

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

In the Matter of

JPMORGAN CHASE & CO.  
New York, New York

Docket No. 13-001-B-HC

**CONSENT ORDER**

WHEREAS, JPMorgan Chase & Co., New York, New York (“JPMC”), a registered bank holding company, owns and controls JPMorgan Chase Bank, N.A., Columbus, Ohio (the “Bank”); other U.S. insured depository institutions; various Edge Act corporations organized under section 25A of the Federal Reserve Act (12 U.S.C. § 611 *et seq.*); and multiple other nonbank subsidiaries;

WHEREAS, JPMC is a large, complex organization that has a number of separate business lines and legal entities;

WHEREAS, JPMC has adopted a firmwide risk management program designed to identify and manage risks across the consolidated organization;

WHEREAS, JPMC has adopted a firmwide internal audit program;

WHEREAS, prior to May 2012, JPMC’s Chief Investment Office (the “CIO”) managed a large synthetic credit portfolio that suffered significant losses commencing in early 2012;

WHEREAS, in the second quarter of 2012, the Federal Reserve Bank of New York (the “Reserve Bank”) commenced a review of the CIO, including the synthetic credit portfolio.

Among other things, the Reserve Bank identified deficiencies in the risk management function's oversight of the risks associated with the synthetic credit portfolio; the model governance function's oversight of the model validation processes relating to the CIO; the finance function's development of appropriate internal financial reporting for the CIO; the internal audit function's assessment of the CIO's internal controls; and senior management's elevation of issues to the board of directors, which did not allow for the board of directors' meaningful consideration of such issues.

WHEREAS, the Bank has consented to the issuance of a Consent Order by the Office of the Comptroller of the Currency (the "OCC") designed to remedy deficiencies, which the Bank has neither admitted nor denied, identified by the OCC in the Bank's board and management oversight, as well as Bank governance, risk management, model risk management, valuation control, and internal audit programs;

WHEREAS, JPMC, the Board of Governors of the Federal Reserve System (the "Board of Governors"), and the Reserve Bank have the common goals that JPMC operates in a safe and sound manner on a firmwide basis, particularly regarding activities conducted by the CIO, and that JPMC continues to implement an effective firmwide risk management program regarding trading activities, not including activities undertaken as agent or fiduciary for non-affiliated parties ("Trading Activities"), that is commensurate with JPMC's size, complexity, and risk profile;

WHEREAS, on January 14, 2013, the board of directors of JPMC, at a duly constituted meeting, adopted a resolution authorizing and directing Stephen M. Cutler to enter into this Consent Order to Cease and Desist (the "Order") on behalf of JPMC and consenting to compliance with each and every provision of this Order by JPMC and its institution-affiliated

parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), and waiving any and all rights that JPMC may have pursuant to section 8 of the FDI Act, including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; (iv) contesting the issuance of this Order by the Board of Governors; and (v) challenging or contesting, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered by the Board of Governors that, before the filing of the notices, or taking of any testimony, or adjudication of or finding on any issues of fact or law herein, and without this Order constituting an admission by JPMC of any allegation made or implied by the Board of Governors in connection with this matter, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (3) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(3)), JPMC and its institution-affiliated parties shall cease and desist and take affirmative action as follows:

**Source of Strength**

1. The board of directors shall take appropriate steps to fully utilize JPMC’s financial and managerial resources, pursuant to section 38A of the FDI Act (12 U.S.C. § 1831o-1) and section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order issued by the OCC.

## **Board Oversight**

2. Within 60 days of this Order, the board of directors shall submit to the Reserve Bank an acceptable written plan to continue ongoing enhancements to the board's oversight of JPMC's risk management, internal audit, and finance functions. The plan shall, at a minimum, address, consider, and include:

- (a) The periodic review of the scope of each committee's responsibilities;
- (b) measures to ensure that each board committee timely receives and has access to sufficient information to carry out its responsibilities;
- (c) further enhancements to the firm's compensation processes for senior management, including, but not limited to, taking into account adverse risk outcomes and control deficiencies; and
- (d) periodic monitoring of, and reporting on, the status and results of measures taken, or to be taken, to remediate deficiencies and to comply with this Order.

## **Risk Management**

3. Within 60 days of this Order, JPMC shall submit to the Reserve Bank an acceptable written plan to continue ongoing enhancements to its risk management program, particularly with respect to the matters set forth below. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to ensure that the fundamental elements of JPMC's risk management program are effective and implemented consistently across the firm with respect to Trading Activities;
- (b) measures to ensure that controls for Trading Activities across lines of business are consistent;

(c) the periodic reassessment of the effectiveness of JPMC's risk controls relating to Trading Activities, particularly when there are material shifts in business operations and risk profiles;

(d) enhanced market risk and price risk model governance firmwide to ensure that:

(i) the model development review and implementation processes are effective and adequately staffed by personnel with the requisite technical expertise and experience; and

(ii) the model risk management framework provides for regular independent assessments of model effectiveness;

(e) measures to ensure effective risk management of Trading Activities firmwide, including, but not limited to, synthetic credit trading;

(f) enhanced CIO risk management to ensure that:

(i) the CIO maintains adequate risk limits and implements other effective risk management measures;

(ii) the CIO maintains comprehensive and timely risk reporting; and

(iii) risk management provides for regular independent assessments of CIO business activity; and

(g) measures to ensure that material risk management issues relating to Trading Activities are escalated in a timely manner to senior management and the board of directors or a committee thereof, as appropriate.

## **Finance**

4. Within 90 days of this Order, JPMC shall submit to the Reserve Bank an acceptable written plan to continue ongoing enhancements to the finance function, particularly with respect to the CIO finance function. The plan shall, at a minimum, address, consider, and include:

- (a) An internal reporting process to ensure the consistent identification and escalation of material financial issues relating to Trading Activities to senior management and the board of directors;
  - (b) An internal reporting process to ensure the consistent identification and escalation of all material financial issues relating to the CIO;
  - (c) periodic review and assessment of CIO price testing practices and policies;
- and
- (d) measures to ensure that the CIO valuation control group staff:
    - (i) independently considers all relevant factors in making their determinations; and
    - (ii) fully document all valuation and control decisions.

## **Internal Audit**

5. Within 90 days of this Order, JPMC shall submit to the Reserve Bank an acceptable written plan to continue ongoing enhancements to firmwide internal audit, particularly with respect to the matters set forth below. The plan shall, at a minimum, address, consider, and include:

- (a) Enhanced escalation procedures for the timely resolution of material audit exceptions and recommendations;

(b) measures to strengthen the ongoing quality assurance review of audit practices; and

(c) measures to enhance CIO internal audit with respect to senior management oversight, the scope and frequency of audit activity, and documentation of audit plans and conclusions.

### **Approval, Implementation, and Progress Reports**

6. (a) JPMC shall submit written plans that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 3, 4, and 5 of this Order.

(b) Within 10 days of approval by the Reserve Bank, JPMC shall adopt the approved plans. Upon adoption, JPMC shall implement the approved plans and thereafter fully comply with them.

(c) During the term of this Order, the approved plans shall not be amended or rescinded without the prior written approval of the Reserve Bank.

7. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors or an authorized committee thereof shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof.

### **Notices**

8. All communications regarding this Order shall be sent to:

(a) Dianne Dobbeck  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, New York 10045-0001

(b) Stephen M. Cutler  
Executive V.P. and General Counsel  
JPMorgan Chase & Co.  
270 Park Avenue, 48<sup>th</sup> floor  
New York, New York 10017-2014

**Miscellaneous**

9. The provisions of this Order shall be binding on JPMC and its institution-affiliated parties in their capacities as such, and their successors and assigns.

10. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

11. Notwithstanding any provision of this Order, the Reserve Bank may, in its sole discretion, grant written extensions of time to JPMC to comply with any provision of this Order.

12. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any federal or state agency or department from taking any further or other action affecting JPMC, any of JPMC's subsidiaries, or any of their current or former institution-affiliated parties, and their successors or assigns.

By Order of the Board of Governors effective this 14th day of January, 2013.

JPMORGAN CHASE & CO.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ Stephen M. Cutler  
Stephen M. Cutler  
Executive V.P. and General Counsel

By: /s/ Robert deV. Frierson  
Robert deV. Frierson  
Secretary of the Board