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JPMorgan Chase Agrees to Pay $200 Million and Admits Wrongdoing to Settle SEC Charges

Firm Must Pay $920 Million in Total Penalties in Global Settlement

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Washington D.C., Sept. 19, 2013 — The Securities and Exchange Commission today charged JPMorgan Chase & Co. with misstating financial results and lacking effective internal controls to detect and prevent its traders from fraudulently overvaluing investments to conceal hundreds of millions of dollars in trading losses.

The SEC previously charged two former JPMorgan traders with committing fraud to hide the massive losses in one of the trading portfolios in the firm's chief investment office (CIO). The SEC's subsequent action against JPMorgan faults its internal controls for failing to ensure that the traders were properly valuing the portfolio, and its senior management for failing to inform the firm's audit committee about the severe breakdowns in CIO's internal controls.

JPMorgan has agreed to settle the SEC's charges by paying a $200 million penalty, admitting the facts underlying the SEC's charges, and publicly acknowledging that it violated the federal securities laws.

"JPMorgan failed to keep watch over its traders as they overvalued a very complex portfolio to hide massive losses," said George S. Canellos, Co-Director of the SEC's Division of Enforcement. "While grappling with how to fix its internal control breakdowns, JPMorgan's senior management broke a cardinal rule of corporate governance and deprived its board of critical information it needed to fully assess the company's problems and determine whether accurate and reliable information was being disclosed to investors and regulators."

As part of a coordinated global settlement, three other agencies also announced settlements with JPMorgan today: the U.K. Financial Conduct Authority, the Federal Reserve, and the Office of the Comptroller of the Currency. JPMorgan will pay a total of approximately $920 million in penalties in these actions by the SEC and the other agencies.

According to the SEC's order instituting a settled administrative proceeding against JPMorgan, the Sarbanes-Oxley Act of 2002 established important requirements for public companies and their management regarding corporate governance and disclosure. Public companies such as JPMorgan are required to create and maintain internal controls that provide investors with reasonable assurances that their financial statements are reliable, and ensure that senior management shares important information with key internal decision makers such as the board of directors. JPMorgan failed to adhere to these requirements, and consequently misstated its financial results in public filings for the first quarter of 2012.

According to the SEC's order, in late April 2012 after the portfolio began to significantly decline in value, JPMorgan commissioned several internal reviews to assess, among other matters, the effectiveness of the CIO's internal controls. From these reviews, senior management learned that the valuation control group within the CIO – whose function was to detect and prevent trader mismarking – was woefully ineffective and insufficiently independent from the traders it was supposed to police. As JPMorgan senior management learned additional troubling facts about the state of affairs in the CIO, they failed to timely escalate and share that information with the firm's audit committee.

Among the facts that JPMorgan has admitted in settling the SEC's enforcement action:

- The trading losses occurred against a backdrop of woefully deficient accounting controls in the CIO, including spreadsheet miscalculations that caused large valuation errors and the use of subjective valuation techniques that made it easier for the traders to mismark the CIO portfolio.
- JPMorgan senior management personally rewrote the CIO's valuation control policies before the firm filed with the SEC its first quarter report for 2012 in order to address

Related Materials

- SEC order
- Statement from SEC Co-Director of Enforcement George Canellos

the many deficiencies in existing policies.

- By late April 2012, JPMorgan senior management knew that the firm's Investment Banking unit used far more conservative prices when valuing the same kind of derivatives held in the CIO portfolio, and that applying the Investment Bank valuations would have led to approximately $750 million in additional losses for the CIO in the first quarter of 2012.
- External counterparties who traded with CIO had valued certain positions in the CIO book at $500 million less than the CIO traders did, precipitating large collateral calls against JPMorgan.
- As a result of the findings of certain internal reviews of the CIO, some executives expressed reservations about signing sub-certifications supporting the CEO and CFO certifications required under the Sarbanes-Oxley Act.
- Senior management failed to adequately update the audit committee on these and other important facts concerning the CIO before the firm filed its first quarter report for 2012.
- Deprived of access to these facts, the audit committee was hindered in its ability to discharge its obligations to oversee management on behalf of shareholders and to ensure the accuracy of the firm's financial statements.

The SEC's order requires JPMorgan to cease and desist from causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 13a-11, 13a-13, and 13a-15. The order also requires JPMorgan to pay a $200 million penalty that may be distributed to harmed investors in a Fair Fund distribution.

The SEC's investigation, which is continuing, has been conducted by Michael Osnato, Steven Rawlings, Peter Altenbach, Joshua Brodsky, Joseph Boryshansky, Daniel Michael, Kapil Agrawal, Eli Bass, Sharon Bryant, Daniel Nigro, and Christopher Mele. The SEC appreciates the coordination of the U.K. Financial Conduct Authority, Federal Reserve, and Office of the Comptroller of the Currency as well as the assistance of the U.S. Attorney's Office for the Southern District of New York, Federal Bureau of Investigation, Commodity Futures Trading Commission, and Public Company Accounting Oversight Board.

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