GRAHAMFISHER

March 12, 2013

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JPMorgan Chase: Out of Control

In this report we will focus on the risk management and internal control environment at JPMorgan Chase, a bank whose balance sheet is almost one-ninth the size of the United States economy. JPMorgan's financial filings, its "Task Force" investigation of losses in the CIO's office and its recent history of significant regulatory failures demonstrate that ***shareholders are continuing to be called upon to pay for the firm's inability to ensure an acceptable control environment.***

There are real risks of further regulatory or legislative changes to required leverage and capital ratios, and that the FDIC's "single point of entry" approach to the orderly liquidation authority may result in new long-term debt issuance requirements at the holding company. Furthermore, other business risks appear under-appreciated, such as those associated with interest-rate risk management and also the collateral management of derivatives. While these fundamental issues deserve attention, they are not *areas of focus in this report but will be addressed in a forthcoming report that considers the fundamental financial realities of "fortress JPM".*

The failures we highlight are not exhaustive but should nonetheless serve to demonstrate the ongoing strains in managing a firm the size of JPMorgan and the benefits that would accrue to shareholders from better oversight and a business plan more focused on core operations.

We have intentionally chosen not to detail all of the many private or public actions settled or outstanding (which have driven *almost $16 billion in litigation expenses since 2009*) or, other than the multistate settlement and foreclosure review settlement, the agreed to or unresolved costs of actions related to mortgage putback demands, including those of institutional investors, insurers, the GSEs, FHA, or the costs of foreclosure-related actions. Moreover, ***the firms attempts to transfer billions of dollars of Washington Mutual (WaMu) related losses to the FDIC demonstrates their unwillingness to accept the responsibilities for their own management failures.***

Even without the inclusion of these items, ***since 2009, the Company has paid more than $8.5 billion in settlements for the various regulatory and legal problems discussed in this report. These settlement costs, which include a small number of recent settlements of older issues, represent almost 12% of the net income generated between 2009-2012.*** Banking regulations and laws are intended to protect stakeholders and the public but some portion of these costs may be tax deductible to the company[i] allowing management to transfer to the public the costs of and future risks of these violations.

In addition, JPM's ability to maintain its reputation, its political power and support of investors in the face of financials that lack the details necessary for a proper analysis are reminiscent of another too-big-to-fail institution: Fannie Mae.

We are not suggesting that JPM will meet the fate that Fannie did, nor that its actions will result in accounting problems. But there are notable similarities in the actions taken by these institutions. JPM appears to have taken a page out of the Fannie Mae playbook in which the company perfected the art of cozying up to elected officials, dominating trade associations, employing political heavyweights and their former staffers and creating the image of American Flag-waving, apple-pie-eating, good corporate-citizen, all of which supported an "implied government guarantee" and seemingly lowered their cost of funding. Additionally, rather than being driven by the strength of its operations and management*, many of the JPM's returns appear to be supported by an implied guarantee*[ii] it receives as a too-big-to-fail institution.

JPM has a reputation of being the best managed of the biggest banks. This has enabled the Company to employ its muscle with elected officials and thwart regulatory efforts. Oft-cited arguments that strong regulatory actions in the midst of a recovery could destabilize the biggest banks appear to have helped minimize penalties for the *many internal weaknesses that might otherwise have impacted market perception of the firm's management relative to its peers.*

In our reviews we could not find another "systemically important" domestic bank that has recently been subject to as many public, non-mortgage related, regulatory actions or consent orders. The firm's pride in a disputable[iii] "fortress balance sheet" – which underestimates their off-balance sheet risks - appears to have given investors false comfort.[iv] Poor risk management and control failures are almost always the major drivers of capital destruction***. Today, even the primary regulator to the largest banks recognizes that operational, compliance, strategic and reputation risks are more critical and a greater reason for concern than credit, liquidity, interest rate and price risk***[v]**.** Unfortunately, not a single one of the 19 largest banks met the OCC's requirements for internal auditing, risk management or succession planning.

LONDON CALLING

In the wake of at least $6.2 billion in losses and an earnings restatement in the CIO's office, which manages JPM's excess cash and should therefore be run by top talent, the regulatory response has been surprisingly muted. The two reports issued by JPM in early January were unrevealing and illustrate the current state of regulatory capture where large financial institutions are concerned.

When Freddie and Fannie suffered accounting scandals early last decade, with Freddie understating earnings and Fannie overstating them, the Companies' and their regulator

(OFHEO) recognized the importance of credible investigations. Freddie hired an outside firm to do an independent investigation[vi] and their regulator embarked on two detailed and meaningful investigations.[vii] After these investigations were complete, OFHEO issued exhaustive and meaningful demands on the companies in the form of Consent Orders[viii].

On January 14, 2013, without the benefit of a similarly complete investigation, the Federal Reserve issued two fairly narrow Consent Orders to JPMorgan.[ix] The first order related to violations of the Bank Secrecy Act and anti-money laundering requirements, the second to the losses in the Chief Investment Office. Neither of these orders appears to have resulted from any meaningful investigation and neither addressed the many other recent failures of the Company's internal controls. When the rod is spared, as seems to be the standard approach to dealing with violations by our biggest banks, we find ourselves reminded that spoiled children behave badly.

The ability of any management team to steer a company with a balance sheet as large as JPM's seems an impossible feat, one that bears inquiry and consideration. While the "London whale" losses are generally viewed in isolation they are little more than the most dramatic recent example of poor internal controls.

A Whale's Tale – a Whitewash Report

When compared to the report the Board of Freddie Mac undertook, JPM's "Task Force" was a whitewash. Freddie initiated a truly independent investigation by an unaffiliated firm and directed *all employees of the Company to fully cooperate with the investigation. There were no limitations proscribed on the scope of the review and as the investigators or the Firm's independent auditors discovered additional matters they were also looked into*[x].

In contrast, JPMorgan's "Task Force" issued a report of questionable independence and limited in scope. Michael Cavanagh, co-Chairman of JPMorgan's investment bank, led the "Task Force". Cavanagh reports directly to Jamie Dimon and is both a longtime "lieutenant" and his possible successor[xi].

For Michael Cavanagh to be tasked with investigating another executive that reported directly to Jamie Dimon[xii] about losses in a unit that he knew, as early as 2010, appeared to have inadequate controls[xiii] is more troubling. *As former SEC Chairman Harvey Pitt said, "It's incomprehensible to me that they did these reports internally,* ***it's like asking Joe Paterno to do the Penn State [sexual abuse] investigation instead of [former FBI director] Louis Freeh…*** *having picked Cavanagh to do this strikes me as potentially foolish in the extreme, the only reason you do a review this way is because you don't want to find anything unduly damaging*[xiv]*."*

The Task Force Report

While we will offer some assessments of the primary content of the report it is important to recognize that, as is often the case, ***some of the most valuable information is buried in the footnotes. As a result, we will first focus on many of those items.***

- Footnote 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.*

This footnote raises questions about the thoroughness of the investigation.

- Footnote 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.*

While it may in fact be true that John Hogan did not have sufficient time to address the control problems in the CIO's office, ***the reality remains that problems in risk management of the CIO's office existed, and were known to the firm's most senior management[xv] possibly for several years prior to the 2012 trading losses. This reality calls into question the accuracy of the firm's filings[xvi] and compliance with Title III of the Sarbanes-Oxley Act[xvii].*** Investors may well wonder whether, as long as those weak controls were generating outsized profits; management was not interested in correcting those control weaknesses.

- Footnote 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.*

Given the preexistence of problems in risk controls in the CIO's Office it is unclear why the scope of the investigation would have been limited to late 2011 and 2012. It seems fair to consider that a broader inquiry might have highlighted failures by the firm's senior-most management to address, in a timelier manner, the poor oversight and weak control environment.

- Footnote 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.*

While it remains unclear whether the firm's primary regulator or other regulatory bodies are conducting credible investigations, the legal and financial risks to the firm, stemming from the losses in the CIO's office, should remain an ongoing cause for concern.

- Footnote 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.*

This exchange took place in January 2012 and, given the size of the exposures, it seems fair to believe that Jamie Dimon would have paid sufficient attention to the exposures. Denial of awareness of the degree of the problems only supports our view that the firm is too big to adequately manage.

- Footnote 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.*

The report notes that "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"" and goes on to say that "*Ms. Drew also received separate daily profit-and-loss reports on the Synthetic Credit Portfolio.*" It seems implausible that Jamie Dimon would never have directly instructed Ina Drew to keep him apprised of the management of positions in an office that he long knew had control issues and, since at least January, knew of the enormity of the positions.

- *Footnote 86: Mr. Dimon had not been in the office from April 2 until his return on April 12.*

This seems to be another attempt by the "Task Force" to exonerate Jamie Dimon and refers to the statement that "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." If, as we now know he was aware of the risks and size of the positions, this rationale calls into question his ability to manage the firm.

The report offers little insight into the degree of the internal control problems, how long they existed prior to this trading catastrophe, and what specific information Jamie Dimon possessed or when he became aware of the problems. ***Statements in the press, that he had allowed the CIO's Office to operate with different risk controls and less oversight than the rest of the firm, were neither acknowledged nor addressed.*** *Neither were reports that Jamie Dimon placed trades in the CIO book, a risky proposition – as John Corzine can attest - for an executive who has little time to mind his trades.* The report also suggests that the armies of examiners within our largest banks are either captured or not up to the task of oversight.

Similarly, the Board of Directors' Risk Policy Committee appears to ignore the control environment that existed in the CIO's office before this event. The Risk Committee's report to the Board demonstrates they were not fully apprised of the operating environment in the CIO's Office. While they appear not to have been properly informed of the problems that existed,[xviii] it seems that they may have also failed to make sure they had a grasp of the key risks to the Firm.

One has to wonder how the regulator can avoid forcing the replacement of Board members for significant failures that include:

- The risk management for the CIO had resided within that office;
- The risk control environment that allowed traders to take extroadinarily large positions in illiquid contracts;
- The lack of internal proceses that allowed traders in the CIO to mark their own positions; and
- A heavily qualified auditor's opinion.

These breakdowns of controls are not isolated. The long list of regulatory run-ins outlined here and the costs that they represent are important factors to consider when determining management effectiveness and the operating results of the Firm.

INTERNAL CONTROL PROBLEMS APPEAR TO BE PERVASIVE

We have chosen not to detail every violation and will only highlight the operational failures that we believe demonstrate management's inability to effectively manage this "Too Big to Fail" firm.

The repeated violations and the longstanding failures of the Board to remedy many of these problems raising serious questions about the veracity of the CAMELS supervisory examination process[xix] and the willingness of regulators to demand corrective actions of our largest firms. *Moreover,* ***with apparent justification for the OCC to issue a "Safety and Soundness Order"***[xx]***, one has to wonder whether the Federal Reserve's "stress test" has placed constraints on the firm.***

JPMorgan's list of regulatory violations over the past five years is long, diverse and crosses legal and regulatory jurisdictions. Many of these infractions are for repeated violations of specific control failures, which the Company had previously agreed to remedy. This calls into question Jamie Dimon's remarks before the Miami Chamber of Commerce on February 4th 2013, during which he stated that when JPMorgan makes mistakes "we try and fix those mistakes".

OCC and Federal Reserve Board

Anti-Money Laundering and Bank Secrecy Act issues

On January 14, 2013, the Federal Reserve and the OCC issued a Consent Order to JPM designed to remedy deficiencies, which the bank neither admitted nor denied. The OCC identified deficiencies indicating that JPMC's firm-wide Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance program failed to ensure the bank's compliance with certain requirements.

While the Order does not detail the specific violations or deficiencies that were found, other regulatory actions suggest that either these were tied to new violations or that the OCC and Federal Reserve were, a year and a half later, acting in response to an August 2011 civil settlement[xxi] by the U.S. Treasury's Office of Foreign Asset Control (OFAC) that found ***JPM had egregiously violated:***

- Cuban Assets Control Regulations ("CACR");
- Weapons of Mass Destruction Proliferators Sanctions Regulations ("WMDPSR");
- Executive Order 13382, "Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters";
- the Global Terrorism Sanctions Regulations ("GTSR");
- the Iranian Transactions Regulations ("ITR");

- the Sudanese Sanctions Regulations ("SSR");
- the Former Liberian Regime of Charles Taylor Sanctions Regulations ("FLRCTSR"); and
- the Reporting, Procedures, and Penalties Regulations ("RPPR")

Beyond these violations, which were determined to be "egregious because of reckless acts or omissions," the ***bank was found to have violated several other AML/BSA regulations in non-egregious ways including by an undisclosed transfer of 32,000 ounces of gold bullion for the benefit of a bank in Iran.***

If, on the other hand, the recent Consent Orders relate to violations other than those identified in the OFAC settlement ***it seems plausible that JPMorgan could have been found to have violated AML/BSA regulations related to its role in the recent Vatican Bank scandal[xxii], a drug cartel money-laundering scheme[xxiii] or even tied to the Madoff bankruptcy[xxiv].***

The government's treatment of foreign banks relative to the seeming deference given JPM raises questions about the infractions relative to the penalties. After all, HSBC recently settled a money-laundering probe for $1.92 billion and Standard Chartered paid $327 million to settle charges relating to Iranian transactions while JPMorgan paid $88.3 million for a civil settlement of these violations.

If one contrasts JPM's treatment with the FDIC's recent action against a state bank with two branches[xxv], in which the bank's charter was revoked for violations related to money laundering and the bank was fined $15 million, one must wonder if state-chartered banks are held more accountable than our nation's largest firms.

<u>Commodity Futures Trading Commission (CFTC)</u>

Segregation of Client Funds

JPMorgan's handling of customer monies should be another cause for concern. The Company's executives and its Board have repeatedly failed to address ongoing problems and have exposed shareholders to the costs associated with repeated fines. The problems appear only to come to light only after being discovered as a result of customer problems but, once discovered the Firm is routinely permitted, without admitting wrongdoing, to make an offer for civil settlement. These offers are accepted on the expectation that internal control violations will be remedied and, as a result, matters that might otherwise have potentially led to criminal charges are settled for fines.

On September 9, 2009, the CFTC sanctioned JPMorgan for failing to properly segregate customer funds and for failing to report these "under-segregations" on a timely basis[xxvi]. The CFTC accepted JPMorgan's offer of settlement without requiring the Company to either admit or deny wrongdoing, as a result the firm was able to avoid an

administrative proceeding that could have uncovered more regulatory and legal violations. This matter relates to activities that occurred between May and June 2007 but it is unknown if this was the entirety of the period of violations or if it was only the period the regulator chose to identify. According to the CFTC, ***JPM failed to segregate $725 million of its own money from a $9.6 billion account.*** The CFTC cited numerous violations resulting from "under segregation", "untimely computation of segregation", "untimely notification of under segregation" and "failures to supervise". The Company was allowed to settle for $300,000.

In June 2010, in demonstration that the failures to segregated funds that the CFTC had settled were not isolated occurrences, the British Financial Services Authority fined JPMorgan a record 33.32 million British pounds for failing to "adequately protect between $1.9 billion and $23 billion of client money between November 2002 and July 2009."[xxvii] In this instance, the FSA determined that the error remained undetected for nearly seven years".

On April 4, 2012, JPM was again found, by the CFTC, to be in violation of segregation rules. Once again, to avoid administrative proceedings in the face of findings of violations of law, the Company made an offer of settlement that the CFTC accepted without requiring the Company to admit or deny wrongdoing. The Company was fined $20 million in civil money penalties and, once again, directed to remedy control problems[xxviii]. As in prior instances the firm's internal controls were inadequate and failed to discover these violations before a problem arose.

The CFTC found that from at least November 2006 though September 2008, JPM accepted deposits of customer funds from Lehman Brothers, Inc. In violation of law JPMorgan extended credit to Lehman Brothers for 22 months based on these customer funds because JPM determined, wrongfully, those funds were to be included in Lehman Brothers net free equity. After the bankruptcy of Lehman Brothers, again in violation of law, JPMorgan refused repeated requests by the Trustee and the Commission to release those Lehman customer funds to the Trustee of Lehman's estate.

While there have been no findings against JPMorgan, ongoing legal wrangling by the Company seems to offer some basis to believe that ***similar problems in the segregation of funds may have also occurred related to the failure of Peregrine Financial***[xxix] ***and MF Global***[xxx]***.***

Commodities Violations

On September 27, 2012, the CFTC issued an Order[xxxi] ***claiming that JPMorgan violated Section 4a(b)(2) of the Commodity Exchange Act*** and, for $600,000, allowed the bank to again settle a matter without admitting or denying the violations. The summary of facts suggest, had the CFTC instituted an administrative proceeding and full

inquiry, the ***alleged violations may well have been far more pervasive; encompassing a larger number of commodity assets and a greater occurrence of violations than merely those settled.*** After all, according to the CFTC, these systems were not relied on only for the trading of cotton, they were ***"used by commodity traders to track their current positions in partcular futures contracts"***[xxxii].

Moreover, the underlying actions of JPMorgan that led to the CFTC actions appear to demonstrate either a willful attempt to circumvent the regulations or the bank's complete incompetence in the management of its controls.

According to the CFTC, a "deficiency in its newly created automated position limit monitoring system for the commodity business" caused JPM to violate position limits in cotton futures. Since, according to the CFTC's own statement, the systems appear to have been used for commodities beyond just cotton, it would seem reasonable for the CFTC to have engaged in a deeper inquiry in an effort to ascertain whether the violations had occurred in the trading of other commodities.

More troubling than the breakdown of internal controls that lead to reliance on an obviously failed system is that ***"after learning of this deficiency, JPMCB utilized a manual position limit monitoring procedure pending correction of the automated monitoring system. Despite adoption of this manual position limit monitoring procedure, JPMCB violated its short-side speculative position limit on several occasions."*** So, the breakdown in controls was not limited to the automated system but also occurred during the application of the remedial manual procedures.

These issues lead to obvious questions for which we will likely never have answers:

- Do the violations that occurred when JPMorgan instituted the manual procedures result from negligence or something more?
- Did the OCC review the implementation of these "newly created" automated systems?
- Are there mechanisms in place for regulators to inform each other of violations and control weaknesses in instances where a settlement occurs without an admission or denial of wrongdoing?
    - Is there a formal mechanism within the Financial Stability Oversight Committee?
    - Is there an inter-agency system to record all settled matters with a regulated entity?
- If there are no such effective inter-regulator procedures, then the notion of the "enhanced supervision" of Systemically Important Financial Institutions created by Dodd-Frank has offered the American public false security.

JPMorgan's violations in commodity markets do seem to extend beyond the cotton market findings by the CFTC. In December 2012, JPM was fined $65,000 by the NYMEX Business Conduct Committee for "inadvertently" overstating open interest in a crude futures contract by 46.9%, and offsetting concurrent long and short positions it held for a customer resulting in an overstatement of open interest of 5.2% for that trade date[xxxiii].

Fictitious Trade/Wash Sale

On March 8, 2012, the CFTC simultaneously alleged and settled with JPMorgan over its belief that the company violated Section 4c(a)(I) of the Commodity Exchange Act [xxxiv] by, on May 25, 2010, knowingly executing a fictitious trade to sell and buy 11,642 ten-year spreads on behalf of a client. The customer was on both sides of the transaction and JPM was aware of that. In its filing, the Commission stated its recognition of Congress's intent in creating the relevant law[xxxv] but again, allowed a civil settlement, for $140,000, without a deeper investigation. As a result, it is unclear if this instance represented a one-time failure or if shareholders are at ongoing legal or regulatory risk from future exposures to a more pervasive breakdown of controls.

There is some evidence that, if the regulators engaged in a full and broad investigation, shareholders would likely be exposed to further destruction of shareholder equity resulting from failures of management. ***In June 2012 the NYMEX found that on 10 separate occasions between January and June 2011 JPM executed wash trades*** in WTI or gasoline between entities with the same beneficial ownership. In each instance the company's trader was the sole decision maker for both the buy and sell side of the trade. While the firm was fined only $30,000 to settle these violations (neither admitting nor denying wrongdoing) it is unclear if they have yet addressed the control problems.[xxxvi].

Securities and Exchange Commission Related

As we have said, in this report, we have chosen not to detail the agreed to - or unresolved - costs of actions related to mortgage putback demands, including those of institutional investors, insurers, the GSEs, Home Loan Banks, FHA, or the costs of foreclosure-related actions. If we included those actions the costs to JPMorgan would be far larger than those contained in this report. The cost to the bank for the Attorney Generals' settlement alone was $5.29[xxxvii]. As a result of the recent "foreclosure review" settlement, JPMorgan is expected to pay another $2 billion[xxxviii].

We have, however, chosen to include a few related actions settled by the SEC that are less related to interpretations of contract law than related to alleged violations of Federal Securities Law.

On June 21, 2011, the Securities and Exchange Commission brought a securities fraud action against JPM for misleading investors related to the structuring and marketing of a synthetic CDO called "Squared CDO 2007-1"[xxxix]. The complaint alleges that a large hedge fund, Magnetar, played a significant role in selecting the securities included in the CDO's portfolio and had themselves shorted securities with a notional value of over half the CDO portfolio. According to the action, JPM took extraordinary efforts to sell the deal and citing doing so as "a top priority from the top of the bank all the way down." The employee in charge of the distribution effort noted in an email that *"we are soooo pregnant with this deal, we need a wheel-barrel to move around.... Let's schedule the cesarian, please!".* The bank sold the mezzanine tranches of the deal to investors that included a faith-based not-for-profit membership organization, a company that provides insurance and retirement products as well as financial institutions located in East Asia. According to the filing, three asset-backed commercial paper conduits administered and backstopped by J.P. Morgan purchased the $935 million super-senior tranche in Squared. "By January 29, 2008, 50% of the CDO securities in the investment portfolio had been downgraded and another 34% of the portfolio was on negative downgrade watch." Although J.P. Morgan sustained losses on nearly the entire investment by the JPM Conduits, according to the SEC, it avoided potentially substantial losses on the investment portfolio by placing the securities with the mezzanine investors. JPM agreed to pay $153 million dollars for violations that were similar to those that resulted in Goldman Sachs having to pay a record $550 million fine[xl]. Here again, JPM's management settled fines for its own failures using shareholder money.

On Nov. 16, 2012**,** the SEC, in coordination with the federal-state Residential Mortgage-Backed Securities Working Group, charged J.P. Morgan Securities LLC with ***misleading investors in offerings of billions of dollars of offerings of residential mortgage-backed securities (RMBS)***[xli]**.** While the underlying causes included actions by Bear Stearns and affiliates from periods preceding JPM's acquisition of Bear, they also included actions by JPM as underwriter of securities. The SEC alleged that JPM structured an RMBS trust and marketed that transaction through a prospectus which contained materially false and misleading statements concerning the amount of, and extent to which, loans were and had been delinquent. *According to the filing, JPM stated that only .04% of the loans had any delinquency even though the SEC stated that JPM was actually aware that more than 7% of the loans were at least 30 days delinquent, .04% of the loans were 60 – 89 days delinquent, more than 620 loans had experienced instances of delinquency of 30 – 59 days in the preceding twelve months and .04% of the loans, had experienced instances of delinquency of 60 – 89 days in the preceding twelve months."*[xlii] J.P. Morgan agreed to pay $296.9 million to settle the SEC's charges and again received waivers from rules that would otherwise follow[xliii].

Consumer Abuses

Since the financial crisis began, consumer groups have regularly accused our biggest banks of predatory and unethical behavior and bank executives like Jamie Dimon have regularly stated their offense at being scapegoated[xliv] and described as abusive to their customers[xlv]. While we understand why the public would feel the way it does, we also have genuine confidence that Jamie Dimon understands that his business is only as good as its reputation.

Still, as a result of JPMorgan and other TBTF banks being the amalgam of too many acquisitions, with too many far-flung systems it is arguably too big to manage. ***The seemingly routine failures of procedures, systems and controls that regularly subject their clients to abuses do not seem intentional but rather a result of weak oversight and aggressive cost controls that result in under-spending on systems.*** While regulators regularly excuse these failures, fine the firm and seem to merely trust that they will do better in the future, that future seems never to come.

Although the Federal Reserve and the Consumer Financial Protection Bureau have the authority to write consumer protection regulations and the SEC has authorities to protect consumers in securities-related matters, their ongoing failures to investigate or resolve major violations of existing rules and the failure of banking regulators to find breakdowns in controls before they lead to massive losses to consumers are the standard. ***In 2010, JPM privately settled with plaintiffs for $10 million related to allegations that the bank's practices regarding flood-insurance commissions were illegal and had harmed 49,000 customers. We do not believe, to date, regulators have taken any meaningful actions on these procedural failures.***

In December 2010 JPM agreed to pay $25 million to settle allegations it ***violated longstanding laws in its sale of unregistered securities to Florida's Local Government Investment Pool.*** According to the allegations, as a result of its holdings of defaulted mortgage backed securities, there was a rush by municipalities to liquidate their investments and, as a result, the assets in what was once the largest manager of municipal cash plunged from $27 billion in November 2007 to about $6.9 billion at the end of 2010[xlvi]. Since the settlement, Florida has enacted legislation ("Criminal Penalties for Violations of Securities Laws" or HB 777) requiring persons guilty of selling unregistered securities (or failing to register as a seller of non-exempt securities) to be subject to prison sentences of up to five years[xlvii].

Violations of longstanding law should be rare in organizations with standardized control procedures. Yet, as exemplified by the sale of unregistered securities, they are not infrequent at JPM. ***In an April 2011 matter JPMorgan acknowledged that one of its mortgage areas had erroneously overcharged about 6,000 soldiers and wrongfully foreclosed on others***, the bank agreed to pay $56 million in settlement. ***Almost a year***

later the federal government accepted $45 million from JPMorgan in settlement of a 2006 whistleblower suit alleging that the Company charged veterans hidden fees in refinancings[xlviii]. Abuses of our military personnel have long been defined in law, including the "Servicemembers Civil Relief Act", which was enacted in 1942 to protect military personnel from financial stress while on active duty.

In June 2011 the OCC announced that between 2008 and 2009 ***JPM's auto-finance unit used high-pressure sales tactics that included statements that were materially false, deceptive or otherwise misleading in violation of the Federal Trade Commission Act.*** Borrowers were deceived about the costs and terms of credit protection policies for missed payments. Without admitting or denying any wrongdoing the firm was allowed to pay a fine and penalties of $27 million of shareholder monies to settle. In an emailed statement, after the settlement, a ***JPMorgan spokesman for the firm claimed they had "implemented enhanced and more extensive controls to ensure that we are treating our customers fairly.[xlix]" Given further abuses that followed it is unclear if the firm's statements were accurate*** and what regulatory follow-up was employed to ensure the accuracy of those statements.

Again, in February 2012, JPM agreed to a settlement of $110 million over its abusive practice of ***processing customers' checks in order from the largest transaction to the smallest in an effort to increase the number of checks subject to overdraft penalties.[l]*** While these abuses fall directly in the oversight authorities of federal banking regulators, the settlement was the result of private litigation and regulators appear not to have taken any action against the firm for related matters.

In March of 2012, again without support from federal banking or Department of Labor authorities, private claimants were able to extract a, $150 million settlement from the bank for alleged ***violations of NY State and Employee Retirement Income Security Act (ERISA) laws.*** The lawsuit, brought by the American Federation of Television and Radio Artists retirement fund, Manhattan and Bronx Surface Transit Operating Authority Pension Fund in New York City, and the Imperial County Employees' Retirement System in El Centro, California, claimed that JPM's securities lending area "buried its head in the sand" and invested client cash in medium-term notes of a failing structured investment vehicle.

In March 2012, the American Banker reported[li] the OCC was probing the credit card collection practices of JPMorgan. ***The company is alleged, as a result of internal control failures that sound eerily similar to the industry's mortgage servicing failures and foreclosure abuses, to have signed and filed tens of thousands of affidavits against borrowers based on loan files they never verified.*** Moreover, according to employee claims, as the firm was preparing to sell 23,000 delinquent accounts with a notional value of $200 million to distressed debt investors, more than 5,000 accounts had missing or wrong balances, wrong addresses and in some cases the customer had won judgments

against the bank but the bank continued to pursue the collection. According to the report, when an employee informed management of the problems, she was directed to get the sale to the distressed investors done ahead of the firm's upcoming earnings report. Incompetence, control failures and inadequate G&A spending are claimed to have, once again, driven abuses - with computer systems disagreeing on the accurate amount of debts owed and management showing a disregard for accuracy. *As egregious as the alledged failures, and with 95 million consumer credit cards outstanding,* ***it appears that the only action the OCC has taken thus far is a downgrade to "satisfactory" of JPMorgan Chase Bank NA's "consumer lending" rating***[lii] *even though they highlighted that the supervisory process has identified undisclosed* ***"evidence of illegal credit practices.***[liii] ***"***
If regulators choose to pursue issues with the firm's credit card practices there may be a risk that, as was the case with the mortgage foreclosure investigation, the cost of settlement could be a meaningful hit to shareholders. These risks are further evidenced by a June 2012 agreement to pay $100 million to settle a three-year-old lawsuit that accused the firm of illegally boosting the minimum payments due, from 2% to 5%, on customers credit cards. By increasing these payments on borrowers who were unable to make these payments, the firm also benefitted from increased late fees[liv].

Municipal Market Manipulations

Jefferson County, Alabama

Internal control weaknesses, and management's failure to address those, have also resulted in shareholders carrying burdens for ***repeated municipal bond market bidding problems*** such as those which helped push Jefferson County, Alabama, into the largest municipal bankruptcy in U.S. history. That bankruptcy resulted in furloughed employees and cuts in the police force that were so severe they no longer could dispatch officers to traffic accidents.

On November 4, 2009, JPMorgan settled charges[lv] relating to its role in the County's bond scandal for $75 million and agreed to decline a $648 million termination fee due when the County failed to complete the swap deal that helped to bankrupt it. Once again the bank was allowed to settle without admitting or denying wrongdoing. Nobody at JPM went to jail although others involved in the transactions did.

In the late 1990s, the Environmental Protection Agency ordered Jefferson County to build a new sewer system. Between October 2002 and November 2003, according to the SEC, two ***JPMorgan employees directed more than $8 million to close friends of Jefferson County commissioners in an effort to secure business for JPM.*** These payments played a role in the county choosing JPMorgan to act as managing underwriter and swap provider for the largest municipal auction-rate securities and swaps in the bank's history, the SEC said. As a result *these payoffs were incorporated into the interest*

rate that Jefferson County was to pay on the swaps. Moreover, ***when the County Commissioner requested that, in order to secure the business, JPM make payments to Goldman Sachs and another firm that were also competing for the business, the bank did so.***

Prior to JPMorgan's involvement**,** 95% of Jefferson County's debt was in fixed-rate obligations. By the end of their refinancing of $3.1 billion in sewer bonds, 93% of the County's debt was variable or floating rate. While this case certainly predates the tenure of the current management of JPMorgan, it is relevant to our discussion of post-crisis breakdowns in internal controls at the firm. *Anti-fraud provisions in Federal law could apparently have been applied to define JPMorgan as an "ineligible issuer" for a period of three years***,** *but the firm requested and received a waiver from enforcement under these provisions*[lvi]. According to the SEC, one of the factors it considers when deciding to grant such waivers is the "remedial measures taken to prevent a recurrence of the misconduct, including changes in key personnel and improvements to internal controls and disclosure controls."[lvii] This scandal speaks to a lack of internal processes and massive control failures and should have resulted in significant monies and management focus on putting in place systems, policies and oversights to make sure this business would not see similar breakdowns again. Further violations of similar issues would emerge later.

Bid Rigging

On December 13, 2007, FINRA, the industry's self regulatory organization, fined JPMorgan $500,000[lviii], without requiring the firm to admit wrongdoing, finding that "despite its extensive use of consultants", in 10 quarterly filings with the Municipal Securities Rulemaking Board (MSRB), JPMorgan claimed that they neither received new business nor retained existing business as a result of outside consultants. Moreover, JPM claimed it had paid nothing to consultants in connection with particular municipal securities transactions. But ***FINRA found that these filings were false and that J.P. Morgan used at least 16 consultants to obtain at least 70 municipal securities offerings, and paid the consultants at lease $750,000 in connection with the particular municipal securities business. FINRA also found that JPMorgan violated MSRB rules by failing to maintain adequate supervisory procedures relating to the disclosure, use of, and payments to, consultants.***

Again, on July 7, 2011, shareholders would pay for ongoing problems in JPMorgan's municipal business. On that date the SEC settled allegations that "from at least 1997 through at least 2005, JPMS engaged in fraudulent practices and made misrepresentations and omissions in connection with the bidding of certain municipal reinvestment instruments."[lix] ***The bank was found to have violated antitrust provisions of the Sherman Act***[lx] ***relating to bid rigging and payments associated with seeing competitors' bids in 93 municipal bond deals.*** *After settling the matter for $211 million* [lxi] *JPMorgan*

asked, and once again received, a waiver[lxii] *to avoid being designated as an "ineligible issuer."* Failure to receive the waiver would have barred them from such business for three years. While the specific activities of rigging bids in 93 transactions across 31 states began prior to Jamie Dimon becoming President and COO of JPMorgan Chase in July 2004, the action was concluded in 2011. It seems that the frequency with which the SEC hands out waivers[1] for firms that would otherwise be designated as ineligible issuers, for violations defined the Securities Act of 1933[lxiii], suggests that the SEC has systemically chosen to override the application of law.

The delay in prosecution of the FINRA and SEC actions, and the fact that the SEC states the offenses occurred "through at least 2005," once again raises questions about the current state of related internal controls, failures of regulatory oversight and the risk that they may have unrecognized liabilities from periods after 2005.

In fact, on December 27, 2012, FINRA sanctioned JPMorgan $632,376 in fines and restitution[lxiv] for ***recidivist behavior in municipal bond market biding.*** JPM was found to be "unfairly obtaining the reimbursement of fees they paid" to the California Public Securities Association (Cal PSA) from the proceeds of municipal and state bond offerings" and violating ``fair dealing and supervisory rules of the Municipal Securities Rulemaking Board by obtaining reimbursement for these voluntary payments to pay the lobbying group." These occurred between January 2006 and December 2010. While JPM was not the only firm involved in this incident, it appears that allowing the firm to quietly settle violations without any admission of wrongdoing has not resulted in meaningful remediation of internal control violations.

FERC and Energy Regulators

In July 2012, the U.S. Federal Energy Regulatory Commission (FERC) sued JPMorgan in an effort to require the release of 25 e-mails they the bank had withheld in an investigation into power market manipulation by JPMorgan Energy Ventures. According to the FERC, JPM's bidding techniques in California and the Midwest resulted in at least $73 million in improper payments to energy generating firms. This subpoena resulted from an April subpoena in which the ***bank claimed attorney-client privilege as the basis for withholding or redacting 53 emails.*** Between April and July, JPM released 28 e-mails, including correspondence between Blythe Masters, JPM's commodity head, and Francis Dunleavy, who runs commodity principal investments.

By November, after ongoing battles over the documents, the ***FERC suspended Energy Ventures' market-based-rate authority for six months as a result of their filing of false information with regulators and with the California Independent System Operator (CASIO).*** FERC wrote, "the provision of false, misleading or inaccurate information undermines the integrity of the FERC decision-making process, the smooth operation of

markets and FERC's ability to ensure just and reasonable rates for customer. The commission continuously has warned market participants of the consequences associated with failing to abide by FERC rules and regulations.[lxv]" Once again a failure of internal controls resulted in lost income to shareholders.

Where regulatory actions should cause modification of behaviors there seems to be little institutional change at JPM. ***In January 2013, the FERC took action against the bank for another abuse - its attempts at preventing the implementation of state-requested changes to two Huntington Beach, California, power plants owned by AES Corporation.*** The state deemed the work necessary in order to replace lost power capacity that resulted from the shutdown of the San Onofre nuclear plant.[lxvi] JPM sought to prevent the changes and claimed its marketing contract with AES gave them the right to veto the work. While the bank's motives were not stated it seems likely that the firm sought to profit from the higher peak energy prices that would have resulted from its actions to prevent new capacity from coming on line. Improper oversight and the lax regulatory environment of our biggest banks not only imperil consumers by condoning abusive practices but risk allowing the manipulation of prices for the financial gain by these firms.

International Actions

JPMorgan's weak internal controls and failure to remedy those control violations are not isolated to its U.S. business.

In March 2006, the Japanese banking regulator, the FSA, suspended JPM's securities division from engaging in new business for three weeks after it was found to have engaged in *"artificial market making"* in stock futures and then suspended its real-estate finance division from business for five days for making "false statements." Again, *later in the month, the bank's asset management division found that a dealer at the firm shifted trading losses on a foreign currency trade to a customer account.* Less than a month later, in *April 2006, the FSA censured the bank for improper real-estate dealings* in its Tokyo office. The investigation resulted from weak internal controls in the structuring of asset-backed securities. As a result, the bank was barred from engaging in new real estate trust business for six months and was required to clarify the responsibilities of management, improve legal compliance and corporate governance. *The weaknesses in internal controls in the Tokyo branch were not new; the FSA had taken administrative actions against violations that existed between 2001 and 2004.*[lxvii]

Still, in the spring of 2012 it was disclosed that it was the source of a leak of insider information[lxviii]***. Once again, the bank demonstrated that their commitments to correcting weak internal controls are questionable.*** Nonetheless, the regulators accepted its pledge to improve internal controls[lxix]. The bank's Seoul office has also recently been cited for internal control violations[lxx].

In December 2012, an Italian judge convicted JPMorgan and three other banks for their role in a fraudulent sale of derivatives to the city of Milan. The bank's employees were registered by the UK's FSA which suggests that the FSA is likely investigating the firms' failure to inform the city of Milan of conflicts of interest that resulted from the banks acting as arrangers of, advisors to, or counterparties in a bond sale. The judge ordered the seizure of about $120 million of profits received by the four banks and ordered each of them to pay 1 million euros in sanctions.[lxxi]

Refusals to Cooperate

The weak regulatory oversight and the willingness of government agencies to allow the bank to settle violations without admitting or denying wrongdoing and with limited fines, sanctions or follow-up to ensure problems are corrected appear to have emboldened the bank to refuse official requests and even demands for cooperation.

In several instances, in seeming attempts to obscure their degree of involvement in various activities by related parties or unrelated clients, JPM has taken increasingly oppositional stances relative to their regulators.

As we already have detailed, the bank sought to prevent the FERC from access to e-mails and documents sought in connection with their Energy Ventures, claiming more than two dozen of the communications in question are protected by attorney-client privilege. In November 2012, a Washington, D.C., Magistrate agreed [lxxii] that the bank did not have to hand over the un-redacted e-mails. This should raise questions about the effectiveness of license-granting regulators when they cannot even access relevant documents from regulated entities.

Last August, the bankruptcy trustee for Peregrine Financial asked an Illinois judge for the right to subpoena the banks involved in the Peregrine fiasco in an effort to gather information about Peregrine's open and closed accounts. ***JPMorgan had served as a clearing bank for Peregrine and has sought to limit the ability of the trustee to subpoena information related to its involvement in the failure of Peregrine and the $215 million of related losses.*** In this case, the judge granted the trustee the right to subpoena the firm. Still, the underlying unwillingness of a major banking institution to cooperate in the investigation and the attempts by a bankruptcy trustee to recover client funds is peculiar for a firm that likes to claim transparency and cooperation as hallmarks of its business.

While the bank regularly takes the public position that they "will of course continue to work together with our regulators,"[lxxiii] the reality is quite different. In February 2011, the Trustee for the estate of Bernie Madoff's firm filed a twenty-one-count complaint against JPM, Madoff's primary banker. The Trustee's action was the result of an effort to recover

almost $1 billion in fees and profits and $5.4 billion in damages for JPM's decades-long role as Madoff's banker and for allegedly "aiding and abetting Madoff's fraud"[lxxiv].

As the OCC began to pull together information for its own investigation into the Madoff fraud, and JPM's role, the agency requested that JPM hand over documents related to the scandal. Once again, citing attorney-client privilege, the bank refused the request of a regulator attempting to investigate misdeeds. Rather than cooperating with its regulator, as JPM stated was their intent, their obstinacy continued. In December 2012, the U.S. Treasury Inspector General Eric Thorson sent a letter to JPM's general counsel dismissing the attorney-client argument and highlighting that if banks were allowed to assert this privilege to avoid handing over documents, the OCC could not do its work. *In the letter he* ***demanded the bank comply with the requests by January 11, 2013, and that a failure to produce the requested material "will have to be seen as a continuing purposeful impediment to the authority of the OCC"*** *and would result in "further action by our office."*[lxxv] *January 11 is now behind us but there has been no information offered by either the bank or the OCC regarding JPM's cooperation.*

OUTSTANDING ISSUES:

We will address under-appreciated but material fundamental issues in a forthcoming report. Consistent with the purpose of this report we felt it important to consider outstanding internal control, headline and other extraordinary items that could materially impact JPM's profitability and potentially highlight further breakdowns in controls.

Washington Mutual: a Story of Opacity and Impunity

Perhaps no other example illustrates JPMorgan's scorched-earth legal approach better than the disputes over the estate of Washington Mutual (WaMu), which the firm acquired from the FDIC in September 2008. JPMorgan portrays its purchase of WaMu during the depths of the financial crisis as a patriotic act performed by a well-run bank. Its public statements and regulatory filings tell a different tale.

In August 2009, Deutsche Bank, as trustee for about $92 billion of notional WaMu securitizations, filed suit against the FDIC demanding the repurchase of billions of dollars of mortgages that they argued violated representations and warranties in the pooling agreement. The FDIC moved to dismiss the complaint, arguing that JPMorgan had assumed the liabilities in the WaMu purchase. Consequently, Deutsche Bank amended its complaint to add JPMorgan[lxxvi]. JPMorgan is protected by a broad gag order that has sealed away, from public view, any internal communications on Washington Mutual. We have had to rely on public information and information provided as a result of freedom of information requests.

After several years of agreeing with the FDIC's position and acknowledging that it acquired the mortgage liabilities of Washington Mutual[lxxvii]***, JPMorgan appears to have changed its mind when*** it realized the enormity the industry's mortgage putback risks[lxxviii]. JPMorgan is now boldly demanding indemnification from the FDIC Insurance Fund.

JPMorgan, which in the aftermath of the financial crisis, accepted more than $391 billion of government emergency program support[lxxix], is ***seeking to shift losses on over $190 billion of Washington Mutual-related mortgage securities onto the FDIC - claiming that for a mere $1.9 billion it bought nearly all of the positive value of WaMu and was able to stick the public with essentially all of the ongoing losses.*** If the firm fails in these efforts it *could be stuck with settlement costs on claims of between $3 and $5 billion. Unfortunately, a continued lack of clarity about the firm's reserves coupled with recent plaintiff-friendly court rulings that may increase putback settlement costs make it difficult to assess whether JPMorgan is adequately reserved.*

Since it began to deny its obligation, JPMorgan has repeatedly tried getting the FDIC to agree that it has approval to settle and then send the FDIC the bill. The arrogance, impunity and extent to which lengths JPM's lawyers go in attempts to saddle the FDIC with its own losses are amazing. ***In a strongly worded letter of response to JPM's repeated attempts to fool the FDIC into stating or implying it accepted consent, the FDIC strongly states that it has not consented to any actions or inactions by JPM and that "insomuch as these assertions may have become boilerplate language in correspondence from this firm, please consider this letter to be the FDIC's standing rebuttal"***[lxxx]***.*** *Still, recent press reports suggest that JPMorgan and Deutsche Bank are engaged in settlement talks and that JPM's strategy may be to settle with the Deutsche Bank (Trustee) investors, indemnify those investors and have them file a claim against the FDIC for indemnification.*

Even beyond losses on the $92 billion of original principal balance for which Deutsche Bank is trustee, there are losses associated with another $100 billion of WaMu mortgage securities over which either JPMorgan or the FDIC will ultimately be required to settle.

The Acquisition

In early 2008, JPMorgan began to do due diligence on Washington Mutual with an eye to acquiring the troubled but still solvent firm, but because of the potential for big losses at WaMu, JPMorgan CEO Jamie Dimon chose not to move forward with an acquisition[lxxxi]. Three months later, WaMu was bankrupt. As the FDIC began to plan for the closing and sale of WaMu, it offered bidders five possible transaction structures[lxxxii], each with different levels of acquired liabilities.

On September 23 and 24, 2008, the FDIC negotiated over JPMorgan's bid, which was for the acquisition of all of WaMu's assets and liabilities except for the preferred stock, subordinated debt and senior debt of the bank[lxxxiii]. The deal structure that JPMorgan chose also required that the winning bid come at the least cost to the FDIC.

During the talks, JPMorgan sent an e-mail[lxxxiv] to the FDIC expressing concerns and seeking clarity about the "liabilities assumed by the assuming bank"[lxxxv] and expressed concern over the broadness of the provision[lxxxvi]. In a Q&A document released during the initial invitation to bid process, ***the FDIC made it clear that the obligations associated with mortgage securitizations would pass to the buyer[lxxxvii],*** their position did not change and JPMorgan did not receive the desired changes to the standard indemnification to protect itself against the liabilities associated with Washington Mutual's mortgage securitizations. It couldn't have been clearer that JPMorgan understood the liabilities it was accepting.

The FDIC did make limited changes to the standard bidding form, indemnifying the bank for up to $500 million for damages brought by Washington Mutual or third parties.[lxxxviii] The agency also agreed to provide JPMorgan indemnification against mortgage-borrower (but not investor) claims[lxxxix], a frequent cause for concern in the fall of 2008.

On September 25, 2008, the FDIC announced that JPMorgan acquired the banking operations of Washington Mutual at no cost to the FDIC's insurance fund[xc]. *In an SEC filing that evening,* ***JPMorgan said it "acquired all deposits, assets and certain liabilities of Washington Mutual's banking operations from the Federal Deposit Insurance Corporation (FDIC), effective immediately. Excluded from the transaction are the senior unsecured debt, subordinated debt, and preferred stock of Washington Mutual's banks. JPMorgan Chase will not be acquiring any assets or liabilities of the banks' parent holding company (WM) or the holding company's non-bank subsidiaries. As part of this transaction, JPMorgan Chase will make a payment of approximately $1.9 billion to the FDIC"[xci]***.

Clearly, the FDIC and JPMorgan both intended and believed that all liabilities not specifically excluded were transferred. Had the FDIC believed otherwise it would have considered its potential exposures to retained liabilities in its announcement and, if there were other bidders, in its decision to award Washington Mutual to JPMorgan. After all, the FDIC has a statutory obligation to approve the least costly resolution.

Acknowledgment of WaMu Liabilities

When JPMorgan announced its earnings for the fourth quarter of 2008, *Dimon proudly claimed that JPMorgan was* ***"doing its part"*** *to help stabilize the financial markets and hasten recovery. We assumed risk and expended resources to assimilate Bear Stearns*

and Washington Mutual."[xcii] The comments make for a great patriotic sound-bite but deserve further scrutiny in light of the bank's subsequent claim that it never acquired WaMu's mortgage liabilities. After all, since the bank bought WaMu's assets at book value and wrote the loan book down by $31 billion, ***it is hard to understand what risk it took if it didn't acquire the liabilities relating to Washington Mutual's securitization activities.***

In a Jan. 9, 2009, SEC filing, Freddie Mac disclosed that "JPMorgan Chase will assume Washington Mutual's recourse obligations to repurchase any of such mortgages that were sold to Freddie Mac with recourse. ***With respect to mortgages that Washington Mutual sold to Freddie Mac without recourse, JPMorgan Chase has agreed to make a one-time payment to Freddie Mac with respect to obligations of Washington Mutual to repurchase any of such mortgages that are inconsistent with certain representations and warranties made at the time of sale[xciii]." This filing, like several filings made by JPMorgan, demonstrate that the firm had recognized its obligations to repurchase WaMu-related mortgages sold to the GSEs[xciv]. If, as JPMorgan now contends, these repurchase obligations were the rightful liabilities of the FDIC, then one must ask how the firm could legally have settled them on behalf of the FDIC. In fact, section 12.2(f) of the Purchase Agreement specifically protects the FDIC from paying for liabilities it did not assume by requiring that it consent to any settlement that would result in an indemnification obligation.***

Further supporting the argument that JPMorgan acquired the WaMu liabilities are SEC filings and presentations to shareholders by JPMorgan. In connection with 2010 earnings, the bank warned that *"we and certain of our subsidiaries, as well as entities acquired by us as part of the Bear Stearns, Washington Mutual and other transactions, have made such representations and warranties in connection with the sale and securitization of loans (whether with or without recourse… Our obligations with respect to these representations and warranties are generally outstanding for the life of the loan, and relate to, among other things, compliance with laws and regulations; underwriting standards; the accuracy of information in the loan documents and loan file; and the characteristics and enforceability of the loan…. if a loan that does not comply with such representations and warranties is sold, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any such loss. Accordingly, such repurchase and/or indemnity obligations …acquired by us as part of the Bear Stearns, Washington Mutual and other transactions…could materially and adversely impact our results of operations and financial condition."* The essence was repeated in other filings as well[xcv].

In November 2011, Judge Denise Cote[xcvi] of the Southern District of New York found that "JPMorgan does not directly contest the Amended Complaint's detailed allegations that it has assumed WaMu Bank's liabilities with respect to the securitizations at issue here. Indeed, as the plaintiff points out, ***JPMorgan itself has publicly referenced its***

liability for 'repurchase and/or indemnity obligations arising in connection with sale and securitization of loans' by, among others, WaMu. The FDIC has likewise opined that 'the liabilities and obligations' arising from WaMu's sale of mortgage-backed securities 'were assumed in their entirety by JPMC [(JPMorgan Chase)] under the P&A Agreement, thereby extinguishing any potential liability by FDIC Receiver.' Thus, for the purposes of this motion, there is no dispute that JPMorgan is a proper defendant with respect to FHFA's WaMu- related claims." *Did this finding cause JPMorgan to increase its litigation reserves? We do not know because their disclosures are inadequate.*

Lack of Clarity on Reserving Policy

On the first quarter of 2010 earnings call, JPMorgan's Michael ***Cavanagh noted that the bank had put up representation and warranty reserves for WaMu exposures*** *related to both GSEs but acknowledged that the reserves were difficult to decipher, were in several pockets and he then informed investors that JPM would not give any more meaningful guidance or detail*[xcvii]*. In a November 2010 presentation at a Bancanalysts Association of Boston Conference, a JPMorgan senior executive provided details of the Company's* **"Private Label Repurchase Risk Exposure" broken out by Chase, Bear and WaMu and by product type.** Nowhere in this presentation did the firm disavow the liabilities or suggest that they were the liabilities of the FDIC[xcviii].

In January 2010, recognizing that JPMorgan's disclosures were inadequate for investors' ability to analyze its risks, the ***SEC sent a letter to Michael Cavanagh directing the bank to provide greater detail***[xcix] ***of their repurchase obligations. Again, rather than providing investors with the class-leading transparency JPMorgan often claims, the bank responded to the letter, in redacted form***[c]***,*** requesting confidential treatment of certain portions of their response.

While, in the past the bank repeatedly acknowledged its acquisition of WaMu repurchase liabilities and initially included those in discussions of repurchase reserves, it appears those policies have not been consistent over time. Where earlier WaMu-related repurchase liabilities appear to have resulted in increased repurchase reserves it seems that once JPMorgan decided to assert that the WaMu repurchase liabilities as the FDIC's obligation, the comparability of their already weak disclosures became even less analyzable.

New Mortgage Suits

In the past few months, a new round of mortgage-related suits were filed against the firm. investors, regulators, prosecutors, and insurers have filed a new round of claims against the bank related to billions of dollars' worth of securities backed by residential mortgages.

On February 5, 2013, in the matter of Assured Guaranty v. Flagstar[ci], U.S. Southern District Court Judge Jed Rakoff appears to have created precedent by handing down a decision to allow staistical analysis provided by Assured's independent auditor, rather than loan-by-loan analysis, to be a basis for findings of breaches to PSAs and Reps and Warranties in pooled mortgage loans. The auditor found that 606 of the sample of 800 loans across the trusts were found to have material breaches. While the ruling will likely be appealed, ***the reality is that it significantly heightens the risks to JPM and other defendants in putback litigations. It may also lead JPM to determine that they need to increase reserves.***

In November 2012, CIFG Assurance sued JPM over more than $100 million of losses it sustained in CDOs. U.S. Bank, as Trustee, also filed suit[cii], claiming breaches of certain terms and conditions of the Pooling and Servicing Agreements (defining the parties' obligations to each other) of an RMBS with $698 million of original principal balances suffered losses of $358 million. In a sample of the loans that defaulted, the plaintiffs claim that 74% had one or more breaches. Mortgage insurer Syncora Guarantee also filed suit[ciii] claiming that, as a result of misrepresentations on almost 85% of the loans involved in the deal, Syncora has had to pay more than $94 million in claims to investors on losses of more than $111 million. The National Credit Union Administration Board filed suit against JPM on WaMu-related losses on almost 50 RMBS deals. In the filing, the NCUA demonstrates the massive difference between the expected losses and the actual losses in these deals[civ]. This follows an NCUA suit filed against JPM relating to $3.6 billion of "faulty" securities related to JPM's Bear Stearns acquisition.

In October 2012, the New York Attorney General, Eric Schneiderman, filed suit against JPM related to alleged misrepresentations in RMBS securities offerings, which are claimed to have resulted in $22.5 billion losses of the $87 billion in original principal value[cv].

On February 4, 2013, related to a suit filed against JPMorgan by Dexia, Dexia released hundred of e-mails and employee interview transcripts suggesting that JPM received independent underwriter reports showing that between 8% and 20% of the loans sampled for inclusion in pools did not meet underwriting guidelines. Rather than disclose these defects to investors, JPM overrode the independent determinations to create a "final, sanitized version."[cvi]

The Whale

While the Federal Reserve and OCC have issued Consent Orders relating to the trading failures in the firm's CIO office, there are ***ongoing investigations by various U.S. regulators as well as legislative committees which could result in fines, further legal and enforcement issues and an increasing number of shareholder suits.***

The New York Times has reported that the FBI could make arrests in the coming months and the Senate Permanent Subcommittee on Investigations, led by Senator Carl Levin, will release their investigation report as early as March 15.

The real question remains just how much JPMorgan's senior executives knew. Where there is evidence to support the notion that they did or should have known about the lax oversight and long-standing problems in that office, it is unclear if the government will pursue those leads or if they will instead focus their efforts in a manner narrow enough to allow senior management to avoid problems.

That "Federal authorities are using taped phone conversations to build criminal cases related to the multibillion-dollar trading loss at JPMorgan Chase, focusing on calls in which employees openly discuss how to value the troubled bets in a favorable way" and "looking into the actions of four people who previously worked for the team based in London responsible for the $6 billion loss,"[cvii] suggests that they will avoid a more meaningful investigation into senior management and, instead, let the minnows be eaten rather than pursuing the whale. While it is unlikely that anything will happen to senior executives, given the forced replacement of senior members of both Fannie Mae's and Freddie Mac's management after their safety and soundness failures, the risks of larger regulatory actions can not be fully ignored.

The United Kingdom's Financial Services Authority has also opened a formal investigation of the London trading losses. Having done so they are now authorized to demand documents and summon executives for questioning. Again, given the circumstantial evidence, it seems likely that if the FSA is independent and detailed in its investigation, ***JPMorgan's London fiasco is far from resolved.***

LIBOR

Recently, Charles Schwab filed two suits against JPMorgan Chase charging it with conspiring with other banks to manipulate the London Interbank Offered Rate. The complaints say that the banks violated antitrust, racketeering and securities laws. It is fair to expect that, with over a dozen private actions filed related to LIBOR, other private suits would be filed against JPM.

While various domestic and foreign official sector bodies are likely to accept large fines, and perhaps orchestrate a global settlement, for this scandal, the ***costs of official and private actions may become quite large.*** After all, the rate manipulation scandal is, in the words of a special advisor to the secretary general of the Organization for Economic Cooperation and Development ***"the biggest financial fraud of all time"***[cviii].

Currently, the *New York Attorney General and the "DOJ, CFTC, SEC, European Commission, UK Financial Services Authority, Canadian Competition Bureau, Swiss Competition Commission and other regulatory authorities and banking associations around the world"*[cix] *have subpoenaed documents, made requests and embarked on investigations of the firm's involvement.* To date, RBS, Barclays and UBS have been fined a total of $2.6 billion and it appears likely that JPM shareholders will again be called on to pay a substantial amount for the management's oversight failures.

In fact, recent reports suggest that the *European Commission's antitrust investigation is focusing on yen and euro interbank rates and Swiss franc-denominated swaps and if a firm is found guilty of antitrust violations in each of these three areas* ***the fines could reach up to 30% of a company's total revenue***[cx]**.**

While JPM is one of more than a dozen firms being investigated and there has been little suggestion about the ultimate degree of their involvement. Recent news related to the DOJ and the Canadian Competition investigations suggest involvement of JPMorgan.

Department of Labor

The Department of Labor has been looking into potential violations of JPM's fiduciary duty under the Employee Retirement Income Security Act[cxi]. JPMorgan's $1.8 billion Stable Asset Income Fund has had as much as 13 percent of its assets invested in private mortgage debt rated and underwritten by the bank. According to press reports, many employers with 401(k) plans were unaware of the private mortgage component of the fund until after the 2008 market crash. It is unclear if the DOL has begun a formal investigation or is in the exploratory process. Given the filing of private actions[cxii] in this matter it is hard to believe that the DOL can justify letting go of the matter without a formal investigation.

Buying Political Protection

In a recent interview with Jamie Dimon, Andrew Ross Sorkin told Dimon, "You have an army of lobbyists like every other institution in the country."[cxiii] The reality is that JPM's political efforts are not like "every other" firm's. Their army is more comparable to the U.S. government's, which spends more on defense than the next dozen or so countries combined.

JPMorgan may be without peer in its spending on direct and indirect lobbying and PR. Its effort to capture legislators, neuter regulators and influence policymakers are reminiscent of Fannie Mae before it as the firm has retained, employed or had revolving door relationships with more former legislators, legislative staff and executive branch employees than perhaps any other financial firm in history. As of mid-2012, the firm had the second-largest corporate political action committee and

employed at least 48 lobbyists,[cxiv] including at least 14 in-house lobbyists who are former congressional and federal staffers[cxv] or legislators. Its lobbying power is not only direct but also the result of domination of several of the largest industry trade associations[cxvi].

Moreover, ***like Fannie Mae before it, the firm operates a well-endowed charitable foundation with grassroots offices around the country that, under Jamie Dimon, has been run not by executives from the world of charitable giving but by the well connected of Washington.*** The Foundation's current Chairman is former Bush administration Secretary of Housing and Urban Development and former Senator Mel Martinez, who replaced Bill Daley when he left the Chairmanship of the Foundation to become White House Chief of Staff[cxvii]. Also, like the GSEs before it, the firm has aggressively spent to gain influence in state and local politics[cxviii].

Jamie Dimon argues his lobbying efforts are nothing more than the firm's first amendment right to petition the government but also makes it clear that he sees government relations as JPMorgan's "seventh line of business"[cxix]. When discussing the firm's lobbying[cxx] he clearly understands, as George Orwell pointed out, "All animals are equal, but some animals are more equal than others."

It is worth remembering that only a decade ago Fannie Mae was the most politically connected and protected financial firm in Washington and some of the efficiencies it claimed to have identified were the result of underspending on necessary internal controls.[cxxi] Ultimately, these control failures drove significant shareholder losses.

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[i] http://businessfinancemag.com/article/should-companies'-settlements-uncle-sam-be-tax-deductible-0212 (Some of these fines may be tax deductible)
[ii] http://www.imf.org/external/pubs/ft/wp/2012/wp12128.pdf p.12 (See. "Using this and the overall rating bonuses described in the previous paragraph, we can evaluate the overall funding cost advantage of SIFIs as around 60bp in 2007 and 80bp in 2009.", See also http://www.bloomberg.com/news/2013-02-24/remember-that-83-billion-bank-subsidy-we-weren-t-kidding.html
[iii] http://www.fdic.gov/about/learn/board/hoenig/capitalizationratios.pdf FDIC CAPITALIZATION RATIOS FOR GLOBAL SYSTEMICALLY IMPORTANT BANKS (G-SIBs) Financial data as of second quarter 2012 (See: *"Adjusted Tangible Equity to Adjusted Tangible Assets Ratio – IFRS estimate (3.12 Percent)"*)
[iv] The Bankers' New Clothes: What's Wrong with Banking and What to Do about It, Anat Admati and Martin Hellwig, Princeton University Press (February 2013), P. 83-87
[v] http://www.americanbanker.com/issues/177_238/big-banks-flunk-occ-risk-tests-1055128-1.html?zkPrintable=1&nopagination=1 American Banker, "Big Banks Flunk OCC Risk Tests", Barbara A. Rehm DEC 13, 2012
[vi] http://faculty.haas.berkeley.edu/jaffee/Papers/FreddieReport.pdf Baker Botts, LLP. "Report to the Board of Directors of The Federal Home Loan Mortgage Corporation." *Internal Investigation of Certain Accounting Matters December 10,2002-July 21,2003.* July 22, 2003. http://faculty.haas.berkeley.edu/jaffee/Papers/FreddieReport.pdf .
[vii]Office of Federal Housing Enterprise. "Report on the Special Examination of Fannie Mae", May 2006, available at http://www.fhfa.gov/webfiles/747/FNMSPECIALEXAM.pdf and Office of Federal Housing Enterprise. "Report on the Special Examination of Freddie Mac, December 2003 available at http://www.fhfa.gov/webfiles/749/specialreport122003.pdf
[viii] http://www.fhfa.gov/webfiles/944/consentorder12903.pdf and http://www.fhfa.gov/webfiles/941/attachsettlement.pdf Oversight, Office of Federal Housing Enterprise. "In the Matter of The Federal Home Loan Mortgage Corporation ("Freddie Mac")." December 9, 2003. http://www.fhfa.gov/webfiles/944/consentorder12903.pdf .
—. "In the Matter of The Federal National Mortgage Association ("Fannie Mae")." May 23, 2006. http://www.fhfa.gov/webfiles/941/attachsettlement.pdf .
[ix] http://www.federalreserve.gov/newsevents/press/enforcement/20130114a.htm *Board of Governors of the Federal Reserve System.* January 14, 2013. http://www.federalreserve.gov/newsevents/press/enforcement/20130114a.htm .
[x] http://faculty.haas.berkeley.edu/jaffee/Papers/FreddieReport.pdf Baker Botts, LLP. "Report to the Board of Directors of The Federal Home Loan Mortgage Corporation." *Internal Investigation of Certain Accounting Matters December 10,2002-July 21, 2003.* July 22, 2003. http://faculty.haas.berkeley.edu/jaffee/Papers/FreddieReport.pdf . (See also: *Our investigation included (i) review of over 250,000 pages of hard copy documents (600 boxes of documents remain to be reviewed); (ii) over 200 interviews; (iii) review of electronic documents and files, including the imaging of hard drives, evaluations of e-mails, and conducting key word searches yielding two terabytes of electronic evidence; (iv) listening to over 11,000 minutes of tapes of telephone conversations; and (v) examinations of relevant employee performance reviews and personnel files.")*

[xi] http://hereisthecity.com/2010/04/01/jpmorgan_to_expand_investment_/ and http://www.businessweek.com/printer/articles/43632?type=bloomberg and http://blogs.wsj.com/deals/2012/05/14/jamie-dimons-mr-fix-it-michael-cavanagh/*HITC Business.* "JPMorgan - A letter From Jamie Dimon." http://hereisthecity.com/2010/04/01/jpmorgan_to_expand_investment_/ .
Erik Schatzker, Christine Harper and Mary Childs. "Bloomberg Archives: JPMorgan Shifts CIO to Prop Trading." *Bloomberg Businessweek*, April 13, 2012: http://www.businessweek.com/printer/articles/43632?type=bloomberg .
Moyer, Liz. "Jamie Dimon's Mr. Fix It: Michael Cavanagh." *The Wall Street Journal*, May 14, 2012: http://blogs.wsj.com/deals/2012/05/14/jamie-dimons-mr-fix-it-michael-cavanagh/ .

[xii] http://www.businessweek.com/printer/articles/43632?type=bloomberg (see Schatzker, Erik, Christine Harper and Mary Childs. "Bloomberg Archives: JPMorgan Shifts CIO to Prop Trading." *Bloomberg Businessweek*, April 13, 2012. http://www.businessweek.com/printer/articles/43632?type=bloomberg . *(See*: JPMorgan also said Ina Drew, who ran global treasury at JPMorgan prior to the acquisition, would report directly to Dimon. Drew's title changed in February 2005 to "chief investment officer," according to the 2005 year-end filing.)

[xiii]http://online.wsj.com/article/SB10001424052702303768104577460792166155830.html *The Wall Street Journal.* "J.P. Morgan Knew of Risks." June 12, 2012: http://online.wsj.com/article/SB10001424052702303768104577460792166155830.html . (See: "In 2010, another bad trade caught the attention of a senior finance executive who notified top J.P. Morgan executives. Joseph Bonocore, then chief financial officer of the CIO, became concerned when London-based traders lost about $300 million in a few days on a foreign exchange-options trade, without any offsetting gains to balance out the losses. Mr. Bonocore brought the matter to Barry Zubrow, then J.P. Morgan's chief risk officer, and Michael Cavanagh, then chief financial officer, both of whom reported to Mr. Dimon. Messrs. Zubrow and Cavanagh, who remain at the bank in other top roles, gave Mr. Bonocore authority to order that the position be reduced... Mr. Dimon recalls being told of the trades, a person close to him said.")

[xiv] http://finance.fortune.cnn.com/2013/01/18/jpmorgan-london-whale-investigation/ Gandel, Stephen. "JPMorgan's London Whale review: Inside job." *CNN Money*, January 18, 2013: http://finance.fortune.cnn.com/2013/01/18/jpmorgan-london-whale-investigation/ .

[xv] " Schatzker, Erik, Dawn Kopecki and Bradley Keoun. "House of Dimon Marred by CEO Complacency Over Unit'sUnit's Risk", Erik Schatzker, Dawn Kopecki and Bradley Keoun,." Bloomberg, June 12, 2012. (See: Dimon treated the CIO differently from other JPMorgan departments, exempting it from the rigorous scrutiny he applied to risk management in the investment bank, according to two people who have worked at the highest executive levels of the firm and have direct knowledge of the matter. When some of his most senior advisers, including the heads of the investment bank, raised concerns about the lack of transparency and quality of internal controls in the CIO, Dimon brushed them off, said one of the people, who asked not to be identified because the discussions were private.")

[xvi] http://www.sec.gov/Archives/edgar/data/19617/000001961712000264/jpm-2012063010q.htm p.119 (See: "The valuation control function is also responsible for determining any valuation adjustments that may be required… The determination of such adjustments follows a consistent framework across the Firm.")

[xvii] 107th Congress, "PUBLIC LAW 107–204—JULY 30, 2002." Last modified 2002. http://www.sec.gov/about/laws/soa2002.pdf .

[xviii] Board Review Committee Report, p. 5-6. (See: "CIO also made an annual presentation to the Audit Committee on the control environment in CIO. Following this presentation to the Audit Committee in July 2011, the Audit Committee reported to the Board that the CIO's presentation stated that the overall control environment and business processes of CIO remained strong. In connection with its December 13, 2011 meeting, the Risk Policy Committee received a report prepared for it and the Audit Committee on the Firm's Risk Management Control Environment, which covered Firmwide risk management as well as risk management for the lines of business and CIO. That report addressed, among other things, risk management priorities for 2012, the status of responses to regulatory-driven initiatives, risk technology issues and initiatives, issues with model risk governance, and the status of control assessment issues (including matters requiring attention ("MRAs") identified by regulators) and action plans to address them. These reports did not raise issues with regard to under-resourcing or other deficiencies in the risk management function in CIO, or a lack of appropriate risk limits or compliance with risk limits at CIO.")

[xix] http://www.occ.gov/publications/publications-by-type/other-publications-reports/prbbnkgd.pdf p.1 (*"One of the most challenging and important aspects of a bank examiner's job is knowing how to read and react, in a balanced and effective way, to symptoms of problems that may not yet be obvious to bank management and directors …Examiners will recognize and sometimes refer to such banks as "borderline" or "dirty 2's," referring to the imminence of a CAMELS downgrade to a "3" if conditions worsen. It is not unusual for officers and directors of banks such as these to overlook or deny the potential seriousness of problem symptoms at this stage. Indeed, it sometimes boils down to who is more confident in their assessment of the fundamental issues - the banker or the examiner, and whether the examiner has prioritized his/her findings by order of significance"*. See also p.30 *"Under the existing Corrective Action PPM and going forward, formal action or PCA should be considered for 3-rated banks with weak management or when conditions are deteriorating rapidly. The corrective measures should be appropriately severe and explicit as to implementation...Such actions are also used when corrective action by the board is not forthcoming, or when informal actions are insufficient. In some circumstances, there is a presumption for formal action, regardless of the bank's capital level and composite CAMELS rating. That presumption in favor of formal action exists when one or more of the following conditions exist:*

- *Significant problems in the bank's systems, controls, policies, internal audit programs, or MIS.*
- *Significant insider abuse or compliance problems.*
- *Failure to respond to prior supervisory efforts.*
- *Substantial noncompliance or lack of full compliance over an extended period of time".*)

[xx] *IBID p. 31 (See: "Safety and Soundness Standards: The OCC also has the authority under 12 USC 1831p-1 and 12 CFR 30 to issue a safety and soundness order against a bank that fails to meet established safety and soundness standards. Operational and managerial standards have been established under Part 30 in the following areas: Internal controls and information systems; Internal audit system; Loan documentation; Credit underwriting; Interest rate exposure; Asset growth; Asset quality; Earnings; Compensation fees and benefits.This tool was designed to address unsafe and unsound conduct that is not reflected in bank capital levels".)*

[xxi] http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20110825.aspx US department of treasury, "Release of Civil Penalties Information - JPMorgan Chase Bank, N.A.

Settlement." Last modified 2011. http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20110825.aspx .

[xxii] http://www.spiegel.de/international/europe/a-growing-vatican-bank-scandal-threatens-catholic-church-image-a-842140-2.html Wassermann, Andreas, and Peter Wensierski . Spiegel Online, "Transparency vs. Money Laundering: Catholic Church Fears Growing Vatican Bank Scandal." Last modified 2012. Accessed February 25, 2013. http://www.spiegel.de/international/europe/a-growing-vatican-bank-scandal-threatens-catholic-church-image-a-842140-2.html . (See: "Officials from the Council of Europe committee responsible for combating money-laundering were supposed to assist these efforts and, to do so, even be allowed into the inner sanctum of the Vatican bank. Yet veteran Church bankers and members of the Curia apparently had no intention of abstaining from lucrative dealings with problematic funds. The plan, Italian financial investigators believe, was from then on to discretely eliminate all traces of clandestine business dealings. A role in the effort was played by a bank in Benedict's home country: Germany. In 2009, the same year that Gotti Tedeschi took over as president of the IOR, the bank set up an account with the Milan-based branch of the American bank JPMorgan Chase. From that point on, millions started flowing on an almost daily basis from JPMorgan's Milan office to the one in Frankfurt, where the IOR also had a JPMorgan account. Vatican officials opted for a special account in Milan with the number 1365, a so-called "sweep facility account," which was automatically zeroed out at the end of each day. The Vatican bank confirmed the existence of this account late last week, though it said it was primarily used for handling securities transactions. Through last year, this financial set-up was allegedly used to process more than a billion euros for the Vatican bank. Italian investigators suspect that it was also used to launder funds from dubious sources. The transfers via JP Morgan would likely have remained unnoticed if the IOR hadn't involved another Italian bank two years earlier in two cases. The attention of Italian financial regulators had been attracted by curious transactions the Vatican bank had made via Credito Artigiano. In 2010, a total of €23 million had been transferred from several accounts at that bank, but without listing the account holders or purposes of the transfers. Of that, €20 million was reportedly supposed to make its way to the Vatican's JPMorgan account in Frankfurt, while the remaining €3 million was destined for an account at another bank in Rome.")

[xxiii] http://www.amlcftblog.com/2008/01/cocaine-trade-fuels-euro-laundering.html AKGUN ALP, INONU. AML-CFT, "Cocaine trade fuels Euro laundering." Last modified 2008. http://www.amlcftblog.com/2008/01/cocaine-trade-fuels-euro-laundering.html.

[xxiv] http://documents.nytimes.com/madoff-trustees-lawsuit-against-jpmorgan-chase New York Times, "Madoff Trustee's Lawsuit Against JPMorgan Chase." http://documents.nytimes.com/madoff-trustees-lawsuit-against-jpmorgan-chase .

[xxv] http://blogs.wsj.com/corruption-currents/2012/11/19/first-bank-of-delaware-loses-charter-over-aml-problems/ Rubenfeld, Samuel. "First Bank of Delaware Loses Charter Over AML Problems.." *The Wall Street Journal*, November 19, 2012. http://blogs.wsj.com/corruption-currents/2012/11/19/first-bank-of-delaware-loses-charter-over-aml-problems/ (accessed February 25, 2013).

[xxvi]http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfjpmorganorder09092009.pdf Instituting Proceedings Pursuant to 6(c) and 6(d) of the Commodity Exchange Actand Making Findings and Impossing Remidial Sanctions." Last modified 2009. http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfjpmorganorder09092009.pdf .

[xxvii] http://www.reuters.com/article/2010/06/03/us-britain-fine-jpmorgan-idUSTRE6521J520100603 Ridley, Kirstin. "UK fines JPMorgan record $49 million." *Reuters*, June 3, 2010. http://www.reuters.com/article/2010/06/03/us-britain-fine-jpmorgan-idUSTRE6521J520100603.
[xxviii]http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfjpmorganorder040412.pdf Commodities Future Trading Commission. "Instituting Proceedings Pursuant to 6(c) and 6(d) of the Commodity Exchange Actand Making Findings and Impossing Remidial Sanctions." Last modified 2012.
[xxix] http://observer.com/2012/08/jpmorgan-would-prefer-peregrine-financial-group-trustee-not-subpoena-jamie-dimon/ and http://www.huffingtonpost.com/2012/07/12/pfg-customer-account-jpmorgan-chase_n_1668386.html Clark, Patrick. "JPMorgan Would Prefer Peregrine Financial Group Trustee Not Subpoena Jamie Dimon." *New York Observer*, August 6, 2012. http://observer.com/2012/08/jpmorgan-would-prefer-peregrine-financial-group-trustee-not-subpoena-jamie-dimon/.
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[xxx] http://www.forbes.com/sites/halahtouryalai/2012/06/04/jpmorgans-other-messy-problem-mf-globals-missing-money/ Touryalai, Halah. "JPMorgan's Other Messy Problem: MF Global's Missing Money." *Forbes*, June 4, 2012. http://www.forbes.com/sites/halahtouryalai/2012/06/04/jpmorgans-other-messy-problem-mf-globals-missing-money/ .
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[xxxii] *IBID* (See: "The automated monitoring system generated a report that is used by commodity traders to track their current positions in pmiicular futures contracts relative to the applicable speculative position limits.")
[xxxiii] http://www.nfa.futures.org/BasicNet/Case.aspx?entityid=0000815&case=12-08778-BC+-+J.P.+MORGAN+SECURITIES&contrib=NYME National Futures Association, "Case Summary." http://www.nfa.futures.org/BasicNet/Case.aspx?entityid=0000815&case=12-08778-BC - J.P. MORGAN SECURITIES&contrib=NYME.
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[xxxv]http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfjpmorganorder030812.pdf COMMODITY FUTURES TRADING COMMISSION, "ORDER INSTITUTING PROCEEDINGS PURSUANT TO." Last modified 2012. http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfjpmorganorder030812.pdf . (See: "Congress' intent in enacting Section 4c(a) was to "'ensure that all trades are focused in the centralized marketplace to participate in the competitive determination o f the price o f the futures contracts.'" *In re Collins,* [1996-1998 Transfer Binder] Comm. Fut. L.

Rep. (CCH) ~ 27,194 at 45,742 (CFTC Dec. 10, 1997) (quoting S. Rep. No. 93-1131, at 16-17 (1974». In other words, Section 4c(a) was meant "to prevent collusive trades conducted away from the trading pits," *Merrill Lynch Futures. Inc.* v. *Kelly,* 585 F. Supp. 1245, 1251 n.3 (S.D.N.Y. 1984), and "to outlaw insofar as possible all schemes of trading that are artificial and not the result of arms-length trading on the basis of supply and demand factors," *In re Goldwurm,* 7 Agric. Dec. 265,276 (1948)."

[xxxvi] http://articles.chicagotribune.com/2012-06-01/business/chi-cme-fines-jpmorgan-for-wash-trades-in-oil-gasoline-20120601_1_wash-trades-jpmorgan-chase-crude-oil "CME fines JPMorgan for wash trades in oil, gasoline." *Chicago Tribune Business*, June 1, 2012. http://articles.chicagotribune.com/2012-06-01/business/chi-cme-fines-jpmorgan-for-wash-trades-in-oil-gasoline-20120601_1_wash-trades-jpmorgan-chase-crude-oil .

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[lxxxi] http://wmish.com/joshua_hochbergs_joke/epic_fail/4366/JPM_EX00004075.PDF Morgan Chase and Company, "Letter: (Fw: Meeting with Emilio Botin)." Last modified 2008. http://wmish.com/joshua_hochbergs_joke/epic_fail/4366/JPM_EX00004075.PDF. (See: "Asked why did JP Morgan not buy Wamu and instead TPG injected the capital Jamie replied he thinks the potential losses are higher than TPG estimating plus their losses are limited to their initial equity investment unlike for JPMorgan or any other USA bank which has to mark to market and assign/inject additional capital accordingly")
[lxxxii]

http://wmish.com/joshua_hochbergs_joke/epic_fail/4405/JPMCD_000001550.00001.pdfWashington Mutual Bank, "Various Documents." http://wmish.com/joshua_hochbergs_joke/epic_fail/4405/JPMCD_000001550.00001.pdf.
All liabilities are assumed except the preferred stock.
All liabilities are assumed, except the preferred stock and the subordinated debt.
All liabilities are assumed except the preferred stock, the subordinated debt and the senior debt.
The acquirer assumes all deposits and secured liabilities.
All insured deposits and secured liabilities are assumed.

[lxxxiii] Insert link to p. 31 of Deutsche Bank Response to FDIC and JPM Motions (See: "Under this transaction, the Purchase and Assumption (Whole Bank), the Potential Acquirer whose Bid is accepted by the Corporation assumes the Assumed Deposits of the Bank *and all other liabilities* but specifically excluding the preferred stock, non-asset related defensive litigation, subordinated debt and senior debt, and purchases all of the assets of the Bank, excluding those assets identified as excluded assets in the Legal Documents and subject to the provisions thereof.")
[lxxxiv] p. 31 of Deutsche Bank Response.
[lxxxv] http://www.fdic.gov/about/freedom/Washington_Mutual_P_and_A.pdf
(See p.8) Whole Bank, "PURCHASE AND ASSUMPTION AGREEMENT." Last modified 2008. http://www.fdic.gov/about/freedom/Washington_Mutual_P_and_A.pdf . (See: p. 8)
[lxxxvi] See *p. 32* Deutsche Bank Response (See: " Let's say there is a contract between the thrift and the Parent and that is included in the Books and Records (not something like "accrued for on the books of the Failed Bank," which probably would fix the problem) of the thrift at the time of closing. *Any liability under that contract is then arguably a liability reflected in the Books and Records. Therefore one would most likely conclude that liabilities under that contract are assumed under 2.1*. . . . In a normal P&A between commercial parties this is not something a buyer would ever assume and it really doesn't make sense (nor frankly is it fair) here.")
[lxxxvii] Deutsche response p. 33 (See: "9. Are the off-balance sheet credit card portfolio and mortgage securitizations included in the transaction? Do you expect the acquirer to assume the servicing obligations? If there are pricing issues associated with the contracts (e.g., the pricing is disadvantageous to the assuming institution), can we take advantage of the FDIC's repudiation powers to effect a repricing?

Answer: *The bank's interests and obligations associated with* the off-balance sheet credit card portfolio *and mortgage securitizations pass to the acquirer*. Only contracts and obligations remaining in the receivership are subject to repudiation powers.")

[lxxxviii] http://www.fdic.gov/about/freedom/Washington_Mutual_P_and_A.pdfWhole Bank, "PURCHASE AND ASSUMPTION AGREEMENT." Last modified 2008. http://www.fdic.gov/about/freedom/Washington_Mutual_P_and_A.pdf. (See: Section 12.1(a)(9))

[lxxxix] *Ibid.* (See: "any liability associated with borrower claims for payment of or liability to any borrower for monetary relief, or that provide for any other form of relief to any borrower . . . related in any way to any loan or commitment to lend made by the Failed Bank prior to failure, or to any loan made by a third party in connection with a loan which is or was held by the Failed Bank, or otherwise arising in connection with the Failed Bank's lending or loan purchase activities")

[xc] http://www.fdic.gov/news/news/press/2008/pr08085.html Gray, Andrew. Federal deposit Insurance Corporation, "JPMorgan Chase Acquires Banking Operations of Washington Mutual." Last modified 2008. http://www.fdic.gov/news/news/press/2008/pr08085.html .

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(example: "The Firm resolved and/or limited repurchase risks associated with certain WaMu GSE loan sales — minimal future risk")
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http://www.sec.gov/Archives/edgar/data/19617/000119312509249391/d424b7.htm . (See: p. S -7 "We and certain of our subsidiaries, as well as entities acquired by us as part of the Bear Stearns, Washington Mutual and other transactions, have made such representations and warranties in connection with the sale and securitization of loans (whether with or without recourse), and we will continue to do so as part of our normal Consumer Lending business. Our obligations with respect to these representations and warranties are generally outstanding for the life of the loan, and relate to, among other things, compliance with laws and regulations; underwriting standards; the accuracy of information in the loan documents and loan file; and the characteristics and enforceability of the loan.
A loan that does not comply with such representations and warranties may take longer to sell, or may be unsaleable or saleable only at a significant discount. More importantly, if a loan that does not comply with such representations and warranties is sold, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any such loss. Accordingly, such repurchase and/or indemnity obligations arising in connection with the sale and securitization of loans (whether with or without recourse) by us and certain of our subsidiaries, as well as entities acquired by us as part of the Bear Stearns, Washington Mutual and other transactions, could materially increase our costs and lower our profitability, and could materially and adversely impact our results of operations and financial condition.") and http://files.shareholder.com/downloads/ONE/847571171x0x415409/c88f9007-6b75-4d7c-abf6-846b90dbc9e3/BAAB_Presentation_Draft_11-03-10_FINAL_PRINT.pdf(JP Morgan Chase and Company, "BANCAN LYSTS ASSOCIATION OF BOSTON CONFERENCE." Last modified 2010.
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[xcvi] http://wallstreetonparade.com/wp-content/uploads/2012/11/Judge-Denise-Cote-Decision-Against-Dismissal-of-Federal-Housing-Finance-Agency-v.-JPMorgan-Chase-Co.-et-al-Dated-November-5-2011-11-Civ-6188-in-the-U.S.-District-Court-for-the-Southern-District-of-New-York.pdf UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF NEW YORK, "11 Civ. 6188 (DLC), OPINION & ORDER." http://wallstreetonparade.com/wp-content/uploads/2012/11/Judge-Denise-Cote-Decision-Against-Dismissal-of-Federal-Housing-Finance-Agency-v.-JPMorgan-Chase-Co.-et-al-Dated-November-5-2011-11-Civ-6188-in-the-U.S.-District-Court-for-the-Southern-District-of-New-York.pdf .
[xcvii] http://seekingalpha.com/article/198755-jp-morgan-chase-amp-co-q1-2010-earnings-call-transcript?part=single Seeking Alpha, "JP Morgan Chase & Co. Q1 2010 Earnings Call Transcript." Last modified 2010. http://seekingalpha.com/article/198755-jp-morgan-chase-amp-co-q1-2010-earnings-call-transcript?page=1. (See: "Let me make this simple. In the investment bank, retail and corporate we have put up rep and warranty reserves and litigation reserves for GSEs and all other mortgages including private securities. We have tried to do it diligently. Some of those numbers ran through the investment bank this quarter. We have broken out the numbers in retail and we have put the numbers in corporate. A lot of the numbers in corporate relate to WaMu. We are not going to give any other information. We think we properly accrued for reps

and warranties whether they come through on the rep and warranty line or the litigation line. There are legitimate claims that some of these mortgages were [properly] done. It is going to be done mortgage by mortgage. Other than that we think we have done a pretty good job recognizing the problem early.")

[xcviii] http://files.shareholder.com/downloads/ONE/847571171x0x415409/c88f9007-6b75-4d7c-abf6-846b90dbc9e3/BAAB_Presentation_Draft_11-03-10_FINAL_PRINT.pdf(See: P24-26 "Private label — Repurchase risk exposure") Scharf, Charlie. JPMorgan Chase & Co, "BANCANALYSTS ASSOCIATION OF BOSTON CONFERENCE." Last modified 2010. http://files.shareholder.com/downloads/ONE/847571171x0x415409/c88f9007-6b75-4d7c-abf6-846b90dbc9e3/BAAB_Presentation_Draft_11-03-10_FINAL_PRINT.pdf . (See: p.24-26 "Private label — Repurchase risk exposure.")

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[c] http://www.sec.gov/Archives/edgar/data/19617/000095012310020146/filename1.htm Rauchenberger, Louis. JPMorgan Chase & Co., "Mr. Amit Pande, Accounting Branch Chief Division of Corporation Finance United States Securities and Exchange Commission Letter." Last modified 2010.
http://www.sec.gov/Archives/edgar/data/19617/000095012310020146/filename1.htm. The Firm informed the SEC that:
Their potential rep and warranties violations generally surface and are resolved within approximately 24 – 36 months of the loan's origination date.
After the Firm's acquisition of certain residential loan assets and liabilities of Washington Mutual Bank from the FDIC in September 2008, the Firm reached agreements with the Agencies to limit the Agencies' repurchase demands with respect to certain Washington Mutual Bank loan repurchase liabilities.
As of December 31, 2009, the Firm's allowance related to breaches of reps and warranties (the "Allowance") was $1.7 billion. [Redacted]

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[civ] http://www.ncua.gov/News/Press/NW20130104MorganComplaint.pdf p.36-50 NATIONAL CREDIT UNION ADMINISTRATION BOARD v. J.P. Morgan Chase. Last modified 2013. http://www.ncua.gov/News/Press/NW20130104MorganComplaint.pdf. p. 36-50
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(See: “You have the right — it’s in the first amendment of the Bill of Rights – freedom of speech, ability to petition your government. I always find it a little offensive when people say the banks shouldn’t be allowed to petition the government…If you ask me what it means for our mortgage business, I can tell you. We’ll be fine. I’m not worried about that.”)

[cxxi] Office of Federal Housing Enterprise. "Report on the Special Examination of Fannie Mae", May 2006, available at http://www.fhfa.gov/webfiles/747/FNMSPECIALEXAM.pdf p. 237 (See: “Keeping Fannie Mae’s administrative and other infrastructure-related expenses as low as possible during a time of rapid growth was a recurring topic of senior management communications, especially during the Quarterly Business Review sessions, at which budget issues were discussed. As a follow-up to a QBR session in the summer of 2003, Ms. Spencer and Christine Cahn, Vice President for Budgeting and Expense Management, sent a memo to the Strategic Leadership Team and to senior vice presidents to hold down divisional and system costs for 2004. The memo also references two years of high revenue and core business EPS growth and the need to “tighten our belts.”16 That attitude led Fannie Mae to continue to operate with insufficient resources and inadequate systems.”)

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