetic Credit Portfolio at the end of 2011 because of large realized gains at the end of 2011 from a corporate default, among other things. He stated that the "attempt to neutralize the book ha[d] been unsuccessful," and that they had lost $575 million on the high-yield short positions, but the investment-grade trade meant to neutralize the high-yield short position had delivered only $50 million in revenue, meaning that the Synthetic Credit Portfolio had lost $525 million year-to-date. He offered two reasons that the price movements of long and short positions had acted in what he characterized as an "idiosyncratic" manner and had not correlated with each other as expected: (1) the off-the-run long positions (IG-9 and iTraxx 9) steepened by 24 basis points because of excess liquidity and a "pro-risk environment" in the

[76] The full text of the senior team member's e-mail stated that they must "prove the point today with as much ambiguity as poss[ible]." It is the Task Force's understanding that he meant to say "little" rather than "much."

market; and (2) the series in which the Firm held key long positions (*i.e.*, the IG-9) underperformed other investment-grade indices. He also explained that "we [had] chosen these IG proxies" to offset the short high-yield positions because they contained "the very names that we are short in the HY instruments," and that "although thus far unsuccessful, these IG proxies best neutralize and balance our synthetic books to event risk."

He concluded that the Synthetic Credit Portfolio was "overall risk balanced," and for the second quarter, he provided an estimate of "a P&L range of -150MM to +250MM," with a "significantly positive" upside potential in the event of corporate defaults. His statement about default protection was consistent with a contemporaneous analysis that was being performed by Mr. Venkatakrishnan and a member of Model Risk and Development, and provided to Messrs. Dimon and Braunstein, which concluded that "[t]oday there is considerable default protection coming from IG9 tranches . . . ," explaining that the IG-9 positions were currently positioned for a "gain of +146m on average per name to a loss of -572m per name post December 2012" for each of the 121 names in the IG-9 index."

On April 9, Ms. Drew, Mr. Braunstein, Mr. Wilmot, and an executive from the Synthetic Credit Portfolio team met to discuss the Synthetic Credit Portfolio. Ms. Drew told Mr. Braunstein that the Synthetic Credit Portfolio was balanced, and Mr. Braunstein requested additional follow-up, including a "clear analysis of the positions – maturities, balances, spreads (current) and normalized." Mr. Braunstein updated Mr. Dimon by e-mail on this meeting, as well as on a number of other press- and analyst-related topics. Shortly after the meeting, the executive from the Synthetic Credit Portfolio also forwarded Mr. Braunstein a written presentation on the Synthetic Credit Portfolio and information on a proposed liquidity reserve for the IG-9 tranches in the Synthetic Credit Portfolio. The presentation summarized likely profit-and-loss impacts under a variety of scenarios, all of which were viewed by Mr. Braunstein as manageable.

That evening, Mr. Hogan e-mailed Mr. Dimon regarding CIO. Mr. Hogan had been independently discussing the Synthetic Credit Portfolio with Mr. Venkatakrishnan and an individual from Model Risk and Development, who were in London and had been assisting in assessing certain aspects of the Synthetic Credit Portfolio. Among other things, Mr. Hogan told Mr. Dimon that "the current issue [relating to losses incurred by the Synthetic Credit Portfolio] is fine and I understand the rationale for it," but added that he thought the CIO needed "tighter governance/controls/escalation protocols" and that he believed Ms. Drew agreed. Messrs. Braunstein and Hogan also received an analysis from Mr. Goldman regarding the Synthetic Credit Portfolio's counterparty risk (*i.e.*, risk based on the creditworthiness of particular counterparties and their ability to perform their contractual obligations).

The following day, one of the traders also e-mailed Ms. Drew, Mr. Wilmot, Mr. Goldman, Mr. Weiland and an executive from the Synthetic Credit Portfolio team an explanation of why his team had decided to increase their investment-grade position instead of reducing high-yield short positions. He stated that they had been unable to trade out of the high-yield short positions and viewed the addition of a long-risk position in IG-9 as the "next best hedge."

Mr. Wilmot forwarded a slightly revised version of this explanation to Messrs. Dimon, Braunstein, and Hogan.

Mr. Wilmot also e-mailed Mr. Dimon, Mr. Braunstein, Mr. Hogan, Ms. Drew, and others, providing information on the size of the net positions in the Synthetic Credit Portfolio. The e-mail stated that CIO's IG-9 position represented the equivalent of 10-15 trading days of 100% of the average daily trading volume.[77] This e-mail (along with a subsequent April 12 e-mail showing longer exit periods for certain of the IG-9 instruments) indicated that the positions were large, but senior Firm management took comfort from the fact that CIO had no need to sell the positions and could therefore wait until the market normalized.

April 10 was the first trading day in London after the "London Whale" articles were published.[78] When the U.S. markets opened (*i.e.*, towards the middle of the London trading day), one of the traders informed another that he was estimating a loss of approximately $700 million for the day. The latter reported this information to a more senior team member, who became angry and accused the third trader of undermining his credibility at JPMorgan. At 7:02 p.m. GMT on April 10, the trader with responsibility for the P&L Predict circulated a P&L Predict indicating a $5 million loss for the day; according to one of the traders, the trader who circulated this P&L Predict did so at the direction of another trader. After a confrontation between the

[77] This estimate was prepared by CIO Market Risk, and initially circulated to Ms. Drew, Mr. Venkatakrishnan, Mr. Goldman, Mr. Weiland and senior members of the Synthetic Credit Portfolio team. The estimate does not account for the size of IG-9 tranche positions, and also does not reflect the potential time required to exit the position, generally.

[78] The markets were closed in London on Monday April 9 due to the Easter holiday.

other two traders, the same trader sent an updated P&L Predict at 8:30 p.m. GMT the same day, this time showing an estimated loss of approximately $400 million. He explained to one of the other traders that the market had improved and that the $400 million figure was an accurate reflection of mark-to-market losses for the day.

After the markets closed, Ms. Drew notified Messrs. Dimon and Braunstein about the day's mark-to-market loss of $412 million. It was, she observed, an eight-standard-deviation event that she attributed to the market's belief that JPMorgan would have to liquidate the positions described in the articles.[79] Shortly thereafter, Ms. Drew circulated a second e-mail to Messrs. Dimon, Braunstein, Hogan, Zubrow, Staley, Goldman, Wilmot and an executive from the Synthetic Credit Portfolio, attaching the trader's updated second-quarter profit-and-loss summary and scenario analysis, which was to be discussed the following morning.[80] The analysis showed an 80% likelihood of a second-quarter result in the range of -$250 million to +$350 million for the Synthetic Credit Portfolio, with a 10% "extreme" result of -$650 million and a 10% "optimistic" result of +$1.725 billion.

On April 11, Messrs. Dimon and Braunstein received updates related to the Synthetic Credit Portfolio. Mr. Hogan also copied them on a description of the Investment Bank's risk limits for comparable products and expressed the view that these should be implemented in CIO

[79] A senior member of the Synthetic Credit Portfolio team stated at the time that the losses were attributable to the market's increased awareness of JPMorgan's position and were thus part of an aberrational pattern that would eventually "mean revert."

[80] The updated estimate noted that "these scenarios do not include 10 April P&L, which would accrete back into each scenario +$400MM, if re-calibrated for today's market moves."

as soon as possible. Mr. Hogan separately informed Mr. Braunstein that Mr. Venkatakrishnan had informed him – and had included in an analysis being prepared – that in an extreme loss scenario (of a steepening movement of 20 basis points), the total loss for the second quarter could be up to $1 billion if certain offsetting hedges did not work, and up to $550 million if they did work.[81]

On April 11, Mr. Wilmot circulated to Messrs. Dimon, Braunstein and others a presentation on the Synthetic Credit Portfolio that addressed, among other things, notional exposure relative to various counterparties,[82] maturities, certain positions and profit-and-loss scenarios, noting that it had been reviewed with Jes Staley,[83] Mr. Braunstein, Ms. Drew, Mr. Zubrow and Mr. Hogan. The presentation outlined second-quarter profit-and-loss estimates for a number of scenarios, including a -$150 million "Status Quo" estimate and a +$350 million "Central Scenario" estimate."[84] The presentation also detailed the extent of the Synthetic Credit Portfolio's considerable default protection coming from the IG-9 tranche positions. It further

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[81] The email circulating these materials reads: "Jamie, Attached please find a presentation on the synthetic credit book that was reviewed this afternoon with Doug, Jes, Ina, Barry and John. It covers the relevant data requests from the past several days." This presentation was created by a member of CIO Market Risk, and initially circulated to Ms. Drew, Mr. Goldman, Mr. Wilmot, Mr. Weiland, Mr. Venkatakrishnan, and members of the Synthetic Credit Portfolio and Model Risk and Development teams, to use in an unspecified meeting.

[82] The notional information appears to be directed at counterparty risk, and identifies (among other things) the net notionals outstanding with other parts of the Firm ($13 billion), with an exchange through which certain third-party trades are cleared ($96.7 billion) and with third parties for whom trades are not cleared through the exchange ($47.5 billion).

[83] Mr. Staley was, at this time, the Chief Executive Officer of the Investment Bank.

[84] The presentation also outlined a 10% "extreme" result of a $650 loss million and a 10% "optimistic" result of $1.725 billion gain.

included a description of Mr. Venkatakrishnan's April 11 extreme loss scenario analysis, described above.[85]

Finally, Messrs. Dimon and Braunstein were provided an update on press activity. This included a *Wall Street Journal* article entitled "Making Waves Against the Whale," which suggested that CIO's activity in the market had affected prices, first by driving down the price of buying protection when it was selling a large amount of protection, and then causing the price of protection to go back up when CIO completely stopped selling protection. Mr. Braunstein forwarded the article to Ms. Drew and others and asked, "[i]f the selling pressure impact described in the article was accurate[,] then [might] the change in value [that is causing CIO to lose money]…be in part a return to a more normalized range post our selling activity." One of the recipients responded by circulating an analysis from CIO Market Risk that, as he described it, demonstrated that CIO's activity was "not a big driver of the market moves."

That same day (April 11), Ms. Drew forwarded to Messrs. Dimon, Braunstein, Hogan, Zubrow and others an "Executive Summary" e-mail written by one of the traders. This trader characterized the Synthetic Credit Portfolio as "balanced in terms of directionality." He

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[85] Mr. Venkatakrishnan's estimate was based on an underlying analysis performed by CIO. Although not evident on the face of the document, the Task Force has determined that the underlying analysis was based on an incomplete analysis by CIO London of the potential risks presented by the Synthetic Credit Portfolio. Specifically, the analysis is predicated on losses arising from a steepening of the credit curve, and assumes the existence in the Synthetic Credit Portfolio of a significant flattening position that would limit potential exposure. In fact, there was not a significant flattener in the Synthetic Credit Portfolio, and the analysis also did not consider the impact of an outright movement in the curve. As a result, the presentation's estimate of the worst-case profit-and-loss scenarios was understated. Mr. Venkatakrishnan was not aware of these issues when he assisted CIO.

acknowledged that the hedges in the Synthetic Credit Portfolio had not performed as expected and that the market "goes against all economic sense," but stated that, although it "might take some time," he remained "very confident" that the Synthetic Credit Portfolio would recover its losses for three reasons: (1) because of the increased carry the Synthetic Credit Portfolio gained as a result of market moves; (2) because of the possibility of future defaults that might generate revenue; and (3) because the market for the positions that should have (but had not yet) offset the losses would, in his view, "mean revert" and eventually begin to operate as expected. He also suggested that the press coverage may have played a role in distorting the market value of the positions. A chart attached to the e-mail shows that the Synthetic Credit Portfolio had almost doubled its net notional amount of certain synthetic credit positions since January 2012.

Messrs. Dimon and Braunstein also received additional data from Ms. Drew and Mr. Goldman regarding the Synthetic Credit Portfolio on April 12, including additional information about the Synthetic Credit Portfolio's net notionals, background on the synthetic credit market, the historic purpose of the Synthetic Credit Portfolio, and information regarding the size of certain IG-9 and high-yield positions. On the evening of April 12, as is customary, the Firm's Executive Committee met in advance of the first-quarter earnings call that was scheduled for the following day. Ms. Drew spoke about CIO-related issues that would likely be raised the next morning. She stated that the Synthetic Credit Portfolio had significant value and was well-balanced, and that the current issues were a media event that had pushed the market against CIO. After the meeting concluded, Mr. Dimon confirmed with Ms. Drew that CIO could hold its positions for as long as it wanted, and that no third party had a contractual right to force it to sell. Mr. Dimon wanted to confirm that CIO could hold the positions until the market returned to normal levels, and that there was no contractual risk that CIO would be required to sell unless it wanted to do so.

The first-quarter earnings call was held on the morning of April 13. During the earnings call, Mr. Braunstein addressed the Synthetic Credit Portfolio issues. While he had prepared remarks regarding the Firm's financial results, he had not planned on addressing Synthetic Credit Portfolio positions, and thus did not have prepared remarks relating to CIO. However, shortly before the call, the Global Head of Corporate Communications suggested that Mr. Braunstein address the matter and he agreed to do so. Mr. Braunstein explained on the call that the Synthetic Credit Portfolio had historically taken positions designed to manage the potential losses that could result from a significant stress credit environment. Specifically, Mr. Braunstein explained that:

> . . . [W]e also need to manage the stress loss associated with that portfolio, and so we have put on positions to manage for a significant stress event in Credit. We have had that position on for many years and the activities that have been reported in the paper are basically part of managing that stress loss position, which we moderate and change over time depending upon our views as to what the risks are for stress loss from credit.

Mr. Braunstein further stated his belief that the Firm was "very comfortable" with the positions. Mr. Dimon did not discuss the Synthetic Credit Portfolio in his opening remarks, but he responded to analyst questions on the subject and agreed with an analyst's characterization of the issue as a "tempest in a teapot."

Mr. Dimon had been briefed on the issue and the work being performed, although he had not been involved firsthand in many of the discussions that had taken place during that period.[86] After the analyst call, Mr. Dimon sent an e-mail to Mr. Hogan asking why the Synthetic Credit Portfolio team had decided to increase their investment-grade position instead of reducing the high-yield position. Mr. Hogan responded that he and Mr. Braunstein had asked the same question and had been told that increasing the position "was [the] most 'efficient' way to do it," but that he (Mr. Hogan) thought that CIO had "wanted to improve the carry on the book by selling protection and taking in some premium."

4. *Continued Declines and Internal Reviews*

In the week after the April 13 earnings call, the Synthetic Credit Portfolio experienced additional losses totaling approximately $117 million.[87] By the week of April 23, the losses began to accelerate rapidly. On April 23, the Synthetic Credit Portfolio experienced a single-day

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[86] Mr. Dimon had not been in the office from April 2 until his return on April 12.

[87] Mr. Goldman provided the DRPC on April 17 with an update on CIO's activity, focusing on recent news reports regarding the so-called "London whale." According to the meeting minutes, Mr. Goldman "reviewed the history of CIO's synthetic credit book and how it fits within CIO's overall hedging strategy. He described the attributes of the IG-9 index and how purchasing of that index was used to offset other existing positions. Mr. Goldman noted that recent news reports were based on an inaccurate market perception that the portfolio was unhedged, based on a lack of knowledge of how CIO manages the structural risk of the company; he reported that in fact the risk was balanced. In response to questions from the Committee, Messrs. Braunstein and Hogan noted that the information they had received was consistent with this analysis. Messrs. Goldman and Hogan also described an ongoing post mortem on these trades that includes governance and market limits."

loss of approximately $161 million. 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. This individual, who was in New York on business, returned to London on April 27 and began working with an experienced trader from the Investment Bank and others to analyze the Synthetic Credit Portfolio. As requested by Mr. Hogan, this team examined every position in the Synthetic Credit Portfolio, and attempted to understand how each position was performing and how it was (or was not) correlated to the other positions in the Synthetic Credit Portfolio. The team worked long hours on this review, reporting back to senior Firm management on daily update calls. By Sunday, April 29, after hearing its initial reports, Messrs. Dimon and Hogan asked the team to take over responsibility for the Synthetic Credit Portfolio.

The team continued their intensive review (and the twice-daily update calls) throughout the following week. The team, purposefully not taking into account CIO's views as to what they had intended and how the Synthetic Credit Portfolio was supposed to work, independently analyzed the correlations among the various positions under a range of market scenarios. Based on this review, they concluded that the Synthetic Credit Portfolio was not as well protected against various market scenarios as had been previously thought. In addition, they found that the market's knowledge of the positions and a continued decrease in liquidity made risk reduction even more challenging.

5. *Disclosure of the Losses*

The JPMorgan Audit Committee met on May 2 to review a draft of the first-quarter Form 10-Q. At that meeting, Ms. Drew made a presentation on the Synthetic Credit Portfolio and explained the rationale for the trades that had been put on in the first quarter. Ms. Drew provided the explanation given to her previously by one of the traders as to the increase in the notional size of certain positions in the Synthetic Credit Portfolio, explaining (among other things) the RWA reduction required by the upcoming Basel rules, the anticipated improvement of the economy at the end of 2011, the purported difficulties encountered by the traders in unwinding the positions, and the ensuing use of the IG-9 long position as an offset to the high-yield short positions. She also explained that the Synthetic Credit Portfolio had, by the date of the meeting, moved to a net long credit position.

The deadline for filing the Form 10-Q was May 10, and management noted at the May 2 meeting that it would continue its efforts to understand the Synthetic Credit Portfolio's positions – and the likely losses – as it prepared the Form 10-Q for filing. On May 10, JPMorgan filed its first-quarter 2012 Form 10-Q, and on an analysts' call disclosed that the Synthetic Credit Portfolio had incurred approximately $2 billion in mark-to-market losses in the second quarter to date, with the possibility of additional future losses and volatility as the positions were unwound. As a result of the operational issues relating to the VaR model described in Appendix A, the Firm also stated on May 10 that it had reverted back to its prior VaR model for CIO.

In addition to the review led by the senior individuals from Firm-wide Market Risk and the Investment Bank, the Firm also performed substantial additional work from late April up until the May 10 filing relating to the valuation of the positions in the Synthetic Credit Portfolio to confirm that they had been priced consistently with Firm policy and U.S. GAAP. The review had two primary components. First, a combination of individuals from CIO Finance, the Firm's internal accounting department, valuation experts from the Investment Bank, and others examined the prices assigned by CIO to the positions in the Synthetic Credit Portfolio, including at March 30.[88] This work included collecting market information about the positions in the Synthetic Credit Portfolio; performing an analysis of the positions using the Investment Bank's valuation methodology and personnel; and obtaining explanations from the traders about the

[88] Price validation analyses were conducted by (among others) the Head of JPMorgan's Accounting Policy Group for CIO EMEA.

bases for the prices assigned to the positions in question. The review of the pricing data confirmed that the valuations of the positions in the Synthetic Credit Portfolio were within the range of reasonable fair values for such instruments. Individuals working on the review understood that, although the March 30 trader marks for the Synthetic Credit Portfolio were aggressive, they were predominantly within the VCG thresholds.[89] And, when questioned about the March 30 marks, the traders all confirmed that the marks at March 30 reflected their good-faith estimation of the positions' value, and one of them explicitly denied any bias.

Second, in addition to the review of the front office marks, the Firm also conducted a review of the VCG process related to the valuation of the Synthetic Credit Portfolio. As a result of its work, the Firm confirmed that PwC was aware of the CIO VCG process and the Firm concluded that the process – including the identification of a mid-market price and application of a threshold around that price – was designed to result in marks that were compliant with U.S. GAAP. The Firm therefore concluded, after consultation with PwC (which was conducting its quarterly review procedures), that the marks were determined in accordance with U.S. GAAP and Firm policy.

During its subsequent efforts to obtain and understand all the facts relating to the CIO losses, the Task Force became aware of facts that caused it (and the Firm and PwC) to revisit

[89] There were some marks that had been outside the thresholds, but those had been adjusted by VCG in early April to the threshold, for a total adjustment of approximately $17 million.

these conclusions.[90] With respect to the front office marks, the Task Force learned that not all of the marks appeared to reflect an unbiased assessment by the front office of exit prices and instead that some of the marks reflected, at least in part, pressure exerted by one of the traders to minimize the losses shown. This new information, which was uncovered in electronic communications and recorded conversations subsequent to the May 10 filing, was shared with PwC, and the Firm decided – following analysis and consultation with PwC – to restate its financial statements for the first quarter to reflect the valuations that would have been employed if the positions had been marked to an objectively determined "mid" valuation.[91] The announcement of the restatement was made on July 13.

D. Risk Limits and Excessions

The three primary categories of risk metrics applicable to CIO were VaR, stress, and non-statistical credit-spread widening metrics (Credit Spread Basis Point Value ("CSBPV") [92] and CSW 10%[93]). Pursuant to Firm policy, each of these metrics was subject to certain limits. Limits are classified by type, as Level 1, Level 2, or "threshold." A limit's type determines who is responsible for approving the limit, who receives notice of any excessions, and who within the Firm is responsible for approving any increases. The CIO Global 10-Q VaR and CIO stress

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[90] Much of this subsequently discovered information is described in Section II.C.2 of this Report (among other places) and includes the discovery of the "divergence," as well as the March 30 and April 10 valuation-related events.

[91] The Firm re-marked the positions to objectively determined "mid" valuations, which the Firm believes was reasonable under the circumstances.

[92] *See* Section II.D.2.

[93] *See* Section II.D.3.

limits were Level 1 limits, while the CIO CSBPV and CIO CSW 10% limits were Level 2 limits. Any excessions of Level 1 or Level 2 limits had to be reported to the signatories to the limit, the Risk Committee for the line of business, and the Market Risk Committee or Business Control Committee for the line of business.[94] Under Firm policy, all excession notifications should include (1) a description of the limit excess, (2) the amount of the limit, (3) the exposure value (*i.e.*, the amount by which the limit has been exceeded) and the percentage by which the limit has been exceeded, and (4) the number of consecutive days the limit has been exceeded. Excessions are addressed differently depending on type, but in the event of an "active limit excess," which occurs when a business unit exceeds its own limit, the business unit "must take immediate steps to reduce its exposure so as to be within the limit," unless a "one-off approval" is granted. A "one-off approval" refers to a temporary increase for a limited period of time; it must be provided by the persons who were responsible for setting the original limit.

Limits are not rigid restrictions, and some excessions are expected. The excession process, however, serves an important function: triggering discussion and analysis of the reasons for an excession and of the limit that has been exceeded.[95]

[94] There was no specific number of days by which the notifications were required to be distributed at the time, although Market Risk Management typically sent such notifications within a matter of days of a limit having been exceeded. As described in Section IV.B.2, as part of its remedial measures, the Firm has instituted a policy specifying procedures, including time limits, for escalation of limit excessions.

[95] An earlier limit breach within CIO appears to have been part of the impetus for a review of CIO's limit structure begun by CIO's Head of Market Risk in the summer of 2011, described below. Beginning in March 2011, CIO's aggregate stress loss limit was in breach for some time. The breach, which was discussed among the Chief Investment Officer, the Firm-wide Chief Risk Officer, and the CIO Head of

At various points and for different reasons, discussed in further detail below, the limits for each of these metrics were exceeded in the first quarter of 2012. The CIO Global 10-Q VaR limit was exceeded in the second half of January. These excessions were addressed by position changes and by implementation of a new VaR model, which had been in process for almost six months when the CIO VaR began to be exceeded. The other excessions of CIO limits in the first quarter of 2012, namely, the CSBPV limit, the CSW 10% limits, and the stress loss limits, were the subject of discussion within CIO, and, in the case of the stress loss limit, among senior Firm management. However, the trading had largely ceased by the time the aggregate CSW 10% limit and the stress loss limits, in particular, were exceeded in late March and April 2012.[96]

1. *Value at Risk*

VaR is a statistical estimate of the risk of loss on a portfolio of assets. A portfolio's VaR represents an estimate of the maximum expected mark-to-market loss over a specified time period, generally one day, at a stated confidence level, assuming historical market conditions.

Beginning in mid-January 2012, CIO breached its VaR limit on multiple days, which also contributed to breaches of the Firm's VaR limit. CIO explained to Mr. Hogan and Firm-wide Market Risk that the breaches were being addressed in two ways: (1) continued management of CIO's positions, and (2) implementation of a new, "improved" VaR model for CIO. In response

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Market Risk, appears to have been caused principally by activity unrelated to the Synthetic Credit Portfolio, in CIO's international rates sector.

[96] CIO's mark-to-market CSW 10% limit was first exceeded on March 22, 2012, the day before Ms. Drew gave the instruction to stop trading. The aggregate CSW 10% limit was not exceeded until April 10, 2012.

to the notification of a second consecutive breach in the Firm-wide VaR limit on January 18 (which was primarily driven by "position changes in CIO"), Mr. Hogan requested that Mr. Weiland and a senior member of Firm-wide Market Risk look into the factors driving the increase in the CIO VaR and report back with a recommendation. Mr. Weiland advised Firm-wide Market Risk that it was CIO's intention to "bring the VaR down, even under the current VaR model," and another member of CIO Market Risk further advised that they expected the breach of the VaR limit to be resolved through "active risk management," meaning by trading in a manner expected to reduce the risk profile of the portfolio. In an e-mail to Mr. Hogan on January 20, Mr. Goldman explained that "position offsets to reduce [the CIO] VaR" were happening daily. With respect to the implementation of a new VaR model, Mr. Weiland informed Firm-wide Market Risk that CIO was in the final phase of a model review for a "new VaR model for the tranche book" (meaning the Synthetic Credit Portfolio) and that the new model was expected to result in a lower VaR for CIO.

Mr. Weiland recommended a temporary, one-off increase in the Firm-wide VaR limit, with an expiration set to coincide with the expected timing of the VaR model approval. A subsequent e-mail from Market Risk Reporting on January 23 requested Messrs. Dimon and Hogan's approval for a temporary increase in the Firm's 10-Q VaR limit[97] from $125 million to $140 million, expiring on January 31, 2012. The request noted that there was an approval

[97] The Firm's "10-Q VaR" is the VaR for all the Firm's mark-to-market positions; it includes CIO's Global 10-Q VaR.

pending for a new model for the CIO Synthetic Credit Portfolio and that the new model was expected to reduce Firm-wide VaR back below the $125 million limit.[98] Messrs. Dimon and Hogan approved the temporary increase in the Firm-wide VaR limit, and Ms. Drew approved a temporary increase in CIO's 10-Q VaR limit. In an e-mail to Mr. Hogan on January 25, Mr. Goldman reported that the new model would be implemented by January 31 "at the latest" and that it would result in a "significant reduction" in the VaR. On January 28, in response to an inquiry from Mr. Hogan about the change in methodology, Mr. Goldman advised him that the new model had been approved by the Model Review Group and that the Model Review Group considered it to be "superior" to the model used by the Investment Bank. There was no corresponding change made to the CIO Global 10-Q VaR limit at the time of the new model's implementation – *i.e.*, it remained at $95 million.[99] Following implementation of the new model, the CIO VaR fell below the limit, as expected.

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[98] As explained in further detail in Appendix A, a significant reduction in the CIO VaR was expected upon implementation of the new model, which had been in development throughout the Fall of 2011. The previous model was viewed as too conservative and the VaR that it was producing thus was considered to be too high. The new model was thought to be a substantial improvement that would more accurately capture the risks in the portfolio.

[99] A reduction in the CIO VaR limit was being considered at this time as part of a broader ongoing discussion about a revised limit structure for CIO. For example, in a January 25, 2012 e-mail exchange, Mr. Hogan asked Mr. Goldman whether CIO had any intention of further increasing its temporary VaR limit or recommending an increase in the Firm-wide VaR limit in response to the ongoing breaches in the CIO and Firm-wide VaR limits. Mr. Goldman replied, "The new VaR model was approved today and we will get a significant reduction under the limit when implemented – January 31st at the latest. I do not think it's worth changing limits till [the new] model is implemented." Although a proposal to reduce the VaR limit and to change the limit structure of CIO was under active discussion at this time (Messrs. Goldman and Weiland presented a version of it to Ms. Drew in February 2012 and Mr. Weiland made a presentation to the CIO Risk Committee in March), a new CIO limit structure was not implemented until

2. *Credit Spread Basis Point Value*

CSBPV is one measure of the sensitivity of a portfolio to a one basis point move. With respect to the Synthetic Credit Portfolio, it reflected an aggregation of the CSBPV sensitivities of all the credit products *(e.g.*, investment-grade and high-yield), unadjusted for correlations. Although Ms. Drew did not regularly receive reports with CIO's CSBPV figures or receive notifications from Market Risk Reporting when the limit was exceeded (because it was a Level 2 limit and she was not a signatory to it), there was discussion among other personnel within the CIO Risk Management function when the CSBPV limit began to be exceeded in the first quarter. For example, when the CSBPV limit was first breached on January 6, 2012, an individual from CIO Market Risk, in an e-mail to Mr. Goldman, Mr. Weiland and two senior members of the Synthetic Credit Portfolio team noted that CIO was actively taking steps to reduce risk in order to move within the CSBPV threshold. This individual continued to monitor the CSBPV limit status and to update his manager. Ms. Drew was aware, by virtue of an e-mail she received from Mr. Goldman on February 13, 2012, that the CIO Global Credit Spread CSBPV limit had been in breach for most of the year. She responded that she had no memory of this limit and that, in any case, it needed to be "recast with other limits" because it was "old and outdated." It was one of

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May 2012, and those limits were substantially different from and more detailed than the limits that had been included in Mr. Weiland's proposal.

the limits that was to be adjusted or replaced altogether as part of a proposal by Mr. Weiland to revise the CIO limit structure, which was pending at that time.[100]

At various times, beginning in February, CIO Market Risk suggested a temporary increase in the mark-to-market ("MTM") CSBPV limit, from $5 million to $20 million, $25 million or $30 million. On March 1, Firm-wide Market Risk Management e-mailed Mr. Weiland and a senior member of the Synthetic Credit Portfolio team (the signatories to the limit) requesting their approval to temporarily increase the aggregate and MTM CSBPV limits until March 31.[101] Although Mr. Weiland agreed with the suggestion to increase the limit, neither he nor his co-signatory from the Synthetic Credit Portfolio approved the request for a temporary increase and no such increases were implemented. An e-mail from Market Risk Management to the same signatories on March 26 advised that CIO had been breaching its aggregate and MTM CSBPV limits from February 21 through March 21 and that the breaches were "the result of portfolio and hedge rebalancing since start of 2012." The notification went on to point out that the CSBPV had certain flaws that made it less reliable than the CSW 10% (*i.e.*, that it was not normalized for the level of spreads and did not capture convexity) and that a full limit review was underway for the CIO business, which would result in a proposal that was expected to address those issues.

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[100] *See* n. 99.

[101] The CSBPV for both the mark-to-market portfolio and part of the asset-backed securities portfolio are included in the calculation of the aggregate CSBPV metric. The MTM CSBPV limit takes into account only the CSBPV for the mark-to-market portfolio.

3. ***Credit Spread Widening 10% and Stress Loss***

The CIO CSW 10%[102] aggregate and mark-to-market limits and the aggregate and mark-to-market stress loss limits began to be exceeded in late March. CSW 10% stresses all credit spreads in a book wider by 10% – for example, a CDS currently marked at 100 basis points will be revalued at 110 basis points – and then calculates the profit-and-loss effect.

The CSW 10% mark-to-market limit began to be exceeded on March 22, 2012, and the CSW 10% aggregate limit began to be exceeded on April 10, 2012. The MTM limit breach was first reported in the CIO Daily Limit Report on March 26, 2012, and the aggregate limit breach was reported on April 11, 2012. The Daily Limit Report was distributed within CIO to, among others, Mr. Goldman and Mr. Weiland, although it was not distributed to Ms. Drew. It included a Position Limit and Loss Advisory Summary Report that provided detail on each of CIO's limits, including the amount of each limit, the limit's current level of utilization, the percentage by which a limit was in excess, if any, the amount of each limit in the previous four trading days, and the monthly trend for each limit. Both CIO CSW 10% limits continued to be exceeded throughout April. The excessions were attributed to "portfolio and hedge rebalancing since [the] start of 2012."

On March 29, 2012, the aggregate and mark-to-market stress limits for CIO, which were tested weekly, also began to be exceeded. Stress testing is used to measure the Firm's vulnerability to losses under adverse and abnormal market environments. Its purpose is to assess

[102] For an explanation of CSW 10%, see n. 6.

the magnitude of potential losses resulting from a series of plausible events in these hypothetical abnormal markets. Stress testing is performed by applying a defined set of shocks, which vary in magnitude and by asset class, to a portfolio. For example, weekly testing stresses the Firm's positions under a number of hypothetical scenarios such as a credit crisis, an oil crisis, and an equity collapse. On March 29, CIO exceeded its aggregate stress loss limit threshold, with the "oil crisis" stress test resulting in the "worst case scenario." This excession and those that followed reflected the potential loss that was calculated by stressing the underlying positions. As described above, the notional value of the Synthetic Credit Portfolio grew over time during the months preceding March 29. The increase in notional value in turn resulted in a higher hypothetical stress loss when the Firm ran the Synthetic Credit Portfolio through its various stress scenarios. The stress loss excessions were reported in the first weekly stress report that followed, on April 6, 2012.[103] CIO's mark-to-market stress limit continued to be exceeded throughout April. By then, however, the trading that precipitated the losses in the Synthetic Credit Portfolio had ceased.

III. <u>Key Observations</u>

The Task Force agrees with Mr. Dimon's public acknowledgement that CIO's trading strategies for the Synthetic Credit Portfolio in the first quarter of 2012 were "poorly conceived and vetted," CIO "did not have the requisite understanding of the risks [it] took," and "risk

[103] The report was circulated to Mr. Dimon, Mr. Staley, Mr. Hogan, Mr. Zubrow, Ms. Drew, Mr. Goldman and Mr. Weiland, among others.

control functions were generally ineffective in challenging the judgment of CIO's trading personnel."

A. CIO Judgment, Execution and Escalation in the First Quarter of 2012 Were Poor

The Task Force has identified six areas in which CIO failed in its judgment, execution and escalation of issues in the first quarter of 2012: (1) CIO management established competing and inconsistent priorities for the Synthetic Credit Portfolio without adequately exploring or understanding how the priorities would be simultaneously addressed; (2) the trading strategies that were designed in an effort to achieve the various priorities were poorly conceived and not fully understood by CIO management and other CIO personnel who might have been in a position to manage the risks of the Synthetic Credit Portfolio effectively; (3) CIO management (including CIO's Finance function) failed to obtain robust, detailed reporting on the activity in the Synthetic Credit Portfolio, and/or to otherwise appropriately monitor the traders' activity as closely as they should have; (4) CIO personnel at all levels failed to adequately respond to and escalate (including to senior Firm management and the Board) concerns that were raised at various points during the trading; (5) certain of the traders did not show the full extent of the Synthetic Credit Portfolio's losses; and (6) CIO provided to Firm management excessively optimistic and inadequately analyzed estimates of the Synthetic Credit Portfolio's future performance in the days leading up to the April 13 earnings call. In addition, the Task Force has considered the impact of the Firm's compensation structure on the events in question.

1. *The Priorities*

By early 2012, CIO management, including Ms. Drew, had imposed multiple priorities on the Synthetic Credit Portfolio. These priorities included (1) balancing the risk in the Synthetic Credit Portfolio, (2) reducing RWA, (3) managing profits and losses, (4) managing or reducing VaR, and (5) providing "jump-to-default" protection. These priorities were potentially in conflict, and the requirement that the traders satisfy all of these goals appears to have prompted at least some of the complicated trading strategies that led to the losses. Rather than imposing a multitude of potentially competing priorities on the traders, CIO management should have determined (or engaged senior Firm management on the question of) which of these priorities should take precedence, how they could be reconciled, and how CIO intended to execute on the priorities. That did not occur and instead, CIO management imposed inconsistent and potentially competing priorities on its traders.

2. *The Trades*

The trading strategies that were put in place in early 2012 were poorly conceived and vetted, and neither the trading nor its impact on RWA were fully understood by CIO management or the traders. The Firm expected them to subject CIO trading strategies to rigorous analysis and questioning prior to implementation, and to understand the risks inherent in the trading strategies. Here, they did not, and instead put in place the trading strategy without fully understanding what risks were being taken on, particularly in light of the size of the positions being built over the course of the first quarter of 2012.

3. *The Reporting*

The Firm's Chief Investment Officer did not receive (or ask for) regular reports on the positions in the Synthetic Credit Portfolio or on any other portfolio under her management, and instead focused on VaR, Stress VaR, and mark-to-market losses. As a result, she does not appear to have had any direct visibility into the trading activity, and thus did not understand in real time what the traders were doing or how the portfolio was changing. And for his part, given the magnitude of the positions and risks in the Synthetic Credit Portfolio, CIO's CFO should have taken steps to ensure that CIO management had reports providing information sufficient to fully understand the trading activity, and that he understood the magnitude of the positions and what was driving the performance (including profits and losses) of the Synthetic Credit Portfolio.

4. *The Concerns*

A number of CIO employees, including Ms. Drew, Mr. Goldman, Mr. Wilmot, Mr. Weiland and members of the Synthetic Credit Portfolio team became aware of concerns about aspects of the trading strategies at various points throughout the first quarter.[104] However, those concerns failed to be properly considered or escalated, and as a result, opportunities to more closely examine the flawed trading strategies and risks in the Synthetic Credit Portfolio were missed. Examples include (but are not limited to):

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[104] *See* Section II.C.1.

December 2011

- One of the traders raised concerns with senior members of the Synthetic Credit Portfolio team about P&L volatility that could accompany an effort to reduce RWA by selling protection.

January 2012

- In late January, Mr. Wilmot expressed concern to Mr. Goldman about the VaR levels.

- On January 30, one of the traders wrote to another trader expressing concerns about the lack of liquidity in the market and the fact that any additions to the positions, notwithstanding any near-term benefits, would ultimately increase the risks and size of the Synthetic Credit Portfolio, as well as its sensitivity to price moves and trading costs.

- On January 31, a senior member of the Synthetic Credit Portfolio team forwarded to Ms. Drew an e-mail exchange between himself and one of the traders, which included an e-mail from another of the traders. That senior member expressed the view that the Synthetic Credit Portfolio was not behaving as intended and that financial performance was "worrisome"; the trader's underlying e-mail noted that the losses were large because the notional size of the positions was large, and that the Synthetic Credit Portfolio was losing money on a number of positions.

February 2012

- On February 2, according to one of the traders, he advised Ms. Drew and another trader that the Synthetic Credit Portfolio could experience additional losses of $100 million, and explained that it was possible that they did not have the right long position in light of the characteristics of the IG-9 position and the relevant market dynamics.

- On February 2, Mr. Weiland sent an e-mail to one of the traders regarding VaR and RWA measurements for the Synthetic Credit Portfolio, expressing concern that that trader had provided an "overly optimistic" view of the likelihood that the Firm's RWA model would be changed and the forward projection for RWA reduction.

- On February 13, Mr. Goldman e-mailed Ms. Drew and noted that the CIO Global Credit Spread CSBPV limit had been in breach for most of the year.

- On February 15, Mr. Weiland noted for a member of CIO Market Risk (among others) that CIO had, since mid-January, been in breach of its CSBPV limits, primarily as a result of position changes in the Synthetic Credit Portfolio.

March 2012

- On March 1, one senior member of the Synthetic Credit Portfolio team expressed concern to another such member that the traders would be unable to defend their positions if they were forced to effect an unwind in order to meet RWA targets.

- On March 7, Mr. Venkatakrishnan wrote to Ms. Drew, Mr. Hogan, Mr. Goldman, Mr. Weiland and Firm-wide Market Risk that the Synthetic Credit Portfolio's RWA had increased by approximately $3 billion between January and February as a result of a $33 billion increase in notionals in long index risk.

- On March 20, Ms. Drew and Mr. Goldman presented an overview of CIO to the DRPC. Neither of them raised the increasing mark-to-market losses, the substantial change in the trading strategy, the recent and ongoing breaches in certain of CIO's risk limits, the significant growth in the Synthetic Credit Portfolio's notionals, or the delay in the trading-based RWA reduction effort. The change in the VaR model and breaches of the CIO and Firm-wide VaR limits that had occurred in January 2012 were also not discussed.

- By late March, one of the traders informed Ms. Drew that he was considering adding to the size of the Synthetic Credit Portfolio in order to "defend" their position.

April 2012

- In early April, Mr. Wilmot raised questions with Ms. Drew about whether the traders could effect the RWA reduction without an unwind of positions.

These concerns were not fully explored. At best, insufficient inquiry was made into them and, at worst, certain of them were deliberately obscured from or not disclosed to CIO management or senior Firm management. Although in some instances, limited steps were taken to raise these issues, as noted above, no one pressed to ensure that the concerns were fully considered and satisfactorily resolved.

5. *The Marks*

From at least mid-March through at least March 30, the traders did not provide good-faith estimates of the exit prices for all the positions in the Synthetic Credit Portfolio.[105] That practice concealed from Ms. Drew and others their good-faith view of the market price of these positions, and it deprived management of a possible opportunity to curtail the trading before late March and potentially avoid some of the ensuing losses. When questioned about the marks in late April and early May prior to the Firm's filing of its first-quarter Form 10-Q, they maintained that the marks had represented their good-faith judgments regarding fair value of the positions. The Task Force's subsequent discovery that these statements were likely untrue caused the Firm to restate its earnings and re-file financial reports.

6. *The Estimates*

CIO provided in early April what in hindsight were overly optimistic and inaccurate analyses regarding the potential losses to which the Synthetic Credit Portfolio was exposed. These estimates all predicted that any losses would be in a range that was manageable for the Firm, and they were accompanied by assurances from CIO that the market was temporarily dislocated. The estimates generally predicted that the market would recover or "mean revert,"

[105] The Task Force has noted that some of the marks on the Synthetic Credit Portfolio's positions at March 30 were within the bid/offer spread, but were to the benefit of the portfolio's positions.

meaning that the market prices were distorted and that the prices would return to their historic average relationships to other instruments. CIO advised senior Firm management that the Synthetic Credit Portfolio was "overall risk balanced," and for the second quarter, showed "a P&L range of -150MM to +250MM," with a "significantly positive" upside potential in the event of defaults. In fact, this profit-and-loss range turned out to be significantly off-the-mark, and the record uncovered during the Task Force's subsequent investigation revealed that this profit-and-loss estimate was largely based on a Monte Carlo analysis in which the person performing the analysis did not have confidence, and which appears to have been selected by his supervisor specifically because it generated more positive profit-and-loss estimates. Against the backdrop of the concerns that had been expressed internally at various points during the first quarter of 2012 by (or to) Ms. Drew, Mr. Wilmot, and members of the Synthetic Credit Portfolio team, the optimistic estimates failed to provide Messrs. Dimon, Braunstein and Hogan with a complete picture of how the team managing the Synthetic Credit Portfolio viewed it and the concerns they had previously raised within CIO. This failure was especially critical in early April when senior Firm management was focused on preparations for the April 13 earnings call and was relying on Ms. Drew to provide and explain information regarding the Synthetic Credit Portfolio.

It bears mention that, although these faulty estimates were largely initially generated by a trader (working with another more senior trader), there were other employees in CIO, including in its Risk, Finance and management functions, who were positioned to consider and question the validity of these estimates. They failed to do so adequately, and instead, accepted these estimates – together with the assertions that the Synthetic Credit Portfolio was "balanced" – and passed them along to senior Firm management. On this score, senior members of the Synthetic Credit Portfolio team, including Ms. Drew, as well as CIO Finance and CIO Risk Management, should have more thoroughly questioned, tested and/or caused others to test the estimates and conclusions being presented.

7. ***Compensation Issues***

Incentive-based compensation systems are premised on the basic assumption that one of the factors that influence individuals' performance and conduct is financial reward. When employees take steps such as those that led to the losses in the Synthetic Credit Portfolio, the question naturally arises whether something in the compensation framework incentivized them to do so and whether the Task Force should be recommending adjustments to that framework. Based on the Task Force's review, however, there does not appear to be any fundamental flaw in the way compensation was and is structured for CIO personnel.[106] What the incident does highlight is the particular importance of clear communication to front office personnel engaged in activities not expected to generate profits (such as the winding down of a trading portfolio) that they will nonetheless be compensated fairly for the achievement of the Firm's objectives, including effective risk management.

[106] To this end, the Task Force believes that even if the traders and others had received only a fixed salary and no incentive compensation, they nevertheless might have harbored concerns about the consequences of losses on their future salary and professional prospects in light of the Synthetic Credit Portfolio unwind.

CIO does not have its own incentive compensation system; instead, it participates in the Firm-wide annual incentive plan that is reviewed and overseen by the Compensation and Management Development Committee of JPMorgan's Board of Directors. Awards under the plan are discretionary and non-formulaic, and compensation is dependent on multiple factors that can be adjusted and modified depending on the particular circumstances. These factors include financial performance – for the Firm, for the business unit and for the individual in question – but they also consider "how" profits are generated, and compensation decisions are made with input from Risk Management and other control functions (as was the case for CIO).[107]

The Task Force has found little in the form of direct evidence to reveal what Ms. Drew and the other Synthetic Credit Portfolio managers and traders were thinking about their own specific compensation as they made decisions with respect to the Synthetic Credit Portfolio. Throughout the relevant period, however, at least two of the traders clearly maintained a strong focus on daily, monthly and quarterly profit-and-loss numbers, and were acutely concerned about mounting losses in the Synthetic Credit Portfolio. At the beginning of 2012, a priority for CIO was to reduce RWA, and the Synthetic Credit Portfolio was a significant user of RWA. There was also a belief that CIO should neutralize the credit exposure of the Synthetic Credit Portfolio. And there was recognition, reflected in the February 2012 CIO Business Review, that "[d]espite the effectiveness of the Tail Risk Book hedging credit portfolio, the change in regulatory capital

[107] Risk management personnel were asked to provide input on the traders during their 2011annual performance reviews. None of the input raised risk-oriented concerns.

regime is likely to force a re-size / run-off of synthetic portfolio in order to maintain RWA targets for the Firm." Ms. Drew and other senior members of the Synthetic Credit Portfolio team knew that winding down the portfolio brought with it the likely prospect of significant trading costs (that is to say, from a profit-and-loss perspective) in implementing this priority.

As a result, the Task Force believes that the CIO management, including Ms. Drew, should have emphasized to the employees in question that, consistent with the Firm's compensation framework, they would be properly compensated for achieving the RWA and neutralization priorities – even if, as expected, the Firm were to lose money doing so. There is no evidence that such a discussion took place. In the future, when the Firm is engaged in an exercise that will predictably have a negative impact (either in absolute terms or relative to past performance) on a front office employee's or business unit's contribution to the Firm's profits and losses, the Firm should ensure those personnel are reminded that the Firm's compensation framework recognizes that losses (as well as profits) are not necessarily the measure of success. This approach is fully consistent with the current incentive compensation structure, but should be reinforced through clear communication.

B. The Firm Did Not Ensure that the Controls and Oversight of CIO Evolved Commensurately with the Increased Complexity and Risks of Certain CIO Activities

The Task Force believes that the Firm did not ensure that the controls and oversight of CIO evolved commensurately with the increased complexity and risks of CIO's activities. As a result, there existed significant risk management weaknesses within CIO that played a key role in allowing the flawed, risky trading strategies to be pursued.

For a significant period of time prior to the first quarter of 2012, CIO was subjected to less rigorous scrutiny than client-facing lines of business. The lower level of oversight engendered weak risk management and infrastructure within CIO, which performed ineffectively at a time when robust, effective controls were most needed. Granular limits were lacking, and risk managers did not feel adequately empowered. These matters became even more critical once the Synthetic Credit Portfolio grew in size, complexity and risk profile during the first quarter of 2012. Further, by the time the Firm's new Chief Risk Officer was appointed in January 2012 and launched an effort to compare and improve practices throughout the Firm, it was too late to build the risk controls and develop the structure that may have helped to prevent the losses in CIO.

The Task Force has identified six factors that it believes may have led to less rigorous scrutiny for CIO. *First*, CIO and the Synthetic Credit Portfolio had largely performed very well in the past. Neither had a history of significant losses and, as Mr. Dimon has explained, there "was a little bit of complacency about what was taking place [in CIO] and maybe overconfidence." Moreover, CIO EMEA Credit – the unit in which the Synthetic Credit Portfolio was located – had not previously experienced major control issues. In particular, CIO EMEA Credit received "Satisfactory" ratings in prior audits. Nevertheless, senior Firm management did not take sufficient steps to confirm the belief that CIO was subject to appropriate oversight and risk limits, nor did they confirm how the Firm-wide Risk organization was monitoring and overseeing CIO's activities.

Second, CIO is not a client-facing business and does not involve the host of regulatory, risk and other limits applicable to dealings between the lines of business and their clients, which require more attention from various control functions, including compliance, audit, legal and finance. There was no meaningful effort to ensure that, notwithstanding this fact, CIO was subject to appropriately rigorous risk and other limits and was updating those limits on a regular basis.

Third, the more conservative nature of the majority of CIO's portfolio, as well as its overall mandate to invest the Firm's investment portfolio in "top of the capital structure" instruments, may have suggested to senior Firm management that CIO did not present significant risks.

Fourth, the large size of CIO's overall portfolio may explain the lack of an aggressive reaction of numerous people, including senior Firm management, to the relative size of the Synthetic Credit Portfolio. When coupled with representations of CIO traders and management that the Synthetic Credit Portfolio was "balanced" (as well as the fact that CIO could hold the positions for a long period), the notional numbers that were being discussed at the time were large but not alarming. But, the growth in the notional size of the Synthetic Credit Portfolio during the first quarter of 2012 should have prompted additional scrutiny by the Risk organization (at both the Firm and CIO level) into both the trading strategies that had caused this growth and the proposed exit strategy.

Fifth, the implementation of a new model that significantly reduced CIO's VaR likely distracted focus from the increase in VaR that occurred in January 2012. Absent the new model, or if VaR limits had been promptly adjusted downward following the implementation of the new model, breaches of the CIO Global 10-Q VaR limit would have continued, and could have triggered a more rigorous analysis by Risk Management personnel both inside and outside CIO – potentially leading to earlier discovery of the risks in the Synthetic Credit Portfolio and modification or termination of the trading strategies that persisted through late March.

Sixth, the CIO Risk organization did not mature into the type of robust and independent function that is needed for trading activities that involve significant risk. The CIO Risk function was not staffed with as many experienced or strong personnel as it should have been. The Firm-wide Risk organization bears responsibility for not having built, over time, a strong, independent Risk function within CIO. This failure meant that notwithstanding the new Chief Risk Officer's efforts beginning in early 2012 to improve controls and oversight, the necessary infrastructure was not in place when the need arose and the CIO Risk function was tested. CIO management also bears responsibility for this weakness in the CIO Risk function.

In addition to these risk-related controls, the Task Force has also concluded that the Firm and, in particular, the CIO Finance function, failed to ensure that the CIO VCG price-testing procedures – an important financial control – were operating effectively. As a result, in the first quarter of 2012, the CIO VCG price-testing procedures suffered from a number of operational deficiencies. For example, CIO VCG did not have documentation of price-testing thresholds. In addition, the price-testing process relied on the use of spreadsheets that were not vetted by CIO VCG (or Finance) management, and required time-consuming manual inputs to entries and formulas, which increased the potential for errors.

C. CIO Risk Management Was Ineffective in Dealing with Synthetic Credit Portfolio

CIO Risk Management lacked the personnel and structure necessary to properly risk-manage the Synthetic Credit Portfolio, and as a result, it failed to serve as a meaningful check on the activities of the CIO management and traders. This occurred through failures of risk managers (and others) both within and outside of CIO.

CIO's Risk Management group faced key organizational challenges during the relevant period – from the end of 2011 through the first quarter of 2012 – and in particular was faced with transitions in key roles. The position of Chief Risk Officer within CIO was filled by Mr. Goldman in January 2012. Previously, Mr. Weiland, the head of CIO Market Risk, had overseen Risk Management within CIO since the principal risks taken by CIO were market risks. In his capacity as *de facto* Chief Risk Officer for CIO, Mr. Weiland had reported to Mr. Zubrow, who served as the Firm's Chief Risk Officer until January 13, 2012.[108] Mr. Weiland participated in

[108] After Mr. Goldman took over as CRO for CIO, Mr. Weiland maintained his responsibilities for CIO Market Risk but reported to Mr. Goldman rather than Mr. Zubrow, with "dotted line" reporting to Firm-wide Market Risk in February 2012.

Mr. Zubrow's management team meetings and sat on the Firm-wide Risk Working Group, chaired by Mr. Zubrow.

Prior to Mr. Goldman's appointment as CIO Chief Risk Officer, his previous experience had been as a trader and as a manager and executive responsible for corporate strategy. His only previous direct experience with risk management was as chair of the Fixed Income Trading Risk Management Committee at another large firm, a position he had held more than 10 years earlier.[109] As a result, although he had been working in another role within CIO before being

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[109] Mr. Goldman was previously Head of Strategy for CIO. Before joining JPMorgan, Mr. Goldman held several roles at Cantor Fitzgerald. He served first as Chief Executive Officer and President of debt capital markets and asset management, and then as Chief Executive Officer and President of Cantor's broker dealer, where he oversaw that firm's strategy and global expansion. After leaving Cantor Fitzgerald in 2007, Mr. Goldman was hired by Ms. Drew as a portfolio manager in CIO in January 2008. He subsequently took a leave of absence in June 2008, and later resigned, in order to respond to a New York Stock Exchange investigation involving allegations that Cantor Fitzgerald had failed to supervise Mr. Goldman because he had traded stocks in his personal accounts while simultaneously trading in those same stocks in Cantor Fitzgerald's proprietary accounts. After the New York Stock Exchange inquiry concluded with no action against Mr. Goldman, Ms. Drew hired him to work directly for her on strategic projects, primarily related to asset allocation. In late 2010/early 2011, Ms. Drew and Mr. Zubrow, whose wife's sister is married to Mr. Goldman, began a search to fill the newly created position of Chief Risk Officer of CIO. Ms. Drew and Mr. Zubrow created the position because CIO had been growing and their view was that they needed to enhance CIO's Risk staffing. They engaged an executive search firm, which met with nearly a dozen individuals. However, none of the candidates who advanced to interviews with CIO management was deemed to be right for the position, and in late 2011, the search was put on hold. Shortly after learning of Mr. Hogan's impending appointment as Chief Risk Officer for the Firm, Mr. Zubrow and Ms. Drew discussed Mr. Goldman for the role of Chief Risk Officer of CIO. Ms. Drew believed that Mr. Goldman was a good choice for the job, based on, among other things, his understanding of markets. She secured Mr. Hogan's assent to the appointment. While others at the Firm were aware of Mr. Goldman's background and relationship with Mr. Zubrow and Ms. Drew and Mr. Zubrow may have assumed Mr. Hogan's awareness, Mr. Hogan did not in fact know of the relationship between Messrs. Zubrow and Goldman, or of the earlier New York Stock Exchange investigation. Mr. Hogan considered the hiring of Mr. Goldman as CIO Chief Risk Officer as effectively Mr. Zubrow's last personnel appointment rather than as his first. Nevertheless, in reliance on the recommendations of Mr. Zubrow and Ms. Drew, Mr. Hogan believed that Mr. Goldman was a good fit for the CIO CRO position,

appointed CIO Chief Risk Officer, he was still climbing the learning curve when much of the trading at issue was conducted.[110]

Meanwhile, other senior risk management positions were in transition during this time, including the Firm's Chief Risk Officer (Mr. Hogan) and the Firm's Head of Market Risk. (Mr. Hogan was appointed Chief Risk Officer in January 2012.) Having both previously served in the Investment Bank, these individuals were still in the process of becoming acquainted with CIO's activities and Risk Management function, as well as that of other parts of the Firm, at the time the relevant trading strategies were being executed.

The CIO Risk function had also been understaffed for some time, and CIO management, rather than the Risk function, had been the driving force behind the hiring of at least some of the risk personnel. Although CIO had long-tenured Risk personnel in less senior positions (such as Mr. Weiland), they appear not to have been expected, encouraged or supported sufficiently by CIO management or by the Firm-wide Risk organization to stand up forcefully to the CIO front office and to vigorously question and challenge investment strategies within CIO. Rather, at

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and was comfortable that Mr. Goldman's broad managerial and trading experience had provided him with the necessary skill set for the position. The Task Force notes that the Firm should have a more formal process in place, with the participation of the Firm's Human Resources personnel, to assure that, in connection with the hiring of Operating Committee members and their direct reports, the Firm and all appropriate personnel are aware of all relevant background information. If, with that additional information, Mr. Hogan had any concerns or reservations about Mr. Goldman, he could have taken any steps he deemed necessary to satisfy himself.

[110] The Task Force has considered whether former traders are qualified to serve as risk managers, and believes that they can be, as trading experience is highly relevant. Indeed, some of the Firm's best risk managers have backgrounds as traders.

least with respect to some Risk managers, such as Messrs. Goldman and Weiland, there was a sense that they were accountable first and foremost to CIO managers rather than to the Firm's global Risk organization. They generally did not feel empowered to take the kinds of actions that risk managers elsewhere within the Firm believed that they could and should take. Responsibility for this failure lies not only with CIO Risk managers, but with Ms. Drew as well.

Further, the CIO Risk Committee met only three times in 2011. There was no official membership or charter for the CIO Risk Committee and attendees typically included only personnel from CIO, such as the regional Chief Financial Officers and Chief Investment Officers, the Chief Risk Officer, the Chief Operating Officer, the Global Chief Financial Officer, and Ms. Drew. Although Mr. Zubrow regularly was invited to attend CIO Risk Committee meetings, he typically did not do so, in contrast with his frequent participation in Investment Bank Risk Committee meetings. Had there been senior traders or risk managers from outside CIO or had the CIO Risk Committee met more often, the process might have been used to more pointedly vet the traders' strategies in the first quarter of 2012. As it was, the Committee was too slow to recognize the need to put in place risk limits specific to the Synthetic Credit Portfolio or an updated limit structure for CIO as a whole.[111]

[111] Internal Audit's report dated March 30, 2012, which examined CIO EMEA Credit's control structure as of year-end 2011, stated that "CIO is currently undertaking a comprehensive review of the risk measurement limits framework across all asset classes to assess potentially required enhancements including whether additional risk factors are required for inclusion." As a result, although Internal Audit noted that CIO did not "explicitly measure the portfolio sensitivity to certain potentially applicable risk measures such as bond/CDS basis, index basis and prepayment risk," a detailed assessment was not

CIO Risk Management personnel fell well short of the Firm's expectations. *First*, contrary to Firm policy, they did not conduct any review of the adequacy of CIO's risk limits between 2009 and 2011.[112] *Second*, they failed to appreciate and to escalate the significance of the changes in the nature and size of positions that were occurring in the Synthetic Credit Portfolio, despite having been presented with information and metrics that could have alerted them to a problem earlier, and dismissed too easily breaches of existing limits. *Third*, as discussed in Appendix A, they were not sufficiently engaged in the development and subsequent implementation and operation of the VaR model. They took passive roles in the model's development and review and took no steps to ensure that the action plans required by the model approval were completed or that the model was implemented as intended. Similarly, although a proposal was under consideration to lower the VaR limit contemporaneously with the VaR model change in January, it was not acted upon until May 2012. *Fourth*, CIO Risk managers

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performed of the market risk limits as part of this audit and the existing limits were not identified as significantly outdated.

[112] Under the Market Risk Limits Policy applicable to CIO before May 2011, the review of limits and limit utilizations was required only annually, as opposed to semi-annually. Notwithstanding this requirement, prior to May 2011, the last review of all CIO limits was conducted by CIO in 2009. A new Market Limits Policy became effective in May 2011. Under the more recent policy, limits are required to be established by Market Risk and business heads, and certain of these are required to be reviewed at least annually by the Board and semi-annually within each line of business. In the first quarter of 2012, Mr. Weiland was in the process of developing a proposal to revise the CIO limit structure. He began that process in July 2011, recognizing that a semi-annual review of the limits had not yet been conducted and that certain of CIO's limits need to be revised and/or updated. He discussed an early version of his proposal at one of his weekly meetings with Ms. Drew in the summer of 2011. When Mr. Goldman became CIO's Chief Risk Officer in January 2012, he became involved in the process as well. Although the proposal was the subject of active discussion in the first quarter of 2012 and a version of it was presented to the CIO Risk Committee in late March, new limits were not implemented until May 2012.

themselves fell short of expectations in implementing a strong Risk function. In particular, they did not establish a relationship with CIO management that enabled Risk personnel to feel comfortable voicing opposition to management.

The Task Force notes that, although it believes that primary control failures were risk management failures, it has also considered whether the CIO Finance organization – and in particular its former CFO – could or should have done more. The primary responsibility of the CFO of CIO, like the CFO of the lines of business, is to oversee the Finance organization within that unit and ensure that effective financial controls are in place. As described above, the Task Force notes that the CIO Finance organization's VCG process, while appropriately designed, suffered from operational shortcomings that became more pronounced in the first quarter of 2012 as the size and characteristics of the Synthetic Credit Portfolio changed. In addition, the failure to have robust reporting protocols, including sufficient circulation of daily trading activity reports, made early detection of problems less likely.

In addition to the core responsibility of overseeing the line of business Finance function, the Task Force believes that a line of business CFO – like all members of senior management of a unit – bears additional responsibility for identifying and reacting to significant financial risks. To this end, the Task Force believes that, although primary responsibility for managing risk lies with the business head and Risk organization, the CFO of CIO (like the other members of CIO senior management) missed a number of opportunities during the first quarter to meaningfully challenge the trading strategy.

D. Risk Limits for CIO Were Not Sufficiently Granular

The risk limits in place before May 2012 applied to CIO as a whole (and not to the Synthetic Credit Portfolio in particular) and were insufficiently granular. There were no limits by size, asset type or risk factor for the Synthetic Credit Portfolio; indeed, there were no limits of any kind specific to the Synthetic Credit Portfolio. When contrasted against the granular and tailored risk limits that are applied elsewhere in the Firm, it is evident that the Firm-wide Risk organization failed to ensure that CIO was subject to appropriately rigorous risk controls.[113]

The risk limits for the Synthetic Credit Portfolio should have been specific to that portfolio and should have applied to the specific risks being taken. For example, these more granular limits should have included specific controls on notional size (particularly for less liquid

[113] Prior to 2009, Single Name Position Risk ("SNPR") limits applied to the Investment Bank, but CIO did not trade in any single names and hence did not have any single name limits. The Firm's SNPR policy thus exempted the following assets, among others, from its scope: (1) investments managed by CIO as part of the Firm's Strategic Asset Allocation investment portfolio; and (2) CIO index and index tranche activity. Messrs. Zubrow and Weiland agreed that these assets should be exempt from the policy because they were longer-term, strategic investments and because calculating single name default exposure for a portfolio of indices and tranches is extremely complex. As CIO began to add positions with exposures to single names, Messrs. Zubrow and Weiland approved sets of name-specific limits for the particular names to which CIO's indices and tranches had single name exposure. These limits were separate from the SNPR limits applicable to the Investment Bank, and trading in these instruments by CIO did not result in SNPR limits usage. By late 2011 and early 2012, CIO's exposure to single names grew to the point that Mr. Weiland and Firm-wide Market Risk agreed that it made sense to include the calculation of that exposure within the SNPR policy, because the amount and aggregation of those exposures were becoming more significant. In early 2012, they began to discuss how to include CIO's index and index tranche activity within the SNPR. The exact means by which that would be done were the subject of ongoing discussion throughout the first quarter of 2012, due to the complexity of the calculations and the fact that including the short positions in the Synthetic Credit Portfolio in the SNPR would have had the effect of creating more availability for the limit (in part, because CIO owned equity protection, meaning that it earned money on individual defaults).

positions) as well as specific limits on credit risk and on counterparty risk. More numerous and specific limits may have increased focus on the risks in the Synthetic Credit Portfolio earlier.

E. Approval and Implementation of CIO Synthetic Credit VaR Model Were Inadequate

In a number of respects, the process surrounding the approval and implementation of the new VaR model was inadequate. *First*, inadequate resources were dedicated to the development of the model. The individual who was responsible for the model's development had not previously developed or implemented a VaR model, and was also not provided sufficient support – which he had requested – in developing the model.

Second, the Firm model review policy and process for reviewing the new VaR model inappropriately presumed the existence of a robust operational and risk infrastructure similar to that generally found in the Firm's client-facing businesses. It thus did not require the Model Review Group or any other Firm unit to test and monitor the approved model's implementation. Back-testing was left to the discretion of the Model Review Group before approval and was not required by Firm policy. In this case, the Model Review Group required only limited back-testing of the new model, and it insufficiently analyzed the results that were submitted.

Third, and relatedly, the Model Review Group's review of the new model was not as rigorous as it should have been and focused primarily on methodology and CIO-submitted test results. The Model Review Group did not compare the results under the existing Basel I model to the results being generated under the new model. Rather, it theorized that any comparison of the numbers being produced under the two models was unnecessary because the new model was more sophisticated and hence was expected to produce a more accurate VaR.

Fourth, the model was approved despite observed operational problems. The Model Review Group noted that the VaR computation was being done on spreadsheets using a manual process and it was therefore "error prone" and "not easily scalable." Although the Model Review Group included an action plan requiring CIO to upgrade its infrastructure to enable the VaR calculation to be automated contemporaneously with the model's approval, the Model Review Group had no basis for concluding that the contemplated automation would be possible on such a timetable. Moreover, neither the Model Review Group nor CIO Risk followed up to determine whether the automation had in fact taken place.

Fifth, CIO Risk Management played too passive a role in the model's development, approval, implementation and monitoring. CIO Risk Management personnel viewed themselves more as consumers of the model than as responsible in part for its development and operation.

Sixth, CIO's implementation of the model was flawed. CIO relied on the model creator, who reported to the front office, to operate the model. Data were uploaded manually without sufficient quality control. Spreadsheet-based calculations were conducted with insufficient controls and frequent formula and code changes were made. Inadequate information technology resources were devoted to the process. Contrary to the action plan contained in the model approval, the process was never automated.

IV. Remedial Measures

JPMorgan has taken a broad range of remedial measures to respond to and act on the lessons it has learned from the events described in this Report.

A. CIO Leadership, Governance, Mandate and Processes Revamped.

1. *Team*

Once it discovered the source and scope of the Synthetic Credit Portfolio's losses, the Firm responded by accepting the retirement of Ms. Drew and terminating the employment of some members of the Synthetic Credit Portfolio team, and accepting resignations from others, including Messrs. Goldman, Wilmot,[114] and Weiland.[115] In addition, the Firm announced on July 13 that it would pursue the maximum clawback of compensation from three individuals, each of whom subsequently acceded to the Firm's demands regarding the cancellation and recovery of the relevant awards. This equates to approximately two years' worth of each individual's total compensation. In the Task Force's view, these steps were appropriate given each individual's role in the losses at issue. Ms. Drew agreed voluntarily to the cancellation and recovery of her awards that were subject to clawbacks. Senior Firm management, in consultation with the Board, has also reduced compensation for other employees, and the incentive compensation pool for all of CIO was reduced as well.

[114] Mr. Wilmot has announced his resignation and is expected to leave the Firm in 2013.
[115] Mr. Zubrow has also announced his retirement.

The Firm has put in place a new CIO leadership team. Matthew Zames, who had served as co-Head of Fixed Income in the Investment Bank, replaced Ms. Drew as the Firm's Chief Investment Officer. He occupied that role from May 14, 2012 through September 6, 2012. Mr. Zames is now the co-Chief Operating Officer of the Firm and oversees, among other things, both the CIO and Treasury functions. Craig Delany replaced Mr. Zames as Chief Investment Officer and currently reports to him. Other key appointments include Marie Nourie (CFO for CIO); Chetan Bhargiri (Chief Risk Officer for CIO, Treasury and Corporate); Brendan McGovern (CIO Global Controller, a position that had been open since January 2012); Diane Genova (General Counsel for CIO and General Counsel for Markets in the Corporate and Investment Bank); Pat Hurst (Chief Auditor); and Ellen Yormack (Senior Audit Manager). These are experienced, tested professionals, with knowledge of best practices that they are able to bring to bear in their new roles in CIO. Resources were also increased in key support functions; within the Risk function alone, Mr. Bhargiri has added 20 new employees since May 2012. With these new appointments, the Firm has reconfigured the entire CIO management team with strong and knowledgeable individuals who are expected to bring more rigor to the management of CIO. At the same time, this new team has established stronger linkages within CIO by introducing formal lines of communication across the various regions, and the practical result has already been increased dialogue and consistency in each of the three regions reporting to Mr. Delany.

2. *Governance*

The Firm has enhanced governance within CIO and the Corporate sector more generally. New and more robust committee structures have been instituted, including weekly CIO Investment Committee meetings run by Mr. Delany, with a set schedule and set attendees. There are also now monthly Business Control Committee meetings and a monthly Valuation Governance Forum (“VGF”), both of which are new structures.

The CIO Valuation Governance Forum, whose membership includes Ms. Nourie, Mr. Bhargiri and Mr. McGovern, is responsible for understanding and managing the risks arising from valuation activities within CIO and for escalating key issues to a Firm-wide VGF, which was established in 2012 as part of a Firm-wide initiative to strengthen the governance of valuation activities. The CIO VGF has recently overseen the integration of CIO VCG staff into the Investment Bank VCG reporting structure, the review of CIO VCG processes (including a review of all manual spreadsheets and the implementation of enhanced controls for key spreadsheets), and the enhancement of other CIO VCG procedures based on the Investment Bank VCG’s guidelines and best practices. The Firm has also increased the CIO VCG headcount and hired a new head of EMEA VCG for CIO.

Beyond new structures within CIO, the Firm has implemented additional linkages among CIO, Corporate Treasury and other Corporate activities. In particular, Mr. Zames is now in charge of CIO, Treasury and Corporate, so that overall management of these related functions has been brought together. Similarly, Mr. Bhargiri is now the Chief Risk Officer for CIO, Treasury and Corporate. Furthermore, Corporate Business Reviews of CIO are to be conducted with increasing frequency and with the same structure as they are performed in the Firm's client-facing businesses. The Firm will also expand the CIO VGF in 2013 into a Corporate VGF, which will cover Treasury and other Corporate functions in addition to CIO.

Finally, the Firm has modified and expanded the criteria that will allow it to claw back certain equity awards in the event of poor performance by CIO. Under the Firm's protection-based vesting provisions, the Firm is entitled to conduct a discretionary review of certain senior personnel and, in the event of certain types of poor financial performance, cancel certain equity awards to which those personnel might otherwise have been entitled. Historically, senior CIO personnel were only subject to such a review upon poor performance by the entire Firm, whereas senior personnel from the lines of business were subject to these reviews upon poor performance by their line of business (and not just the entire Firm).[116] The Firm has determined to modify the protection-based vesting trigger for 2013 equity awards for senior-level CIO personnel, and it now includes a CIO-specific trigger. The Firm's intent is to ensure that, based upon significantly poor performance in CIO, the Firm has the ability to recover certain previously granted equity awards from those responsible.

[116] The protection-based vesting program is distinct from the Firm's other compensation recovery programs, which have been employed against CIO personnel in this matter and allow the Firm to claw back prior equity awards for other reasons such as termination for cause and improper or grossly negligent risk assessments.

3. *Mandate*

Under the leadership of Mr. Zames and now Mr. Delany, CIO has refocused on its core mandate of traditional asset-liability management. As part of this refocusing, the Firm moved a substantial portion of the Synthetic Credit Portfolio from CIO to the Investment Bank, and effectively exited the remainder of the Synthetic Credit Portfolio's positions in the third quarter of 2012. As a result of these changes and others, CIO no longer engages in the type of trading that generated the losses, and any CIO synthetic credit positions in the future will be simple and expressly linked to a particular risk or set of risks.

4. *Reporting and Controls*

Since the appointment of the new management team in May, CIO has also enhanced its key business processes and reporting. For example, the CIO Executive Management Report and Global Daily Risk Report now contain trading and position reports and are more appropriately distributed so that this content reaches the appropriate managers. The Global Daily Risk Report provides management with a consolidated and transparent view of all risk positions; its distribution includes the Firm-wide CEO, CRO, Deputy CRO and co-COO in addition to senior managers within CIO (including CIO Finance). In addition, Ms. Nourie and her team have spent substantial time since May reviewing and revising basic policies and procedures with respect to valuation and price verification. That initiative has improved the quality control of the VCG by enhancing CIO senior finance management supervision of the valuation control process, implementing more formal reviews of price-testing calculations, and instituting more formal procedures around the establishment and monitoring of price-testing thresholds.

Beyond these specific steps, the new CIO leadership team – as well as senior Firm management – recognizes the importance of an open and transparent culture, including in its communications with the Firm's regulators. The Firm has been working to improve CIO's culture and its communications – both internally and with regulators – to ensure regulators consistently have full and timely visibility into CIO's activities. More broadly, senior Firm management continues to be committed to enhancing a culture of prompt and complete disclosure to its regulators in accordance with regulators' expectations.

In addition, the Firm has recently established a new Oversight and Control Group that is especially dedicated to solidifying an effective control framework, and looking within and across the lines of business (and CIO) to identify and remediate control issues. Oversight and Control will work closely with all control disciplines – partnering with Compliance, Risk, Audit and other functions – in order to provide a cohesive and centralized view of and from all control functions. Among other things, Oversight and Control will allow the Firm to detect problems and escalate issues quickly, get the right people involved to understand the common threads and interdependencies among various businesses, and then remediate these issues across all affected areas of the Firm.[117]

[117] While the Oversight and Control function will facilitate a Firm-wide view of the control framework and operational risk across the Firm, serving as both a partner and a check and balance to line of business

B. Risk Self-Assessment and Risk Management Changes

In the wake of the Synthetic Credit Portfolio's losses, in May 2012 the Firm – under the guidance of its Chief Risk Officer – mandated a self-assessment of the Risk function within each line of business and CIO. As part of the self-assessment process, the Firm identified three general categories for review and improvement: Model Governance and Implementation, Market Risk and Governance, and Risk Independence. Within each category, the Firm identified specific areas of focus. In Model Governance and Implementation, the Firm focused on conducting a spot check of significant drivers of the Firm's VaR and broadening the model approval process to encompass implementation and ongoing monitoring. Within the category of Market Risk and Governance, the areas of focus were: (1) the appropriateness of the limit structure relative to risks undertaken; (2) the appropriateness of the risks undertaken; (3) policy, response, and escalation process concerning limit breaches; and (4) consideration within line of business risk committees of liquidity and concentration in positioning. Within the category of Risk Independence, the Firm reviewed its risk committee structure.

Mr. Hogan directed each of the Firm's lines of business to review these areas of focus to assess whether any of the issues identified in CIO existed elsewhere across the Firm and, if so, to remediate those issues immediately. The Chief Risk Officer for each line of business was required to attest to the completion of the necessary actions identified in that business's review,

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management and Corporate functions, it will not remove ultimate responsibility for the effectiveness of the control environment from the line of business CEOs and Corporate Functional Heads.

and to provide documentation supporting completion of remediation. Each line of business CEO also was required to sign off on completion of the action plan, along with the line of business Risk Committee, and Mr. Hogan and Firm-wide Market Risk.

The Firm has now undertaken, or is in the process of undertaking, substantial remedial measures, described in further detail below, to address the concerns arising from this self-assessment in each of these areas.

1. *Model Governance and Implementation*

In the area of Firm-wide Model Governance and Implementation, the Firm has substantially reformed its model risk policy, which governs model development, review, approval, and monitoring. It is working to minimize model differences for like products; capture all of its models in a central database; improve functionality and support for that central database; review its old or rarely used models; and identify its most significant models. It also will emphasize model implementation testing and comparisons to benchmark models, and institute a formal escalation process for model reviews, as necessary. The Model Review Group is now required to sign off on closure of all action plan items.[118] In addition, the Firm is enhancing staffing of the Model Review Group, and is working to implement and staff a model governance function.

With respect to VaR in particular, the Firm has conducted a spot review of significant drivers of VaR throughout the Firm, including in CIO, to ensure accuracy of the Firm's 10-Q

[118] For more information on action plans, see Appendix A below.

VaR. In CIO, that spot review involved confirming that all of the positions comprising the CIO 10-Q VaR were being captured accurately, and included a comprehensive one-day check to ensure accurate data feeds into the CIO VaR model; a horizontal review to identify data quality issues among key data streams and a comparison with third-party data sources, where possible; a comparison of calculators identified in approved model reviews with those actually employed; a review of the process used to identify and separate 10-Q VaR vectors; and resolution of then-outstanding model issues identified as "high" importance.

2. *Market Risk and Governance*

The Firm has now substantially reconstituted the Risk function within CIO. First, as noted above, it has appointed Mr. Bhargiri to replace Mr. Goldman as Chief Risk Officer for CIO, Treasury and Corporate. Mr. Bhargiri came to this role with substantial experience as a managing director of Market Risk at the Investment Bank, and the Firm has ensured that Mr. Bhargiri's functional reporting practices conform to his official reporting lines. Second, it has authorized Mr. Bhargiri to hire additional risk management officers, including senior level officers, to extend the capacity of the Risk function within CIO, Treasury and Corporate, and he has made 20 such hires since May 2012. The CIO Risk team has added product expertise in emerging markets, securitized products, credit (single name), municipal bonds, and interest rates and currency trading.

The Firm has reviewed and, where appropriate, revised market risk limits across all of its lines of business and introduced additional granular and portfolio-level limits. As part of its ongoing risk management governance, it continues to conduct periodic reviews of the effectiveness of existing limit structures. CIO now has in place a total of 260 limits. Enhancements to the limits structure (as of December 6) include 67 redesigned VaR, stress and non-statistical limits, including both global and regional Level 1 and Level 2 limits; 80 new asset class concentration limits for the AFS securities portfolio, applicable to both CIO and Treasury; 60 new single name limits for the CIO Municipal AFS portfolio; and 53 new country exposure limits, also applicable to both CIO and Treasury, as a subset to the Firm-wide Country Exposure Limits. New limits related to geographic concentration, curve risk, single name risk, and compression risk were made specifically applicable to the Synthetic Credit Portfolio during the second and third quarters of 2012 (while it continued to be held by CIO, before it was transferred to the Investment Bank and effectively closed out).

In addition, the Firm has strengthened its processes across all businesses to deal with limit excessions. Aged or significant excessions must be further escalated to senior management and to risk committees. All valid[119] or "under investigation" limit excessions, whether at the lines of business or Firm-wide level, that are in excess for three business days or longer, or over limit by 30% will be escalated to the line of business CEO, Chief Risk Officer, and Market Risk Head, as well as to the Firm's CEO, CRO, co-COO and Deputy CRO/Head of Firm-wide Market Risk, and to the Firm-wide Risk Committee.

[119] In contrast to "valid" excesses, "invalid" excesses are caused by data quality issues and do not require remedial steps.

3. *Risk Independence*

The Firm has reviewed its Risk Operating Committee structure and governance and restructured the Risk Operating Committee to increase focus on identifying and implementing best practices where appropriate across lines of business. The Firm's Risk Governance structure was enhanced to include the creation of the Firm-wide Risk Committee and Risk Governance Committee.

Within CIO, the Firm has overhauled the CIO Risk Committee which, as noted, previously had met only infrequently, without any official membership, and was composed entirely of personnel from within CIO. There is, in its place, a CIO, Treasury and Corporate Risk Committee, which conducts weekly meetings chaired by Messrs. Zames and Bhargiri. It includes representatives from CIO, Treasury, and Corporate as well as other key senior management from within and outside of CIO, including the Firm's CRO, Deputy CRO, and CFO, in order to ensure greater consistency across the Firm's various lines of business.

C. Firm-wide Risk Governance and Organization

In addition to the specific improvements described above in the areas of focus addressed by the Firm-wide risk self-assessment, the Firm has conducted a review of its entire Risk organization in response to the events in CIO and has made or is making changes to that Risk organization's governance, organizational structure and interaction with the Board.

1. ***Risk Governance***

In the area of risk governance, the Firm created the new roles of Deputy CRO/Head of Firm-wide Market Risk and Wholesale Chief Credit Officer ("WCCO"). The role of Deputy CRO/Head of Market Risk involves review and assessment of Firm-wide market risk. The incumbent's responsibilities include managing the Firm's risk appetite and risk limits, risk mitigation strategies, and working with Mr. Hogan to lead and develop the Firm's Risk organization. He is also responsible for directing the Firm's market risk coverage resources. Stephen Eichenberger, who also currently serves as Chief Credit Risk Officer for the Investment Bank, assumed the newly created role of WCCO in July 2012. The WCCO reports to Mr. Hogan and is responsible for credit risk across all wholesale businesses. In this capacity, the WCCO will chair a Wholesale Credit Risk forum to ensure better communication between each business and across all Risk functions; work with line of business Chief Risk Officers to identify and effectively manage key credit risks and concentrations across the wholesale businesses; and partner with the line of business Chief Risk Officers to engage in initiatives across wholesale lines of business, including defining credit risk appetite and setting appropriate limits, supporting key growth initiatives while maintaining strong credit risk management controls, coordinating regulatory responses, building a credit risk stress framework, and enhancing credit risk reporting and credit risk systems.

2. ***Risk Organization***

Four Firm-wide risk committees have been added and will focus on risk themes.

The Risk Governance Committee will meet monthly and will focus on risk governance and other policy matters, risk analytics, model governance, Basel/Regulatory issues, risk appetite, and updates to Firm-wide risk programs in the areas of compliance, liquidity, and operational risks. Required attendees at these meetings include the Firm's CRO, CFO, Controller, line of business CROs, Chief Investment Officer, and personnel from Legal, Compliance, Audit, and Regulatory Policy.

The Firm-wide Risk Committee will focus on business activity, including by conducting periodic reviews of Firm-wide risk appetite and certain aggregate risk measures, serving as an escalation point for matters arising in the line of business Risk Committees and for certain limit breaches pursuant to the limits policy, and considering relevant business activity issues escalated to it by line of business Chief Risk Officers and CEOs. It will meet monthly and required attendees include the Firm's CEO, CFO, CRO, Deputy CRO/Head of Market Risk, line of business CEOs, CIO Head, General Counsel, Chief Auditor, Compliance Head, Regulatory Policy Head, Consumer Risk CRO, Wholesale Credit Risk CRO, Model Risk and Development Reputation Risk Officer, Country Risk Head, Corporate Risk CFO and Chief Administrative Officer and line of business risk officers.

The Risk Management Business Control Committee will meet quarterly and will focus on the control environment, including outstanding action plans, audit status, operation risk statistics (such as losses, risk indicators, etc.), compliance with critical control programs, and risk technology. Required attendees at these meetings include the CRO, the Deputy CRO, the line of business CROs, the Risk CFO and Risk Chief Administrative Officer, the Operational Risk Head, and personnel from Model Review and Development, Audit, and Compliance.

Finally, the Risk Operating Committee will focus on risk management, including setting risk management priorities, escalation of risk issues, and other issues brought to its attention by line of business Chief Risk Officers and the Risk Team. Mr. Hogan will direct these bi-weekly meetings, which will also include Risk Human Resources and Risk Chief Technology Officers.

In addition to these Risk committees, the Firm established a Valuation Governance Forum in June 2012 to oversee the management of risks arising from valuation activities conducted across the Firm. The Firm-wide VGF is chaired by the Firm-wide head of VCG, and its membership includes the Corporate Controller; the Deputy CRO; the CROs and Controllers of the Investment Bank, Mortgage Bank, and CIO; the CFOs of the Investment Bank, CIO, and Asset Management; and the Firm-wide Head of Model Risk and Development. The Firm-wide VGF will meet twice per quarter to review issues and matters relating to valuation, the VCG function, and related issues, and to address issues elevated to it by line of business VGFs.

Finally, the Firm is continuing its efforts to improve the process for highlighting key issues to the DRPC, with an emphasis on conveying information in a manner that is more timely, useful and focused.

V. Conclusion

The Task Force does not believe that the CIO losses stemmed from any one specific act or omission. Rather, as described in this Report, the Task Force has concluded that the losses were the result of a number of acts and omissions, some large and some seemingly small, some involving personnel and some involving structure, and a change in any one of which might have led to a different result. This experience, as we hope is clear from this Report, has caused substantial and healthy introspection at the Firm and recognition of the need for continued improvement in multiple areas. Ultimately, the Task Force believes that this incident teaches a number of important lessons that the Firm is taking very seriously.

Appendix A: VaR Modeling

VaR is a metric that attempts to estimate the risk of loss on a portfolio of assets. A portfolio's VaR represents an estimate of the maximum expected mark-to-market loss over a specified time period, generally one day, at a stated confidence level, assuming historical market conditions. Through January 2012, the VaR for the Synthetic Credit Portfolio was calculated using a "linear sensitivity model," also known within the Firm as the "Basel I model," because it was used for purposes of Basel I capital calculations and for external reporting purposes.

The Basel I model captured the major risk facing the Synthetic Credit Portfolio at the time, which was the potential for loss attributable to movements in credit spreads. However, the model was limited in the manner in which it estimated correlation risk: that is, the risk that defaults of the components within the index would correlate. As the tranche positions in the Synthetic Credit Portfolio increased, this limitation became more significant, as the value of the tranche positions was driven in large part by the extent to which the positions in the index were correlated to each other. The main risk with the tranche positions was that regardless of credit risk in general, defaults might be more or less correlated.

This limitation meant that the Basel I model likely would not comply with the requirements of Basel II.5, which originally had been expected to be formally adopted in the United States at the end of 2011. One of the traders responsible for the Synthetic Credit Portfolio therefore instructed an expert in quantitative finance within the Quantitative Research team for CIO International to develop a new VaR model for the Synthetic Credit Portfolio that would comply with the requirements of Basel II.5. That individual (henceforth referred to in this Report as "the modeler") began work on developing that model in or around August 2011.

The trader who had instructed the modeler to develop the new VaR model (and to whom the modeler reported at the time), CIO Market Risk, and the modeler himself also believed that the Basel I model was too conservative – that is, that it was producing a higher VaR than was appropriate.[120] The modeler believed that an improved model should both (1) adequately capture correlation risk in the Synthetic Credit Portfolio, and (2) produce a lower and more accurate VaR.

A. Development of the New VaR Model

The modeler is a London-based quantitative expert, mathematician and model developer. In addition to the considerable responsibility of developing a new VaR model, he continued to perform his existing responsibilities in providing analytical support to the Synthetic Credit Portfolio traders. On a number of occasions, he asked the trader to whom he reported for additional resources to support his work on the VaR model, but he did not receive any.

Early in the development process, CIO considered and rejected a proposal to adopt the VaR model used by the Investment Bank's credit hybrids business for the Synthetic Credit

[120] As noted above, VaR is a metric that attempts to estimate the risk of loss on a portfolio of assets. Both the modeler and a member of the CIO Market Risk team who was also involved in the new model's development were of the view that the Basel I model might be overstating the VaR for the Synthetic Credit Portfolio, in part because the amount of losses had exceeded the stated VaR limit less frequently than would be expected based on the stated confidence level.

Portfolio. Because the Investment Bank traded many bespoke (*i.e.*, customized), illiquid CDS, its VaR model mapped individual instruments to a combination of indices and single name proxies, which CIO Market Risk viewed as less accurate for CIO's purposes than mapping to the index as a whole. He believed that, because the Synthetic Credit Portfolio, unlike the Investment Bank, traded indices and index tranches, the Investment Bank's approach was not appropriate for CIO. The Model Review Group agreed and, in an early draft of its approval of the model, described CIO's model as "superior" to that used by the Investment Bank "in that it [was] a full revaluation approach."

From September to November 2011, the modeler corresponded regularly with the relevant individuals from the Model Review Group, and on November 25, 2011, he submitted his new methodology (known internally as the "full revaluation" or "Basel II.5 model") for formal approval. The Model Review Group performed only limited back-testing of the model, comparing the VaR under the new model computed using historical data to the daily profit-and-loss over a subset of trading days during a two-month period. The modeler informed the Model Review Group that CIO lacked the data necessary for more extensive back-testing of the model (running the comparison required position data for the 264 previous trading days, meaning that a back-test for September 2011 would require position data from September 2010). Neither the Model Review Group nor CIO Market Risk expressed concerns about the lack of more extensive historical position data.

During the review process, additional operational issues became apparent. For example, the model operated through a series of Excel spreadsheets, which had to be completed manually, by a process of copying and pasting data from one spreadsheet to another. In addition, many of the tranches were less liquid, and therefore, the same price was given for those tranches on multiple consecutive days, leading the model to convey a lack of volatility. While there was some effort to map less liquid instruments to more liquid ones (*i.e.*, calculate price changes in the less liquid instruments derived from price changes in more liquid ones), this effort was not organized or consistent.

By the end of 2011, some of the pressure to complete the review of the new model appears to have abated because it became clear that Basel II.5 would not be implemented on the previously anticipated timetable. However, as described in Section II.D.1, CIO exceeded its Global 10-Q VaR limit at several points between January 16 and January 26, 2012, which in turn caused a breach in the overall Firm 10-Q VaR limit. The Synthetic Credit Portfolio was the primary driver of each of those excessions. A temporary limit increase was requested[121] and required approval of senior Firm management. CIO recommended a temporary limit increase on the grounds that it was taking steps to reduce the VaR and that, in any event, the newly developed model was about to come online that would show a substantially reduced VaR.

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[121] Firm-wide Market Risk raised the possibility of a temporary limit increase to Mr. Hogan on January 20, 2012. On January 21, 2012, the then-head of the Risk Reporting and Finance function – told Mr. Hogan "We are working towards a temporary one-off for CIO and the Firm proposed as follows: JPMC $140mm (vs. $125mm permanent limit) CIO $105mm (vs. $95mm permanent limit." Mr. Weiland also e-mailed Mr. Hogan on January 22, 2012 regarding a proposed temporary VaR limit increase.

Mr. Weiland and another member of CIO Market Risk contacted the Model Review Group regularly in the last two weeks of January to inquire into the progress of the model approval and, in a January 23, 2012 e-mail to the modeler, the trader to whom the modeler reported wrote that he should “keep the pressure on our friends in Model Validation and [Quantitative Research].” There is some evidence the Model Review Group accelerated its review as a result of this pressure, and in so doing it may have been more willing to overlook the operational flaws apparent during the approval process.

On January 26, the Model Review Group discovered that, for purposes of a pricing step used in the VaR calculation, CIO was using something called the “West End” analytic suite rather than Numerix, an approved vendor model that the Model Review Group had thought was being used. The Model Review Group had never reviewed or approved West End, which (like Numerix) had been developed by the modeler.[122] CIO provided the Model Review Group with a reconciliation test, based on a limited number of days, showing that the valuations from West End and Numerix were in “good agreement,” and the Model Review Group committed to conduct a full review of West End separately, but not before approving the VaR model. The Model Review Group did not examine West End until early May 2012 (the results of which are discussed below).

[122] The modeler had previously worked at Numerix. While there, the Numerix repricing model was developed under his supervision.

On January 30, the Model Review Group authorized CIO Market Risk to use the new model for purposes of calculating the VaR for the Synthetic Credit Portfolio beginning the previous trading day (January 27). Once the new model was implemented, the Firm-wide 10-Q VaR limit was no longer exceeded. Formal approval of the model followed on February 1. The formal approval states that the VaR calculation would utilize West End and that West End in turn would utilize the Gaussian Copula model[123] to calculate hazard rates[124] and correlations. It is unclear what, if anything, either the Model Review Group or CIO Market Risk did at the time to validate the assertion that West End would utilize the Gaussian Copula model as opposed to some other model, but that assertion later proved to be inaccurate.[125]

As part of its approval of the new model, the Model Review Group included an action plan with respect to two of the risk areas that were identified. First, it mandated automation of the VaR model by January 31, 2012 (*i.e.*, contemporaneously with the model's approval).

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[123] The Gaussian Copula is a commonly accepted model used to map the approximate correlation between two variables.

[124] A hazard rate is the probability of failure per unit of time of items in operation, sometimes estimated as a ratio of the number of failures to the accumulated operating time for the items. For purposes of the model, the hazard rate estimated the probability of default for a unit of time for each of the underlying names in the portfolio.

[125] A March 30, 2012 Internal Audit report on the Market Risk and Valuation Practices in CIO's credit portfolios (including the Synthetic Credit Portfolio) assigned a rating of 'Needs Improvement' due in part to CIO's use of "unapproved models in the calculation of risk (including VaR)." The reference to the use of "unapproved models" in the calculation of the VaR is to West End, which, as the Internal Audit report noted, had not been submitted to the Model Review Group for Review. The Internal Audit report included an action plan for CIO to document the West End analytics engine and submit to the Model Review Group with a target completion date of June 30, 2012. While the Internal Audit report also noted problems with the control processes surrounding the VaR calculation, Internal Audit found no specific examples of incomplete or inaccurate data.

Second, it required monitoring of illiquid tranches to assess whether mapping to more liquid tranches would be necessary, and ultimately development and submission to the Model Review Group of a risk mapping methodology. Neither of these action plans was completed. The Model Review Group and CIO Market Risk apparently believed that work was already underway to complete automation but took no steps to determine that automation had in fact been completed. The modeler likewise did not submit, nor was he ever required to submit, a complete risk mapping methodology.

B. Operation of the VaR Model

From February to April, the new VaR model was in operation. A CIO employee who reported to the modeler was responsible for daily data entry and operation of the new model. In April, an employee from the IT Department (who had previous experience as a senior quantitative developer) also began to provide assistance with these tasks. Notwithstanding this additional assistance, a spreadsheet error caused the VaR for April 10 to fail to reflect the day's $400 million loss in the Synthetic Credit Portfolio. This error was noticed, first by personnel in the Investment Bank,[126] and by the modeler and CIO Market Risk, and was corrected promptly. Because it was viewed as a one-off error, it did not trigger further inquiry.

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[126] On April 18, a member of the market risk team for the Investment Bank obtained information on the Firm-wide and CIO VaR calculations to determine the impact of the April 10 loss on the Firm-wide VaR. Upon discovering that the loss was not reflected in the CIO VaR, he reported his findings to Firm-wide Market Risk, who in turn reported to Mr. Hogan that CIO's VaR appeared to have an error.

C. Discovery of Problems with the New VaR Model and Discontinuance

In early May 2012, in response to the recent losses in the Synthetic Credit Portfolio, Mr. Venkatakrishnan asked an employee in the Model Review Group to perform a review of the West End analytic suite, which, as noted, the VaR model used for the initial steps of its calculations. The West End analytic had two options for calculating hazard rates and correlations: a traditional Gaussian Copula model and a so-called Uniform Rate model, an alternative created by the modeler. The spreadsheet that ran West End included a cell that allowed the user to switch between the Gaussian Copula and Uniform Rate models.

The Model Review Group employee discovered that West End defaulted to running Uniform Rate rather than Gaussian Copula in this cell, including for purposes of calculating the VaR, contrary to the language in the Model Review Group approval. Although this error did not have a significant effect on the VaR, the incident focused the reviewer's attention on the VaR model and ultimately led to the discovery of additional problems with it.

After this re-review, a decision was made to stop using the Basel II.5 model and not to rely on it for purposes of reporting CIO VaR in the Firm's first-quarter Form 10-Q. Following that decision, further errors were discovered in the Basel II.5 model, including, most significantly, an operational error in the calculation of the relative changes in hazard rates and correlation estimates. Specifically, after subtracting the old rate from the new rate, the spreadsheet divided by their sum instead of their average, as the modeler had intended. This error likely had the effect of muting volatility by a factor of two and of lowering the VaR, although it is unclear by exactly what amount, particularly given that it is unclear whether this error was present in the VaR calculation for every instrument, and that it would have been offset to some extent by correlation changes. It also remains unclear when this error was introduced in the calculation.