JPMORGAN PAYS $920M, ADMITS FAULT IN TRADING LOSS

By Mark Lennihan, The Associated Press
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JPMorgan Chase & Co. will pay $920 million and has admitted that it failed to oversee trading that led to a $6 billion loss and renewed worries about serious risk-taking by major banks.

U.S. and U.K. regulators said Thursday that the largest U.S. bank's weak oversight allowed traders in its London office to assign inflated values to transactions and cover up huge losses as they ballooned. Two of the traders are facing criminal charges of falsifying records to hide the losses.

The combined amount JPMorgan is paying three U.S. regulators and the U.K. Financial Conduct Authority adds up to one of the largest fines ever levied against a financial institution.

The Securities and Exchange Commission fined the bank $200 million and required a rare admission of wrongdoing. The Federal Reserve Board imposed a $200 million penalty, while the Office of the Comptroller of the Currency set a $300 million fine. The British regulator fined the company $220 million.

The U.S. Justice Department is still investigating the bank for possible criminal violations.

The SEC said that the breakdown in supervision stretched beyond the trading operations to the bank's top executives.

"JPMorgan's senior management broke a cardinal rule of corporate governance: inform your board of directors of matters that call into question the truth of what the company is disclosing to investors," said George Canellos, co-director of the SEC's enforcement division.

New York-based JPMorgan called the settlements "a major step" in its efforts to put its legal problems behind it. The bank said it cooperated fully with all of the agencies' investigations and continues to cooperate with the Justice Department in its criminal prosecution of the two former traders.

"We have accepted responsibility and acknowledged our mistakes from the start, and we have learned from them and worked to fix them," JPMorgan CEO Jamie Dimon said in a statement. "We will continue to strive towards being considered the best bank – across all measures –not only by our shareholders and customers, but also by our regulators."

The trading loss that surfaced in April 2012 shook the financial world and damaged the bank's reputation. JPMorgan was one of the few financial institutions to come through the 2008 financial crisis without suffering major losses.

The fallout even ensnared Dimon, who initially dismissed reports of the losses as a "tempest in a teapot." He later acknowledged the magnitude of the losses, admitted to Congress that the bank failed in its oversight and took a multi-million-dollar pay cut.

The settlement comes just days after the five-year anniversary of the crisis. The huge loss at JPMorgan raised concern about continued risk-taking by Wall Street banks and questions of whether the financial industry had learned the lessons of the meltdown.

Three employees in the London office were fired – two senior managers and a trader. The episode also led to the resignation of Ina Drew, the former chief investment officer overseeing JPMorgan's trading strategy.

Federal prosecutors in New York filed criminal charges last month against Javier Martin-Artajo and Julien Grout. Martin-Artajo supervised the bank's trading strategy in London, and Grout, his subordinate, was in charge of recording the value of the investments each day. They were charged with conspiracy to falsify books and records, commit wire fraud and falsify filings to the SEC. They also were charged separately in an SEC civil complaint.

Both traders, through their lawyers, have denied any wrongdoing.

Their colleague Bruno Iksil, a trader known as the "London Whale" for the outsize bets he made that could roil markets, had his name associated with the embarrassing loss. No charges were laid against him. Prosecutors say he tried to raise questions about how his colleagues were recording the trades.

As part of the settlement, the SEC required JPMorgan acknowledge that it violated securities laws in failing to keep watch over the traders. That's a first for a major company since newly appointed SEC Chairman Mary Jo White insisted the agency change a longstanding practice. The SEC previously allowed most companies and individuals to agree to deals without admitting or denying wrongdoing.

The SEC said its $200 million penalty is one of the largest in the agency's history. The money will go to a fund to compensate investors who were harmed by the bank's inaccurate financial reports concerning the trading loss, the SEC said.

The nearly $1 billion in penalties levied over the London trading loss was the biggest of several regulatory actions against the bank announced Thursday.

JPMorgan was also ordered to pay $80 million in fines and about $309 million in refunds for billing customers for identity theft protection they never received. The Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau said about 2.1 million credit card customers were affected by the illegal practice.

The Comptroller of the Currency also cited JPMorgan for improper practices in its collection of credit card and other consumer debts, other than mortgages. The agency also said the bank failed to fully comply with a law capping military service members' interest on consumer loans at 6 percent a year.

JPMorgan promised to correct the problems in both those separate cases.

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