E X H I B I T S

Hearing On

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

March 15, 2013
EXHIBIT LIST

Hearing On

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

March 15, 2013

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

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

Documents Related to Increasing Risk:

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

5. JPMorgan Chase & Co. Audit Department Report, CIO Global Credit Trading (Chief Investment Office (CIO) credit trading activities commenced in 2006 and are proprietary position strategies executed on credit and asset backed indices.). [JPM-CIO-PSI-H0006022-023]


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

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

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


11. JPMorgan Chase internal emails, dated January 2012, re: update on core credit book (the only one I see is to stay as we are and let the book simply die. That we should take some hits because the markets might create noise in the P&L is a certain reality. Yet, the control of the drawdown now is generating issues that make the book only bigger than notional.). [JPM-CIO-PSI 0001223]

12. JPMorgan Chase internal email, dated January 2012, re: update on core credit book (...notionals become scary and upside is limited unless we have really unexpected scenarios. In the meantime, we face larger and larger drawdown pressure versus the risk due to notional increases. Please let me know the course of action I should take here.). [JPM-CIO-PSI 0001766]

13. JPMorgan Chase internal email, dated January 2012, re: hello, quick update in core credit... (...we can show that we are not at mids but on realistic level. *** I went I to ISMG and advised that we set the book for long risk carry the time for us to see whether we really need to fight in mars.). [JPM-CIO-PSI 0001229]
14. JPMorgan Chase internal emails, dated January 2012, re: Core book p&l drawdown and main exposures (The current strategy doesn’t seem to work-out. ...the book doesn’t behave as intended.). [JPM-CIO-PSI 0000221-223]

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

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

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

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

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

20. JPMorgan Chase transcript of instant message dated March 23, 2012 (Bruno Iksil: this year for the first time, achilles started thinking i could be of use other than to make money ... just to protect the whole group but here is the loss and it become too large and this is it....). [JPM-CIO-PSI 0001240-246]

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

22. JPMorgan Chase internal email, dated March 2012 re: Tranche Plan (Now that we have the new RWA increase, Ina would like to discuss the forward plan for reduction. She does not want any trades executed until we all discuss it.). [JPM-CIO-PSI 0001267]
23. JPMorgan Chase internal emails, dated March 2012, re: synthetic credit – crisis action plan (Clearly, we are in a crisis mode on this.). [JPM-CIO-PSI 0001220-222]

b. JPMorgan Trader’s Positions Said to Distort Credit Indexes, April 6, 2012, Bloomberg.

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

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

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

Documents Related to Hiding Losses:


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

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

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

32. a. JPMorgan Chase transcript of call between Julien Grout and Bruno Iksil, dated March 16, 2012 (I can’t keep this going, we do a one-off at the end of the month to remain calm. * * * I don’t know where he wants to stop, but it’s getting idiotic.). [JPM-CIO-PSI-H 0003820-822]
b. JPMorgan Chase transcript of instant message dated March 16, 2012 (it is 300 now 1000 for month end? ouch  well that is the pace). [JPM-CIO-PSI-H 0003815-819]
c. Transcript of Audio Recording Produced to the Permanent Subcommittee on Investigations, call between Javier Martin-Artajo, Ina Drew, and Gina Serpico. Undated (likely April 2012) (Ms. Drew: It’s absolutely fine to stay conservative, but it would be helpful, if appropriate, to get, to start getting a little bit of that mark back.). [JPM-CIO-PSI-A 0000076.wav]

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


34. a. JPMorgan Chase internal emails, dated April 2012, re: Credit Index and Tranche Book (...CIO FO marked their book at the most advantageous levels....). [JPM-CIO-PSI-H 0006636-639]
b. JPMorgan Chase internal emails, dated April 2012, re: URGENT ::: Huge Difference for iTraxx & CDX (The desk marked the book at the boundary of the bid/offer spread....). [JPM-CIO 0003582-3587]

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

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

Documents Related to Disregarding Limits:

Overview and Organization:

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

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

39. JPMorgan Chase internal emails, dated May 2012, re: Information needed (...please find the CIO excessions attached.). [JPM-CIO-PSI-H 0000627-636]
**VaR Models and Limits:**

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

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

42. JPMorgan Chase internal email, dated January 2012, re: *CIO VaR (FYI. Dual plan ..... as discussed keep the pressure on our friends in Model Validation and QR.).* [JPM-CIO-PSI 0000151]

43. JPMorgan Chase internal emails, dated January 2012, re: *CIO VaR heads up and update* (Importantly, for the same COB 26 January, the *new/full revaluation methodology* shows VaR decreased ($1.3MM) from 70.8mm to 69.5mm. I estimate that this would make CIO global VAR closer to $76MM vs. the currently reported number >$115. We anticipate final approval on Monday and that the *new methodology should become the official firm submission from Monday, for 27 Jan COB.* * Limit issues should therefore cease beginning from Monday.). [JPM-CIO-PSI 0000177-179]

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

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

**RWA, CRM and Optimization:**

46. JPMorgan Chase internal emails, dated December 2011, re: *RWA - Tranche Book (The estimates of reductions will be: Model reduction QR CRM (acknowledged already) 5 [billion] (Pat estimate); Model reduction QR VAR 0.5 [billion] (Pat estimate); Model Reduction QR Stress 1.5 [billion] (Pat estimate)).* [JPM-CIO-PSI 0000032-034]
47. JPMorgan Chase internal emails, dated March 2012, re: CIO CRM results (We got some CRM numbers and they look like garbage as far as I can tell, 2-3x what we saw before.). [JPM-CIO-PSI 0000338-339]

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

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

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


52. JPMorgan Chase internal emails, dated April 2012 (We haven’t made the case of how this book runs off and whether risk can be managed effectively ....). [JPM-CIO-PSI 0000497-498]

Credit Spread Risk Metrics and Limits:

53. JPMorgan Chase internal email, dated January 2012, re: there is more loss coming in core credit book (I reckon we have another 50M coming from CDX IG9 exposure. The guys have a huge skew trade on and they will defend it as much as we do.). [JPM-CIO-PSI 0001225]

54. JPMorgan Chase internal emails, dated February 2012, re: Csbspv limit - please read (We have a global credit csbspv limit. It was set up at the initiation of the credit book. Unfortunately we have been breaching for most of the year. *** I have no memory of this limit. In any case it need to be recast with other limits.). [JPM-CIO-PSI-H 0002936]
55. JPMorgan Chase internal email, dated February 2012, re: CIO Global Credit spread BPV limit breach-COB 02/09/2012 (Since mid-January CIO has been in breach of its global csbpv limits, driven primarily by position changes in the tranche book.). [JPM-CIO-PSI 0001823-825, 832]

56. JPMorgan Chase internal emails, dated April 2012, re: CIO DAY 1 (CIO’s 10% CSW by my group’s model estimate is long 245mm of risk; their own models (run by Weiland) quote $145mm. I don’t understand the difference in the models and don’t know how good a measure of risk 10% CSW is for their book. But I spoke to Ashley and we agree that 10% CSW has been trending up for CIO, by either their model or ours.). [JPM-CIO-PSI 0000449-451]

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

Documents Related to OCC Oversight:

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

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

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


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

63. OCC internal email, dated April 2012, re: JPM CIO / IG9 “whale” trade (JPM’s CIO has been using a synthetic credit (credit derivative) portfolio since 2007. It was initially set up to provide income to mitigate other significant credit losses that would surface under a broad credit stress scenario.). [OCC-000012521-523]

64. JPMorgan Chase/OCC emails, dated April 2012, re: CIO EMR? (Does the CIO still produce an EMR? It wasn’t included in the January Treasury EMR, which is where I used to see it. I’m looking for the balance sheet information that was in it.). [OCC-00004723]
65. JPMorgan Chase/OCC emails, dated April 2012, re: *Info on VaR, CSBPV, and stress status and limits* (We are working on a new set of limits for synthetic credit and the current CS01 will be replaced by something more sensible and granular.). [OCC-SPI-00022340-341]


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

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

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

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

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

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

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

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

75. OCC handwritten notes, dated May 2012, re: *SBC Staff Briefing* (JPMC transactions at issue involved an effort to hedge the bank’s credit risk. Hedging credit risk is not uncommon, and if done properly, reflects sound management risk.). [PSI-OCC-10-000001]
76. OCC internal emails, dated May 2012, re: CIO call with Mike Brosnan (I told Mike B that the Joe Sabatini emails with selected position information were sent by the bank after initial OCC and FRB enquiries. We concluded that this information was pretty much useless, as it did not tell us what was happening risk wise.). [OCC-SPI-00021628-631]

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

78. OCC internal emails, dated June 2012, re: 2nd Wilmer Hale Call (I then followed with a question relating to what I described as mismarked books to which Hogan forcefully stated JPM books were not mismarked; leaving both Elwyn and me left puzzled over how a collateral dispute could be resolved by agreeing to the counterparties marks, without admitting your own marks were incorrect.). [OCC-SPI-00071386]

Documents Related to Misinformation Investors, Regulators, and the Public:

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


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

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

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

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

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

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

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

89. JPMorgan Chase internal email, dated April 2012, re: updated (We are working on Jamie’s request for Correlation of the credit book against the portfolio...). [JPM-CIO-PSI 0001077-078]

90. JPMorgan Chase internal email, dated April 2012, re: synthetic credit information for April 13 earnings call, including SCP P&L scenarios. [JPM-CIO-PSI 0001701-709]
91. JPMorgan Chase internal email, dated April 2012, re: Synthetic Credit Materials (The way that we at CIO have book-run the Core Book to balance the negative carry cost of High yield Book overtime has been using Investment Grade strategies that gave us some carry or buying optionality (or both)....). [JPM-CIO-PSI 0001100-106]

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

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


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

96. JPMorgan Chase & Co. (JPM) Business Update Call, 10-May-2012.

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

Growth of Synthetic Credit Portfolio
(In Billions)

Source: Subcommittee chart created from data provided by JPMorgan Chase, JPM-CIO-PSI 0037609.
Synthetic Credit Portfolio Daily Profits and Losses

Synthetic Credit Portfolio Aggregate Profits and Losses

Source: Subcommittee chart created from data provided by OCC spreadsheet, OCC-SPI-00000298. Numbers do not reflect restated P&L figures.
# Synthetic Credit Portfolio Risk Limit Breaches

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Source: Subcommittee chart created from data provided by JPMorgan Chase, JPM-CIO-PSI 0000628.
Value-at-Risk for the CIO (10Q VaR)

Source: Subcommittee chart created from data provided by JPMorgan Chase, JPMC-Senate/Levin 000155-6.
Inaccurate Public Statements on April 13, 2012

- **Risk Managers:** "All of those positions are put on pursuant to the risk management at the firm-wide level."

- **Regulators:** "[A]ll those positions are fully transparent to the regulators."

- **Long-Term Decisions:** "All of those decisions are made on a very long-term basis."

- **Hedging:** "[W]e also need to manage the stress loss associated with that portfolio ... so we have put on positions to manage for a significant stress event in Credit. We have had that position on for many years ...."

- **Volcker Rule:** "[W]e believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker."

# Synthetic Credit Portfolio

## Internal Profits and Loss Reports

### January – May 2012

<table>
<thead>
<tr>
<th>Trading Date</th>
<th>Daily P&amp;L</th>
<th>YTD P&amp;L</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Jan</td>
<td>-2,231,403</td>
<td>-2,231,403</td>
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<td>4-Jan</td>
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<td>-11,179,654</td>
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<td>-53,711,910</td>
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<td>7-Jan</td>
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<td>-35,126,967</td>
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<td>-28,945,829</td>
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<td>9-Jan</td>
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<td>11-Jan</td>
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<td>13-Jan</td>
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<td>14-Jan</td>
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<td>29-Jan</td>
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<tr>
<td>30-Jan</td>
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</tr>
</tbody>
</table>

### Source

Subcommittee chart created from data provided by OCC spreadsheet, OCC-SPI-00000298. Numbers do not reflect restated P&L figures.
2011 CIO Compensation

vs.

Investment Bank Comparables

Source: Subcommittee chart created from data provided by JPMorgan Chase, 6/21/2012 CIO Compensation Presentation, JPM-CIO-PSI-H 0002746, at 754.
### Timeline: Key Events in JPMorgan Chase Whale Trades

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 2006</td>
<td>Bank authorizes Chief Investment Office (CIO) to trade credit derivatives.</td>
</tr>
<tr>
<td>2008</td>
<td>Synthetic Credit Portfolio (SCP) acquires its name.</td>
</tr>
<tr>
<td>2009</td>
<td>As financial crisis eases, SCP earns $1 billion.</td>
</tr>
<tr>
<td>2010</td>
<td>OCC examines CIO investment portfolios; SCP is not explicitly mentioned. OCC requires documentation of investment decisions; Ina Drew criticizes OCC intrusiveness.</td>
</tr>
<tr>
<td>2011</td>
<td>Over 2011, SCP's notional size increases tenfold from $4 billion to $51 billion.</td>
</tr>
<tr>
<td>Nov. 2011</td>
<td>SCP makes $1 billion credit derivatives bet for gain of $400 million.</td>
</tr>
<tr>
<td>Jan. 6, 2012</td>
<td>SCP trading breaches CS01 risk limit; breach continues and increases until CIO risk metrics are overhauled in May.</td>
</tr>
<tr>
<td>Jan. 16-20, 2012</td>
<td>SCP trading causes four-day breach in bankwide VaR; breach reported to Jamie Dimon.</td>
</tr>
<tr>
<td>Jan. 23, 2012</td>
<td>Dimon and Chief Risk Officer John Hogan approve a temporary bankwide VaR limit increase to end the breach; told a new CIO VaR model will reduce CIO’s VaR by 44%.</td>
</tr>
<tr>
<td>Jan. 27, 2012</td>
<td>CIO names SCP for the first time in a routine VaR report to OCC. New VaR model approval is rushed through and drops CIO’s VaR overnight by 50%.</td>
</tr>
<tr>
<td>Late Jan. 2012</td>
<td>SCP losses escalate. CIO traders begin mismarking SCP values to minimize losses.</td>
</tr>
<tr>
<td>Late Jan. 2012</td>
<td>CIO trader Bruno Iksil gives presentation showing SCP lost $100 million in January and could lose $300 million more; proposes “trades that make sense” -- buying more longs to offset losses and reduce RWA.</td>
</tr>
<tr>
<td>Mar. 2, 2012</td>
<td>Comprehensive Risk Measure (CRM) used to calculate RWA indicates SCP could lose up to $6.3 billion in 2012, in worst case scenario. CIO risk manager calls result “garbage.”</td>
</tr>
<tr>
<td>Mid-Mar. 2012</td>
<td>Julien Grout, SCP trader, keeps 5-day spreadsheet showing reported SCP values deviated from midpoint prices by over $400 million. Trader Bruno Iksil calls SCP’s booked values “idiotic” and calls SCP book “more and more monstrous.”</td>
</tr>
<tr>
<td></td>
<td>Over two weeks, CIO traders acquire $40 billion more in multiple long credit derivatives, in what OCC called “doubling down” on an already losing trading strategy.</td>
</tr>
<tr>
<td>Mar. 20, 2012</td>
<td>Traders Iksil and Grout report internally $40 million loss, largest SCP loss to date, and a $600-800 million “lag” in SCP book, but Ina Drew says she did not read the email.</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mar. 23, 2012</td>
<td>Ms. Drew orders “phones down” and stops SCP trading. SCP trading breaches CSW10% limit; it continues until risk metrics overhauled in May.</td>
</tr>
<tr>
<td>Mar. 29, 2012</td>
<td>SCP trading breaches CIO Stress Loss limit, which is tested weekly, through April.</td>
</tr>
<tr>
<td>Mar. 31, 2012</td>
<td>At quarter end, SCP’s notional size triples from $51 billion to $157 billion, and SCP flips from net short to net long. Total quarterly losses reported internally as nearly $719 million. CIO London office head Achilles Macris says he’s “lost confidence” in his team, SCP has moved into “crisis mode.”</td>
</tr>
<tr>
<td>Apr. 5, 2012</td>
<td>After media inquiries, bank prepares talking points that SCP is a “hedge” and regulators were “fully” informed of trades, but then drops both words from talking points.</td>
</tr>
<tr>
<td>Apr. 9, 2012</td>
<td>Senate confirms new Comptroller of the Currency, Thomas Curry. Regulators have first meeting with JPM on whale trades; bank downplays any problem.</td>
</tr>
<tr>
<td>Apr. 10, 2012</td>
<td>CIO traders report internal SCP daily loss of $6 million, then 90 minutes later, different credit derivative values leading to a loss of $400 million.</td>
</tr>
<tr>
<td>Apr. 11, 2012</td>
<td>--Bank’s chief spokesman, Joe Evangelisti, quoted saying whale trades were a “hedge” of bank’s overall risk. --To prepare for earnings call, bank executives receive SCP presentation showing, in a financial crisis, SCP would not offset bank losses, but lose $250 million. SCP also lost money in 3 negative credit scenarios, showing it wasn’t hedging bank’s credit risks.</td>
</tr>
<tr>
<td>Apr. 13, 2012</td>
<td>Bank executives learn SCP positions are huge &amp; hard to exit; SCP reports $1.2 billion loss. Bank files 8-K form previewing first quarter earnings and holds earnings call. --Bank CEO Jamie Dimon calls whale trade stories “a complete tempest in a teapot.” --With respect to SCP, Chief Financial Officer Doug Braunstein says: --“All of those positions are put on pursuant to risk management at the firm-wide level.” --“All those positions are fully transparent to the regulators” who get “information on those positions on a regular and recurring basis as part of our normalized reporting.” --“All of those decisions are made on a very long-term basis.” --“[W]e also need to manage the stress loss associated with that portfolio ... so we have put on positions to manage for a significant stress event in Credit.” --“[W]e believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker.” 8-K filing discloses CIO’s VaR results, but not the January change in CIO’s VaR model.</td>
</tr>
<tr>
<td>Apr. 19, 2012</td>
<td>OCC inquires for first time about CIO breaches, including CS01 breach of over 1,000% for 71 days. CIO Chief Market Risk Officer, Peter Weiland, tells OCC that risk limit will be replaced with something more “sensible” in the future.</td>
</tr>
</tbody>
</table>
## Timeline: Key Events in JPMorgan Chase Whale Trades

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

Chief Investment Office – Direct Reports

Ina Drew
Chief Investment Officer

- Gina Serpico
  Executive Assistant

- Doug Braunstein

Irene Tse
CIO NA / MSR
Hedging

Norma Corio
CIO Special
Investment
Group

Richard Sabo
CIO
Retirement
Plan

Achilles
Macris
Intl CIO
Europe and
Asia

John Wilmot
Global CFO

Phil Lewis
COO

Irv Goldman
Chief Risk
Officer

John Hogan
International CIO

Achilles Macris
International Chief Investment Officer

Javier Martin-Artajo
Head of Europe and Credit and Equity

George Polychronopoulos
Head of Europe Rates

Chris Chan
Head of Asia

Rayson Chung
Head of Asia Rates

Paul Bates*
International COO

Alison Giovannetti
International CFO

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

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

What does the Chief Investment Office do?

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

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

What Happened?

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

This portfolio morphed into something that, rather than protect the Firm, created new and potentially larger risks. As a result, we have let a lot of people down, and we are sorry for it.

What Went Wrong?

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

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

Steps Taken

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

• We have appointed new leadership for CIO, including Matt Zames, a world class risk manager, as the Head of CIO. We have also installed a new CIO Chief Risk Officer, Chief Financial Officer, Global Controller and head of Europe. This new team has already revamped CIO risk governance, instituted more granular limits across CIO and ensured that appropriate risk parameters are in place.
• Importantly, our team has made real progress in aggressively analyzing, managing and reducing our risk going forward. While this does not reduce the losses already incurred and does not preclude future losses, it does reduce the probability and magnitude of future losses.
• We also have established a new risk committee structure for CIO and our corporate sector.
• We are also conducting an extensive review of this incident, led by Mike Cavanagh, who served as the company’s Chief Financial Officer during the financial crisis and is currently CEO of our Treasury
Securities Services business. The review, which is being assisted by our Legal Department and outside counsel, also includes the heads of our Risk, Finance, Human Resources and Audit groups. Our Board of Directors is independently overseeing and guiding these efforts, including any additional corrective actions.

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

**Perspective**

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

Our fortress balance sheet remains intact: as of quarter end, we held $190 billion in equity and well over $30 billion in loan loss reserves. We maintain extremely strong capital ratios which remain far in excess of regulatory capital standards. As of March 31, 2012, our Basel I Tier 1 common ratio was 10.4%; our estimated Basel III Tier 1 common ratio is at 8.2% – both among the highest levels in the banking sector.\(^3\) We expect both of these numbers to be higher by the end of the year.

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

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

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

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

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\(^3\) On June 7th, the Federal Reserve Board issued proposed Basel III rules, and we will be reviewing these ratios under the proposal.
addition to the thousands of veterans who already worked at our Firm. We founded the “100,000 Jobs Mission” — a partnership with 45 other companies to hire 100,000 veterans by the year 2020.

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

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

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

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

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

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

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


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

Kind regards,

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

**Name of Initiative**: Credit and Equity Capability  
**Portfolio(s)/Region(s)**: NA/EMEA  
**Initiative Sponsor**: Achilles Macris, Andy Panzares  
**Initiative Approver**:  

**Brief Initiative Description**: CIO needs broad product capability/expertise to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposures created by the Firm’s operating businesses. The key areas where CIO needs to initially build out its product capability are in Credit & Equities.

#### Economic Rational for Proceeding

**Credit**:  
- The Firm has large cyclical exposure to credit, which is the single largest risk concentration from the operating businesses.  
- Credit exposure and capital are increasingly fungible (Basel II).  
- CIO to add credit capabilities to manage macro overlay programs similar to interest rates, mortgages, and foreign exchange.

**Equity**:  
- Provides CIO with capability to opportunistically allocate capital to equities to:  
  - Refine and target existing macro views.  
  - Complement CIO’s existing product capability in constructing macro hedges over the economic cycle.

#### Key Changes From Current Activity

**Credit**:  
- CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO’s capability in order to allow CIO to manage corporate credit exposures and diversify its asset classes.

**Equity**:  
- Redacted by the Permanent Subcommittee on Investigations

#### Changes to Operational Processes

CIO will rely on the Equity Derivatives Group (EDG) support model. This
will be determined and governed by a Service Level Agreement. CIO will retain ownership of balance sheet substantiation.

<table>
<thead>
<tr>
<th>Key Risk Issues</th>
<th>CIO will be reliant upon the EDG middle office processing and confirmation activity. This will be addressed via SLA between CIO and EDG support.</th>
</tr>
</thead>
</table>
| Risk Rating (1, 2 or 3) | 2 - Medium  
New products and systems to CIO, but not to the Firm |
| Priority Rating (A, B or C) | A - High |
| Other Significant Information | |
| Target Launch Date | |
| Date Authorized to Proceed with Development | |

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

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

Credit & Equity Capability

<table>
<thead>
<tr>
<th>Initiative Sponsor</th>
<th>Achilles Maoris, Andy Panzera</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Contact</td>
<td>Roger Kibbo-White, Alison Giovannetti, Brant Konigsberg, Bonnie Kindler, Jason Hughes</td>
</tr>
<tr>
<td>Date Authorization to Develop Received</td>
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</tr>
<tr>
<td>Target Launch Date</td>
<td></td>
</tr>
</tbody>
</table>

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00001631
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8. Finance - Controls
9. T&O - Technology
10. T&O - Operations
11. Tax
12. Legal
13. Compliance
14. Funding
15. Audit

Appendix 1: CFTC Speculative Position Limits
Appendix 2: Non-Statistical Limits
Appendix 3: System Architecture
Appendix 4: Equity Sector Index Futures
1. Proposal Summary

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Credit and Equity Capability</th>
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**Brief Initiative Description**

CIO needs broad product capability/expertise to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposures created by the Firm's operating businesses. The key areas where CIO needs to build out its product capability are in Credit & Equities.

**Economic rationale for proceeding**

**Credit:**
- The Firm has large cyclical exposure to credit, which is the single largest risk concentration from the operating businesses.
- Credit exposure and capital are increasingly fungible (Basel II).
- CIO to add credit capabilities to manage macro overlay programs similar to interest rates, mortgages, and foreign exchange.

**Equity:**
- Provides CIO with capability to opportunistically allocate capital to equities to:
  - Refine and target existing macro views.
  - Complement CIO's existing product capability in constructing macro hedges over the economic cycle.

**Key changes from current activity**

**Credit:**
CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO's capability in order to allow CIO to manage corporate properties and diversify its asset classes.

**Equity:**

**Redacted by the Permanent Subcommittee on Investigations**

**Key Risk issues**

CIO will be reliant upon the EDG middle office processing and confirmation activity. This will be addressed via SLA between CIO and
<table>
<thead>
<tr>
<th>Risk Rating (1, 2 or 3)</th>
<th>2 - Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>New products and systems to CIO, but not to the Firm</td>
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<tr>
<td>Priority Rating (A, B or C)</td>
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<tr>
<td>Processing Location</td>
<td>STS, PYRAMID</td>
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<td>Main systems impacted</td>
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<tr>
<td>Other LOB's or Legal Entities Impacted</td>
<td>Bank and Whitefriars Inc.</td>
</tr>
<tr>
<td>Operational Impact (include anticipated volumes and key capacity metrics)</td>
<td>Anticipated Monthly Vols</td>
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<tr>
<td>Credit Indices: iTraxx, CDX etc.</td>
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<tr>
<td>Credit default swaps</td>
<td>40</td>
</tr>
</tbody>
</table>

Redacted By
Permanent Subcommittee on Investigations

Other significant information
Regulatory approvals required | No |
Balance Sheet usage | |
Other Policies impacted | |
Additional Headcount Required | 4 traders - 2 in EMEA, 2 in New York |
| 2 FTE cost allocation from Equity Derivatives group |
| 2 CIO Middle Office FTE, 1 in EMEA, 1 in New York |

Date authorized to proceed with development
Target Launch Date | Late April |
Key Contact for questions | Roger Kibble-White, Alison Giovannetti, Brandon Konigsberg, Bonnie Kindler, Jason Hughes |
Person responsible for Post Implementation Review | |

BANK PROPRIETARY AND/OR TRADE INFORMATION
OCC-SPL-00081631
2. Working Group and Approvers

<table>
<thead>
<tr>
<th>Stakeholder Area</th>
<th>Working Group Member(s)</th>
<th>Signature</th>
<th>Agreed Completion Date</th>
<th>Date Approved</th>
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<tbody>
<tr>
<td>Business Sponsorship</td>
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<tr>
<td>Global Head</td>
<td>Joe Bocornco</td>
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<tr>
<td>Global CFO</td>
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<tr>
<td>Portfolio Manager (Initiative Sponsor)</td>
<td>Ashbros Mauris, Andy Fanzuza</td>
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<tr>
<td>Regional CFO</td>
<td>Brandon Konigberg, Roger Kibbles-White, Colvis Lee</td>
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<tr>
<td>T&amp;A Manager</td>
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<td>Finance - Accounting</td>
<td>Mark Allen, Allister</td>
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<td>Stilke Honeyfield, Nancy Dornay</td>
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<td>T&amp;A - Technology</td>
<td>Joe Colman, Nick Wood</td>
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<td>T&amp;A - Operations</td>
<td>Alison Giovannetti, Bonita Kindler, Tom Mann</td>
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<td>Senior Country Officer</td>
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<td>Legal Entity CFO/SFO</td>
<td>Allister Jeffey</td>
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*Sign-Offs are contained in a separate file distributed with this document.*
3. Initiative Overview

1. Initiative description, economic justification, strategic fit, growth forecasts, expected volume, capacity limits
2. Business Rationale including market opportunities and risks

Please see Executive Summary.

Proposed initial product list:

Credit:
- Credit Indices: iTraxx, CDX etc. – see below for indices
- Credit default swaps (not on corporate names) – see below for indices
- Options on Credit Indices – see below for indices.

For EMEA, Options on Credit indices are dependent upon the build out of credit products within Pyramid Equities, scheduled for May/June 2006, and should not be traded until this implementation is complete.

Indices:
- Europe: iTraxx, USA: CDX, Japan: iTraxx

Components:
- Xover 5 yr
- HiVol 5 yr
- Main IG 5 yr
- Main IG 10yr
- Financial Sub Index 5 yr
- Financial Sub Index 10 yr

Options on:
- Xover 5 yr
- HiVol 5 yr
- Main IG 5 yr

Equity:

Redacted by the Permanent Subcommittee on Investigations
4. **Trade & Legal Entity Flow**

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

   ![Diagram](attachment://diagram.png)

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

2. List legal entities impacted

   ![Diagram](attachment://legal_entities.png)

   - London Branch (trades back-to-back through the branch)
   - NY Branch (trades back-to-back through the branch)
   - JP Morgan Whitefriars Inc. (ultimate repository of the risk)
5. Market Risk/Valuation Control/Credit Risk

Market Risk

The initial product slate is:

Credit ($5mn VaR limit):
- Credit Indices
- Credit default swaps
- Options on credit indices

Equity ($10mn VaR limit):

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

Equities trading:

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

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

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

CIO will need to additionally clone the PCM feed for regulatory capital purposes and should ensure that the relevant credit products are set up accordingly.
Given the deficiencies of the Pyramid Equities version for the credit trading activity, MVAR would insist that in the event the required systems development does not occur by end of H1’06 new activities must stop and the CIO Risk Committee must evaluate how to proceed.

Valuation Control

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

Credit trading:

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

6. Finance - Accounting

1. Describe accounting treatment to be utilized

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

2. Consider Accounting Policy review and regulatory reporting implications

Regulatory considerations are considered in Section 8 below.

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

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

7. Finance - Regulatory Capital

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

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

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

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

For Risk-based capital purposes, this product will be booked under trading book rules and legal and regulatory reporting reviewed the proposed treatment.
iii. Will this product feed into appropriate market, counterparty credit and specific risk systems (if so, please describe the feed names, internal model, risk and booking systems, and appropriate contacts in technology and middle office)? If not, have procedures and controls been put in place to report it manually and who will be the contact person for manual reporting?

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

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

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

Equity:

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

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

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

This product does not impact deposits.
vi. Has any impact to risk weighted assets been identified, evaluated and communicated to regulatory reporting. Are the appropriate risk weighted asset limits in place and been reviewed by the applicable CFO?

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

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

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

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

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

8. Finance - Controls

i. Consider changes to the control environment including process, control procedures and review

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

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

9. T&O - Technology
CIO New Business Initiative Approval Policy

Post-Implementation Review

Section 1 - to be completed at the time of approval

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<th>Name of Initiative:</th>
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<tbody>
<tr>
<td>Line of Business:</td>
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<td>Post Implementation Key Contact:</td>
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<td>Launch Approval Date:</td>
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<td>First Transaction Date:</td>
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</table>

Brief description of the approved initiative:

(copy from initiative summary)

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

<table>
<thead>
<tr>
<th>Risk Review Group</th>
<th>Conditions raised during sign off</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

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

Address the following:

Is the initiative as described in the proposal when it was approved?

Is the initiative within the volumes and limits agreed when approval was granted?

Have there been any operational errors as a result of introducing this initiative?

What economic value has been received and how does that value compare to the initial projections?

Have there been material operational changes that were or should be documented?

Other points of note

Post implementation review completed by: (Insert name)

Date: (Insert date completed)

Send completed copy to LOB ORM, Regional Expediter and Audit
### Credit

<table>
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<th>Description</th>
<th>Value</th>
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<tr>
<td>10% Credit Spread Widening</td>
<td>$2mn (Total)</td>
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<tr>
<td></td>
<td>$2mn (By Sub-Index e.g. itranx main, itranx hivol)</td>
</tr>
<tr>
<td>CSBFV</td>
<td>$2mn (Total)</td>
</tr>
<tr>
<td></td>
<td>$2mn (By Sub-Index)</td>
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<tr>
<td>Vega</td>
<td>tba (Total – expressed in 0.1 bp b/c terms)</td>
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</table>
Credit & Equity NBIA Sign-off.txt

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

To: Jason LDN Hughes/JPMCHASE@JPMCHASE, Roger X Kibble-White/JPMCHASE@JPMCHASE
CC: 
Subject: Re: Credit & Equity NBIA - sign off

This document contains a file attachment with a file size of 198.2 KB.

Signed off

Regards,

Alison Giovannetti

GDP: 8 325 8025
External: (020)...

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

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

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

Phil Lewis
21/04/2006 13:57

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
CC: Alison C Giovannetti/JPMCHASE@JPMCHASE, thomas.j.mauro@jpmorgan.com@JPMCHASE
Subject: Re: Credit & Equity NBIA

This document contains a file attachment with a file size of 198.2 KB.

Jason - ok to sign-off.

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

regards

Phil

David M Alexander
25/04/2006 14:11

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

Page 1
Credit & Equity NBIA Sign-off.txt

Jason -

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

Thanks.

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

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

This document contains a file attachment with a file size of 198.2 KB.

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

Frederic Mouchel
03/05/2006 09:56

To: Jason LDN Hughes@jpmorgan.com@JPMCHASE
cc: Joseph M Coleman
Subject: Re: Credit & Equity NBIA

This document contains a file attachment with a file size of 198.2 KB.

Fine with me.

Rgds

Nicholas JS Wood
03/05/2006 17:50

To: Jason LDN Hughes/JPMCHASE
cc: Joseph G Coleman
Subject: Re: Credit & Equity NBIA

This document contains a file attachment with a file size of 199.4 KB.

Jason - this looks fine from my point of view. Off the top of my head the areas that we need to include in the plan are:

my review of any tools that Joe may be developing (you allude to these but don't specify what they do or how big they will be - bottom of P13)
create appropriate id admin workflows for the existing apps (Pyramid, STS, etc) for the CIO staff - unless we will use the same approvers as for EDG and E&H
update the BC plans for CIO as these new systems will need to be included.

regards,

Nick Wood

Robert J. Cole
Compliance - Tel 212/270-1554 Fax 212/270-3450
05/22/2008 15:32 2129346550 CIO PAGE 26/30

BANK PROPRIETARY AND/OR TRADE INFORMATION OCC-SPI-00081631
05/05/2006 20:19

Credit & Equity NBIA Sign-off.txt

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

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

Feel free to call me with any questions.

-- Tel (201) 595-5696 Fax (201) 595-6776
Arthur Kirshenbaum
04/05/2006 13:48

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

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

Arthur

Mark Frediani
27/04/2006 15:25

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

This document contains a file attachment with a file size of 778.5 KB.

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

Regards,
Mark

Robert R Rupp
28/04/2006 20:49

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

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

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

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

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

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

Bob

---

Elliot M Honeyfield
20/04/2006 10:39

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

This document contains a file attachment with a file size of 198.2 KB.

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

Elliot

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

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
cc: Andrew Marcovitch/JPMCHASE@JPMCHASE, Arthur Kirshenbaum/JPMCHASE@JPMCHASE, Dermot M Walsh/JPMCHASE@JPMCHASE, Rachel E Leigh/JPMCHASE@JPMCHASE, Madhura Shah/JPMCHASE@JPMCHASE
Subject: Re: Fw: Credit & Equity NBIA

This document contains a file attachment with a file size of 778.5 KB.

Jason,

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

Regards,
Credit & Equity NBIA Sign-off.txt

Mark

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

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
Cc: 
Subject: Fw: Credit & Equity NBIA

This document contains a file attachment with a file size of 198.2 KB.

Jason
Signed-off.
Thanks

Roger

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

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

Hi Jason,

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

Thanks,

Colvis

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

To: Jason LDN Hughes/JPMCHASE@JPMCHASE
Cc: Roger X Kibble-White/JPMCHASE@JPMCHASE, Ina Drew/JPMCHASE@JPMCHASE

Subject: Credit/Equities NBIA

Approved.
Joe

Chief Investment Office
Ina Drew
10/05/2006 16:19
Credit & Equity NBIA Sign-off.txt

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

Approved,
Ina Drew

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

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

CIO Global Credit Trading

Report Number: G-07/005
Audit Rating: Satisfactory
Report Date: November 29, 2007
Audit Type: Audit
No Prior Report Explanation: First Time Review of New Business, Product or Service

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

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

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

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

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

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

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

Business Details
Level 1: Chief Investment Office
Business Executive: Ina Drew

Level 2: CIO
Business Executive: Achilles O Macris, Joseph S. Bonocore
Detailed Findings and Management Action Plans

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

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

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

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

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

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

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

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

Not to be distributed without prior permission from Audit.

— End Report —
### Summary of Positions by Type and Series

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<thead>
<tr>
<th></th>
<th></th>
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### Summary of Positions

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<td>54,004,244,782</td>
</tr>
</tbody>
</table>

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**Permanent Subcommittee on Investigations**

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**JPM-CIO-PSI 0037609**
Let's review the unwind plan to maximize p.l. We may have a tad more room on rwa. Pls schedule asap.

Total reserve is 30 MM. I do not think that we will have a release for sometime unless we get an opportunity. Bruno has been unwinding some of these positions opportunistically. The other side of the P/L is that it has been somewhat costly to unwind too so net net we have actually lost a little bit of money to unwind.

Management line is the release of P/L that comes from unwinding off the run positions. This is an adjustment that was made in 2009 for illiquidity of the credit derivatives book. In a way it is a reserve release for illiquid indexes.

The management line is?? Thanks.
MTM Credit P&L as at 09/01/2012

<table>
<thead>
<tr>
<th></th>
<th>Daily Est.</th>
<th>MTD</th>
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<td><strong>Strategic</strong></td>
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<td>Tactical 2</td>
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<tr>
<td>Credit Single Names</td>
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<tr>
<td><strong>Total Core</strong></td>
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<td><strong>Management</strong></td>
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<td><strong>Total International Credit</strong></td>
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TRR Credit P&L as at 09/01/2012

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<tr>
<td><strong>Strategic</strong></td>
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Redacted By
Permanent Subcommittee on Investigations

Confidential Treatment Requested by J.P. Morgan & Co. JPM-CIO-PSI 0000076
### Tactical Total Core Investments

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<td>Total Core Investments</td>
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### Total Investments

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<td>-4,068</td>
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<tr>
<td></td>
<td>20,772</td>
<td>-7,740</td>
</tr>
</tbody>
</table>

### CREDIT MARKET COMMENTARY

**Synthetic Credit**

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

Tendai,

Tendai Munjayi
Chief Investment Office
JP Morgan Chase & Co.
100 Wood St, London EC2V 7AN
Tel: +44 (0) 207 777 9424
Email: tendai.munjayi@jpmorgan.com
From: Iksil, Bruno M <bruno.m.iksll@jpmchase.com>
Sent: Wed, 18 Jan 2012 15:58:26 GMT
To: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: Meeting materials for 11am meeting
Importance: High

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

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

Kind regards,
Andy

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

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Core Credit Book – Current RWA Summary

The table below is the CIO International desk model's Core Credit Book RWA summary (Strategic + Tactical)

As of COB 16th January 2012 the CIO calculated Core Credit Book RWA was USD20.9 bln

This compares to average USD40.3 bln RWA for December 2011 provided by QR

<table>
<thead>
<tr>
<th>Core Credit</th>
<th>HistVar</th>
<th>StressVar</th>
<th>CRM</th>
<th>Total</th>
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<td>20,948,949,143</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>QR Reported RWA (Q0, Q1, Average)</th>
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<tr>
<td>StressVar</td>
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<tr>
<td>CRM</td>
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<tr>
<td>Total</td>
<td>20,948,949,143</td>
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*Average CRM for Q4 provided

<table>
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<tr>
<th>Core Credit</th>
<th>HistVar</th>
<th>StressVar</th>
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<tbody>
<tr>
<td>CIO Calc RWA</td>
<td>69,252,890</td>
<td>166,360,769</td>
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</tbody>
</table>

J.P. Morgan
Credit book highlights

3 blocks of forward spread exposure

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

Main P&L components

- 35% reduction cost USD590mm (not a worst case but based on today’s market depth)
  - USD130mm Main
  - USD250mm CDX IG
  - USD210mm CDX HY

- Expected carry over the year with regular reduction: USD300mm - 500mm

- Remaining optionality: USD200-300mm on defaults

- Potential drawdown: USD100-200mm in US HY

Expiration schedule:

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

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

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

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

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

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

Let me know if you want to further discuss.

Best regards

Javier
## Credit book Decision Table in “no diversification” assumption

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<thead>
<tr>
<th>Model</th>
<th>QR model prevails</th>
<th>QR model prevails</th>
<th>CIO model prevails</th>
<th>CIO model prevails</th>
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<tbody>
<tr>
<td>Scenarios and perceived feasibility as of today</td>
<td>REDUCTION (as discussed at 7th December 2011 meeting London and follow up on Xmas)</td>
<td>CENTRAL SCENARIO possible with data from QR as discussed with John Wilson</td>
<td>Possible if approved by QR</td>
<td>TARGET SCENARIO to be confirmed once approved by QR</td>
</tr>
<tr>
<td>Model applied and diversification</td>
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<td>QR Model no diversification</td>
<td>CIO Model no diversification</td>
<td>CIO Model no diversification</td>
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<tr>
<td>Data?</td>
<td>No detailed data</td>
<td>Data updates through the year</td>
<td>Data available</td>
<td>Data available</td>
</tr>
<tr>
<td>Reduction in RWA</td>
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<td>RWA reduced from USD 43 Bln to USD 20 Bln</td>
<td>RWA reduced from USD 21 Bln to USD 15 Bln</td>
<td>RWA reduced from USD 21 Bln to USD 15 Bln</td>
</tr>
<tr>
<td>RWA target EDY (undiversified)</td>
<td>USD 20 Bln</td>
<td>USD 20 Bln</td>
<td>USD 15 Bln</td>
<td>USD 15 Bln</td>
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<tr>
<td>Estimated Diversified RWA</td>
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<td>USD 20 Bln</td>
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<td>USD 15 Bln</td>
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<td>Risk management</td>
<td>Systematic reduction of the largest legs across the book Unwind of existing trades across the board</td>
<td>Opportunistic reduction of the critical legs identified from marginals Buying protection on IG 10yr, MAIN 59, HY10 7yr</td>
<td>Active risk reduction of the critical legs with regards to RWA marginals Buying protection on IG 10yr, MAIN 59, HY10 7yr</td>
<td>Opportunistic risk reduction and optimization towards upside in stress Roll the protection on short term tenors, exploring</td>
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<td>USD 100mm</td>
<td>USD 150mm</td>
<td>USD 100mm</td>
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From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Thu, 26 Jan 2012 09:11:17 GMT
To: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: FW: credit book last version

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

latest version for ismg., for ur record
CORE CREDIT BOOK HIGHLIGHTS

Bruno Iksil

January 2012

J.P.Morgan
Credit book executive summary

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

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

2- the trades that make sense

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

3- Profile of the book and main scenario considered:

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

1-The credit book conveys upside on defaults in IG and a decompression trade HY vs IG
   □ We are both long risk on forward spreads and carry Jump to default upside in itraxx Main S9 and CDX IG9
   □ The long risk overlay in series 9 is mostly hedging short risk in US HY and Itraxx Xover
   □ We also carry a “spread basis” risk between series 9 in IG versus on the runs IG indices

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

3- The current strategy:
   □ We receive forward spreads in IG series 9 and HY series 10-11 versus on the run spreads
   □ We hedge the downside in HY defaults with an overlay short risk in HY on the runs
   □ We position for cheap upside on Jump to default in high grade space within a RWA reduction plan
Credit book P&L story Q4 2011 till today

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

- The book started the year short risk long vega: spreads tightened 20% across the board (IG-25Bp HY-125Bps)
  - Estimated loss on pure spread tightening & HY to IG compression = 50M USD
  - S8/IG9 forward spread vs on the run = 100M* USD (5bp)*
  - HY off the run lagging on the runs (EK) = 100M USD* (65bps)*

- Which is current loss, which is further drawdown
  - Current loss shows the spread rally mitigated by new trades: -100M USD
  - Most of the drawdown will come from basis risk from Off the runs series where we have longs versus on the run series where we have shorts

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

- In Q4 2011: we sold out some of the biggest exposure to reduce RWA
  - Sold HY8 to Hy11 indices to reduce longs: 10 bln (60% of the long)
  - Bought back 0-3 5x10 in Ig9 and s9: total 400m (10-15% of the position)
  - Sold protection on super-senior IG and sold risk in HY on the runs to cover hy11 3yr expiry

- Markets were in high stress level and we had to keep P&L in check, thus stay short risk long vega

3- What was done this year so far?:

- Sold protection across the board: 10Bln main, 10bln IG versus short risk 7Bln US HY
- Added flatteners: 5bln S9, 10bln Ig9 to maintain the upside on defaults.
Credit book trades that makes sense...

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

- Stress levels in Europe should recede similarly to Q3-Q4 2008 between Bear stearns and Lehman
  - The LTRO plus potential coming collateral criteria changes will help stabilization
  - Unicredit “successful” recap provides a temporary “floor” to bank tangible equity
  - Market players were deeply shaken and started the year very defensively

- IG credit spreads have been plagued by financial stress
  - the memory of 2008 has triggered a deep rooted sell off in financials
  - Yet US banks and some European banks have made genuine efforts to clean their exposure

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

- The deleveraging process will not stop:
  - Rates are very low but credit spreads are explosive
  - Banks will tier out the weak lenders in a low potential growth environment
  - HY and Xover names are the most vulnerable if growth does not pick up while rates stay low

- The long risk exposure and the flatteners should provide a low level of RWA versus the upside on credit events

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

- Go long risk belly tranches when spreads are wide and about to collapse
- Go long risk equity tranches when spreads are tight, stable and about to become volatile
Credit book profile change proposed and main scenario...

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

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

2- The target risk profile

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

3- Adverse scenarios and possible drawdowns

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

<table>
<thead>
<tr>
<th>Credit Book</th>
<th>P&amp;L Summary</th>
<th>Directionally</th>
<th>Compression</th>
<th>Forward Underperformance</th>
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**New Trades**

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**Total**

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<th>Forward Underperformance</th>
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<td>68.9</td>
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</tbody>
</table>

**6 J.P. Morgan**
Core Credit Book – Current RWA Summary

The table below is the CIO International desk model's Core Credit Book RWA summary (Strategic + Tactical)

As of COB 16th January 2012 the CIO calculated Core Credit Book RWA was USD20.9bln

This compares to average USD43bln RWA for December 2011 provided by QR

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<td>StressVar</td>
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<td>20,948,949,143</td>
<td>18,274,000,000*</td>
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*Average CRM for Q4 provided
## Decision Table

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<th>CIO model prevails</th>
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<tr>
<td>Scenarios and perceived feasibility as of today</td>
<td>REDUCTION (as discussed at 7th December 2011 meeting London and follow up on Xmas)</td>
<td>CENTRAL SCENARIO (possible with data from QR as discussed with John [name redacted])</td>
<td>TARGET SCENARIO (to be confirmed once approved by QR)</td>
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<td>Model applied and diversification</td>
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<td>CIO Model no diversification</td>
<td>CIO Model no diversification</td>
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<td>Data?</td>
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<td>Reduction in RWA</td>
<td>RWA reduced from USD 43 Bln to USD 20 Bln</td>
<td>RWA reduced from USD 43 Bln to USD 20 Bln</td>
<td>RWA reduced from USD 21 Bln to USD 15 Bln</td>
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<td>RWA target EOY (undiversified)</td>
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<td>USD 20 Bln</td>
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<td>Estimated Diversified RWA</td>
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<td>USD 20 Bln</td>
<td>USD 15 Bln</td>
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<td>Risk management</td>
<td>Systematic reduction of the largest legs across the book Unwind of existing trades across the board</td>
<td>Opportunistic reduction of the critical legs identified from marginals Buying protection on IG9 10yr, MAIN 59, HY10 7yr</td>
<td>Active risk reduction of the critical legs with regards to RWA marginals Buying protection on IG9 10yr, MAIN 59, HY10 7yr Roll the protection on short term trades expiring</td>
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<td>Drawdown needed</td>
<td>USD 300mm</td>
<td>USD 200mm</td>
<td>USD 150mm</td>
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</table>
Credit book highlights

3 blocks of forward spread exposure
- Main iTraxx S9: 20% book RWA – gross notional: USD90bln - estimated carry: USD100mm
- CDX IG9: 35% book RWA – gross notional: USD278bln - estimated carry: USD200mm
- CDX HY10 and 11: 45% book RWA – gross notional: USD115bln - estimated carry: USD10mm

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

Expiration schedule:
- Main iTraxx S9: June 2013 (50% position)
- CDX IG9: Dec 2012 (40% position)
- CDX HY10 and 11: Jun 2012 and Dec 2012: (30% position)
Credit book possible paths

QR method prevails : target RWA 20Bln

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

- Path 2: QR does not update (2011 scenario): Central scenario so far
  - Systematic reduction necessary: estimated reduction cost 590M USD
  - Estimated carry accrued over the year 400-500M USD
  - Potential gains from remaining convexity: 50M USD
  - P&L range: -150M USD to -50M USD

- Path 3: QR grants diversification in VAR-STRESS VAR CRM
  - P&L range to be defined
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 200-300M USD
Credit book possible paths 2

CIO method prevails: target RWA 20Bln

- Path 1: 15 Bln RWA target no optionality targeted: the books expires naturally
  - Risk management and trading costs: 100M USD
  - Estimated carry accrued over the year 200M USD
  - Potential gains from remaining convexity: 0-50M USD
  - P&L range: 100M-150M USD

- Path 2: 20 Bln RWA Jump optionality: the book is actively managed
  - Risk management and trading cost 100M USD
  - Estimated carry accrued over the year 50M USD
  - Potential gains from convexity: 0-250M USD
  - P&L range: -50M USD to 200M USD

- Path 3: Diversification granted
  - P&L range to be defined
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 300-500M USD
Credit book possible paths 3

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

- **Path 1:** the risks are neutralized and the book accrues the remaining carry
  - We buy protection on long term tenors where we have long risk exposures
  - Ideal scenario if forward credit spreads compress
  - The cost will be very low on a bull market.
  - Target positions IG9 10yr, Main Itraxx 10yr, HY10 7yr, HY11 7yr

- **Path 2:** The upside on jump to default events is maintained the book is not reduced
  - We roll over the jump upside by adding flatteners on low spreads
  - We lock a good positive carry by selling the forward credit spreads on wide spreads
  - The cost can be limited but this requires some increase in notionals
  - Target trades: flatteners on mezzanine tranches, flatteners on indices, directional trading on on-the-run indices

- **Path 3:** Diversification granted
  - With data: the book can be scaled according to stress scenarios
  - NO DATA or any Hint for now
  - Optimisation possible
    - Trading costs 100-200M USD depending on scale target
    - Carry flat
    - Optionality 300-500M USD or more..
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 30 Jan 2012 18:07:48 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: RE: update on core credit book

yes. Are you available now?

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

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

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

We have to report a loss in the widening today, much less because the book has a long risk bias. Comes month end and we cannot really prevent the forward spreads from moving up. We get closer but each day the dealers report unreliable runs, wider bid-ask quotes and this cost us. To trade them is costly and leads to increase in notional. We have some evidence that our counterparties need to frame the prices to our disadvantage but here the book is really balanced, ie there is this forward spread exposure that has nice features but this is not a profile where we can control the P&L unless we just let it roll off.

We need to discuss at this stage I guess: the book is now set to carry positively and get some extra gains depending on where defaults show up. A no default scenario is now also a good outcome. Yet, the final result is unknown. All I see is that liquidity is so poor that we just add notional to the street. So that improves the outright final P&L number but this increases the issues with the risks and the size, as well as our sensitivity to price moves and trading costs.

Because the views in the book are much more benign than in the past, the mean reverting pattern of the P&L is stronger (ie we face an ever lower risk to be wronged). Yet, to avoid this accumulation we need to let go on one way: the only one I see is to stay as we are and let the book simply die. That we should take some hits because the markets might create noise in the P&L is a certain reality. Yet, the control of the drawdown now is generating issues that make the book only bigger in notional.

As a paradoxical result, I have to take directional views on the market direction, in order to pre-empt the moves that the dealers will do against us. And I see that the trading I run is closer and close to dealers' with a directional bias. This is a problem we had many times but only when we had views going counter to consensus. At the current stage, we still have the long risk in forward spreads but the notional has become scary and upside is limited unless we have really unexpected scenarios. In the meantime, we face larger and larger drawdown pressure versus the risk due to notional increases.

Please let me know the course of action I should take here.
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 30 Jan 2012 17:28:21 GMT
To: Buraya, Luis C <luis.c.buraya@jpmorgan.com>; De Sangues, Eric <eric.de.sangues@jpmorgan.com>
Subject: FW: update on core credit book

We have to report a loss in the widening today, much less because the book has a long risk bias. Comes month end and we cannot really prevent the forward spreads from moving up. We get closer but each day the dealers report unreliable runs, wider bid-ask quotes and this cost us. To trade them is costly and leads to increase in notionals.

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Please let me know the course of action I should take here.

Best regards

Bruno IKSIL

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Permanent Subcommittee on Investigations
EXHIBIT #12
ok they keep playing games in itraxx now. I will show up for small in the hope we can limit the pain.

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

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

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

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

I hope I did right.

Let me know your thoughts.

Regards

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

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

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

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

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

Hi Javier,

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

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

Taking into account the conservative year-end marks and the January positive carry, the financial performance is worrisome.
I think that we need to urgently revalue the core position in bearish steepeners and the associated maximum drawdown's.
The "timing" issues on the older series are somewhat predictable, and the
second order p&l discrepancies should be viewed differently from the core position.

Thanks,
A

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

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

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

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

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

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

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

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

Best regards

Bruno Iksil
Hey Javier,

Here are some thoughts:

- Focus on the metrics and P+L of the synthetic book. I am worried that the $20b RWA committed by year-end, is too aggressive. If we need to actually reduce the book, we will not be able to defend our positions.... We need to win on the methodology and then the diversification. Hogan, doesn't not understand the book and it should be explained through Ashley etc. Let's meet Ashley soonest.

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

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

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

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

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

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

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

Redacted By
Permanent Subcommittee on Investigations

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

Redacted By
Permanent Subcommittee on Investigations

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

Redacted By
Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
EXHIBIT #16a

CONFIDENTIAL TREATMENT REQUEST
J.P. MORGAN CHASE & CO.
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<th>Carry</th>
<th>Ir N/T AdjuST FX</th>
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</table>

**Dead Books (Core)** - 85,1,377

**Explanatory P&L (in $1000s):**

**Washbook/Costs 0 0**

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

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

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

Again, a lot of prices are still being framed and we are providing our best estimate.
From: Oaikhiena, Isi <isi.oaikhiena@jpmchase.com>
Sent: Tue, 20 Mar 2012 20:40:57 GMT
To: EOD Credit estimate <EOD_Credit_estimate@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: International Credit Consolidated P&L 20-Mar-2012

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CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.

EXHIBIT #16b
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CREDIT MARKET COMMENTARY

Synthetic Credit:
The roll period creates distortions in prices that impact us. The hit comes mostly from the rally in credit market where the series 9 both iTraxx.Main and CDX.IG lag. The book does not have enough CSO1 to balance this lag: as the breakdown shows the book loses a lot of money on directional ($105M) while it is long risk in CDX.IG credit and short risk in CDX.HY and iTraxx.Xover credit. Yet, we estimate the gain on decompression as $30M in Europe and $30M in the US while the series 9 lag versus the market is of 1-2bps or $100M. The net result is a loss of $40M and we must expect more to come until investors opt to profit from the ongoing lag in those series 9, as of today, reconstructing the CDX.IG9 10yr performance from the on the run indices and the 4 widest names in CDX.IG9 (Radian, MBIA, Istar, Sprint), the underperformance of the CDX.IG9 curves is between 6bps to 13 bps, which amount approximately to $450-500M for the solo CDX.IG9 series. iTraxx.Main 59 is also lagging by 3-4 bps or another $60-80M. Added to this the CDX.HY loss of $100M for Kodak and Rescap, plus the lag of the CDX.HY10-CDX.HY11 series versus the on-the-runs that is also $100-200M, the lag in P&L is material ($600-800M). As to the potential outperformance, it is much more a function of whether some names default and which one will default. We estimate the carry daily to be $1M while it may not show as it is stored in the ability of the forward spreads to "roll down" the curve. So far they did but at a much lower pace than the on the run indices rally: both in CDX.IG, iTraxx.Main and CDX.HY curves: in IG space, the long term forward rolled down slower than the market (i.e. short term spreads outperformed) while in CDX.HY, it is the opposite, i.e. long term spreads outperform short term spreads. This can be explained by the recovery in CDX.IG space while RESCAP and KODAK failed in CDX.HY space.

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

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

Secured Credit:
The market continues to trade well with mezzanine paper closing in on their peak levels from mid-2011 and a continued shortage of senior vanilla ABS/MBS continuing to put pressure on spreads. We continue to receive healthy amortisations across the asset classes.
March 20, 2012

Transcript of Call #5

Date: March 20, 2012
Time: 16:09:36 – 16:31:56

Participants: Martin-Artajo and Iksil

Iksil Hello.
Martin-Artajo Hi Bruno.
Iksil Yea. Hi Javier.
Martin-Artajo Hello man.
Iksil Yea so, yea we sent an estimate down 40 million today.
Martin-Artajo Yea.
Iksil Because you know, it was, we actually did not recover what we're gaining on decompression we are making like 50, 60 million on decompression and we were losing [inaudible] in this lag and--
Martin-Artajo Okay, okay. I just don't want you to do this. I don't know why you've done it anyway you've done it, so that's it. I don't know why, anyway, you should have told me this because it doesn't help us for the conversation for tomorrow
Iksil Yea but I thought that because you have discussed already, you know, I thought we should actually you know, not do like minus minus 5 every day but just say okay boom you know there is, there is something happening, it's the roll date (overlapping voices).
Martin-Artajo Okay, okay listen you've done it. You think that this is right. This is not what I would have done but you've done it so I'm okay with this. I've already said what the problem is, so okay they know they're not going to be surprised we have a meeting tomorrow it's just that um--
Iksil I know it's embarrassing but--
March 20, 2012

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

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

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

Iksil Yea, okay.

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

Iksil Yes, yes [inaudible], right?

Martin-Artajo Yes.

Iksil Yes, I saw it yes.

Martin-Artajo So the problem that we have from this, ok, is that, the problem that we have from this is that really it just shows the problem, this spreadsheet just shows the problem. It shows that, it shows that we have a book that has been reduced in risk terms a lot. It shows that these guys have been doing something with the model that is stupid okay because the CRM now, they just don’t know how to explain what we do okay? They’re just stupid quants really okay? The only guy that has been able to understand a little bit is the new guy, this Venkat guy. He understands what the problem is okay. He knows that this book, we need to keep doing what
we're doing. It's just that we need to get rid of the CRM by externalizing the trade, which is what the investment bank needs to do and then at some point we need to time the extra long, okay, which means that, you know, we can keep the long until it gets very, very tight or, or you do what the investment bank does is that you short IG and you go long high yield and then you get the benefit of that because happens to be the problem that the CRM has, okay. It happens to be capital for free. And that's what the, that's what the investment bank has done if you think about it okay. The investment bank has the short as the overlay okay, let's put it the hedges, right? So our hedges are kind of a long according to the model that these guys use okay. You follow me?

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

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

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

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

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

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

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

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

Iksil

It's That's what you fear.

Martin-Artajo

Sorry?

Iksil

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

Martin-Artajo

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

Iksil

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

Martin-Artajo

Okay, okay, okay man, this is, this is okay, I wish I had, sorry about I didn't get your call. I um--

Iksil

No, I tried, I waited, I waited. I sent you an SMS because I thought you would you know receive it on you blackberry before everything, but you know and we kept looking for it, and I tried and tried, and I'm not fooled by that you know it's just that, I have to, I don't know I thought, I thought that was, that was not realistic
March 20, 2012

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

Martin-Artajo

No, no, no, man, no man.

Iksil

I think I do a worst one, you know so. It’s sort of my logic is strange but it’s likely, I have to choose between one bad thing and one thing that I think was worst.

Martin-Artajo

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

Iksil

It, I was working on it.

Martin-Artajo

Okay. Thank you for that man, I am, I know, I’ve been, I’m working on this other deal that I need to get done for the book, for the secured credit book. It’s just that I um, shit, I wish, I don’t know, just explained this a little bit better because what happens is that you know, I think that, it’s nor here nor there, it just highlights that there are problems in the book. You know in that sense I understand what you’re saying. The problem that I have is that I wish that um because I also think that what’s happening here, what’s happening here it’s just the investment bank that we have in front of us is doing things I mean, this, the call that I had today you know when Anil Pinto [sic] called I know that they have a problem here okay. So the more we recognize that we have a problem okay. So the more we recognize that we have a problem okay, it’s, the more you recognize the harder it is to settle with the IB at a better price if that what’s going to happen. You understand what I’m saying?
March 20, 2012

Iksil

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

Martin-Artajo

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

Iksil

Yes, yes.

Martin-Artajo

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

Iksil

Yes.

Martin-Artajo

You understand what I'm saying?

Iksil

Yes, yes, yes.

Martin-Artajo

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

Iksil
Okay, okay.

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

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

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

Iksil
No I said sorry for that, it’s just that, yea, I in any case I (inaudible) or feel bad.
March 20, 2012

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

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

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

Martin-Artajo  Okay Bruno, no, no, no, it's fine, okay, I see what you're going through, okay I think you're going through your own logic here to explain it, and there is, there is, you know, I think you have a reasonable way of explaining this, I um, you know, it would have been okay. I wish I discussed it with you, but that's, that's done, okay. You've done it, it's that's fine, and this is what you believe and I'm sure you have, you know, we'll sit down tomorrow and we'll look at the spreadsheet. I'm sure you've done some numbers that make sense and you that think this is a part of something that you can't recover and therefore you've released, and you know, I know what you're doing and you're signaling here that there is a problem. I've already said it, Achilles knows it, and I'm aware of it, and you're saying it now so, okay. I truly don't have a lot to say now because we have so much to speak tomorrow, I mean we have a long day tomorrow. So I, I hope, you know. Let's go and relax a little bit if you can, and let's start tomorrow, and we'll start again, because this is not going to be, you know, there's not a lot we can do on the phone.
March 20, 2012

Iksil: now and you know I want you to be fresh tomorrow too. So I, I, thank you for at least letting me know and calling me, and I'll see you tomorrow, okay?

Martin-Artajo: Okay, okay.


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

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

Diary P&L($) YTD P&L($)

[Redacted]

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

[Redacted]

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

[Redacted]

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

[Redacted]

Permanent Subcommittee on Investigations

EXHIBIT #18
US ABX / TABX -155 -21,008

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

Dead Books (Core) -13 2,017

Washbook/Costs 0 0

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

Close COD
Another day of weakness triggered by negative news from China overnight, a very poor set of PMI in Europe. The market feels shaky here, with European financials, iTraxx.Xover and CDX.IG underperforming. Volatilities are higher by about +4pt across the board, but there was no flattening of index curves - some market players were actually marking curves a tad steeper, on the off the run series (S9, IG9). No obvious theme in tranches today - equity tranches were steeper again, in CDX.IG, but slightly flatter in iTraxx.

The behaviour of the book was close to what happened yesterday - the book is making money thanks to the decompression trades in Europe and in the US (our shorts in CDX.HY, S14,15,16,17 widened), with gains estimated to $80M. Again, the book is getting hurt with losses in index forward spreads in S9 and IG9, and in tranches (weaker CDX.HY equity and mezzanine tranches, steeper IG9 equity tranches).

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

Again, a lot of prices are still being framed and we are providing our best estimate.
Ina is freaking - really! Call me

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

Here is my best estimate.

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

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

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

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<td>CDX IG</td>
<td>27,653,000,000</td>
<td>22,670,658,318</td>
<td>-10,374,855</td>
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<td>-280,773,456</td>
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---Permanent Subcommittee on Investigations EXHIBIT #19---
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<th>Notional</th>
<th>DelEta Adj</th>
<th>OTR Spr01</th>
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<td>-45,103,458</td>
<td>-593,109,318</td>
<td>-2,897,328,686</td>
</tr>
</tbody>
</table>

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

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

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

03/23/2012 05:17:30 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:17:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (749320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS. THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY. PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

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

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

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

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

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

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

03/23/2012 05:50:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
javier mobile is
03/23/2012 06:16:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
did you get Javier on the phone

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

03/23/2012 06:20:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
but like u
03/23/2012 06:20:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i did not fail
03/23/2012 06:20:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says: this is not what i will be told
03/23/2012 06:20:25 BRUNO IKSIL, JPMORGAN CHASE BANK, says: unlike you
03/23/2012 06:20:25 ADE ADETAYO, MORGAN (J.P.) says: damn
03/23/2012 06:20:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i picked the trades
03/23/2012 06:20:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says: so us ee
03/23/2012 06:20:55 ADE ADETAYO, MORGAN (J.P.) says: hope it turns out well for you
03/23/2012 06:21:03 ADE ADETAYO, MORGAN (J.P.) says: I really hope so
03/23/2012 06:21:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says: no well it is not the end of the world
03/23/2012 06:21:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: but the end of what i have done so far
03/23/2012 06:21:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says: for sure
03/23/2012 06:21:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i cannot fight
03/23/2012 06:21:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i cannot wait
03/23/2012 06:21:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i cannot argue
03/23/2012 06:22:51 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i may not come back on Monday
03/23/2012 06:23:00 ADE ADETAYO, MORGAN (J.P.) says: really?
03/23/2012 06:23:03 ADE ADETAYO, MORGAN (J.P.) says: oh no
03/23/2012 06:23:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says: well
03/23/2012 06:23:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i will know this afternoon
03/23/2012 06:23:15 ADE ADETAYO, MORGAN (J.P.) says: damn

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

03/23/2012 06:27:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i am not so much at loss
03/23/2012 06:27:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says: net net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

03/23/2012 06:31:53 ADE ADETAYO, MORGAN (J.P.) says: you have the backing of londin right?
03/23/2012 06:31:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes i mean the guys know my position because i am too big for the market

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

03/23/2012 06:35:19 ADE ADETAYO, MORGAN (J.P.) says:
so what happens now?
03/23/2012 06:35:37 ADE ADETAYO, MORGAN (J.P.) says:
you having a meeting with Javier and Achilles

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

03/23/2012 10:20:58 ADE ADETAYO, MORGAN (J.P.) has left the room
03/23/2012 11:30:22 ADE ADETAYO, MORGAN (J.P.) has joined the room
03/23/2012 11:30:22 ADE ADETAYO, MORGAN (J.P.) says:
*** MORGAN (J.P.) (20833) Disclaimer: THIS IS FOR INFORMATION ONLY AND NOT THE PRODUCT OF
JPMORGAN 'S RESEARCH DEPT.IT IS INTENDED FOR THE RECIPIENT ONLY.IT IS NOT AN OFFER OR
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TAX,ACCOUNTING,LEGAL OR OTHER ISSUES ARISING AND EXECUTE TRADES THROUGH A JPM ENTITY IN
THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE. FOR Ä"INFORMATION
ABOUT JPM UK ENTITIES REFER TO Ä"www.jpmorgan.com/pages/disclosures 2009 JPMORGAN CHASE &
CO. JPMSL IS AUTHORISED AND REGULATED BY THE FSA.

03/23/2012 12:35:37 ADE ADETAYO, MORGAN (J.P.) has left the room
From: JULIEN GROUT <JGROUT3@>

Sent: Fri, 23 Mar 2012 18:37:47 GMT

To: JULIEN GROUT <JGROUT3@>; JULIEN GROUT <julien.g.grout@jpmchase.com>;
BRUNO IKSIL <BIKSIL2@>

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

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

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

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

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

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

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

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

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

03/23/2012 05:46:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
E-MAIL TRANSLATION
From: JULIEN GROUT <JGROUT3@1••••>
Sent: Fri, 23 Mai 2012 18:37:47 GMT
To: JULIEN GROUT <JGROUT3@julien.g.grout@jpmchase.com>; BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>
Subject: BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room

03/23/201205:45:49 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03/23/201205:45:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:

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

03/23/201205:45:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:

bruno

03/23/201205:45:55 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23/201205:45:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says

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

03/23/201205:46:01 JULIEN GROUT, JPMORGAN CHASE BANK, says:

salut
hi

03/23/201205:46:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

salut
hi
c mort la
it is over/it is hopeless now

03/23/201205:46:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
david de CS appelle au sujet des skew trades, je lui demande un prix ferme sur indice vs single names?
David from CS calls about skew trades. I ask him a firm price on index vs single names?

03/23/201205:46:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Draft Transcript - Subject to Review and Correction
Likely Contains Errors

Confidential Treatment Requested by JPMORGAN CHASE & CO.

JPM-CHO 0003528
Coupons matched etc.

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

? ?

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

Oui

03/23/20 1205:46:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Ce un full upfront

it is a full upfront

03/23/20 1205:46:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Ok understood

03 /23/201205:48: 11 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Pour revenir a ton premier point

to get back to our first point

03 /23 /201205:48: 14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Continue a vendre la ss

keep on selling the ss

03/23/2012 05:48 :25 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Leve la 0-3 10yr

levy/raise/exercise the 0-3 10yr

03/23/20 1205:48 :28 JULIEN GROUT, JPMORGAN CHASE BANK, says:

On en discuterla lundi si tu veux bien,

we will talk about that on Monday if it is fine with you

03 /23/201205:48:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Ok ok je continue ca

ok ok I continue that

03/123/20 1205:48 :38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Oui

yes

03 /23/201205:48:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Je te dis

I tell you

03/23/201 205:48:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Ils vont nous defoncer

they are going to trash/destroy us

03/23/20 1205:48:56 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Y a bcp a dire, mais je ne veux pas charger ta charette qui est deja bien remplie

there is a lot to say, but I don’t want to burden you more than you already are

03/23/2012 0552 28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Ce soir tu as au moins 600m

tonight you’ll have at least 600m

03123/20 1205236 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

BID ASK

BID ASK

03/23/20 120552:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

MID

MID
03123120 1205:52:51 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
BID ASK TU AS 300M AU MOINS
BID ASK YOU HAVE 300M AT LEAST

03/23/2012 05:54:46 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as vu le run de josephine.. attack full force.
You have seen Josephine’s run.. attack full force.

03/23/2012 05:57:56 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui

03/23/2012 05:57:59 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
c partout
it is everywhere/all over the place

03/23/2012 05:58:19 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
on est mort je te dis
we are dead I tell you

03/23/2012 05:58:27 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
j'ai fait ce qu'il fallait
I did what I had to do

03/23/2012 06:04:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 06:18:11 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oula bnp ...
wow bnp...

03/23/2012 07:2702 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno/
bruno/

03/23/2012 07:30:46 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui
yes

03/23/2012 07:31:38 JULIEN GROUT, JPMORGAN CHASE BANK, says:
l'arret du trading c nous 3 ou juste moi?
The stop of the trading, is it the 3 of us or only me?

03/123/2012 07:31:49 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
toi
you

03/123/2012 07:31:52 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
sur core
on core

03/23/2012 07:31:52 JULIE GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 07:32:05 JULIEN GROUT, JPMORGAN CHASE BANK, says:
eric/luis ils peuvent continuer, sur leur tactical
eric/luis can go on, on their tactical

03/23/2012 07:32:06 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
continue sur les les 0-3 1 A yr
go on with the ss the 0-3 1 A yr
03/23/2012 07:32:07 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
Ok?
03/23/2012 07:32:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/2012 07:32:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
continue sur les 25-35 HY
go on with the 25-35 HY
03/12/2012 07:32:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
pas les 15-25
not the 15-25
03/23/2012 07:32:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 07:33:02 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu pourras me donner la couleur stp? s’il y en a.
will you give me the color please? if there is some.
03/23/2012 07:33:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
rien pour le moment
nothing for now
03/23/2012 07:33:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 07:33:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ca va se negocier avec l’IB
it will be negotiated with the IB
03/23/2012 07:33:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout en haut
at the top
03/12/2012 07:33:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et je vais en prendre pour mon grade
and I am going to be hauled over the coals
03/23/2012 07:33:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
today?
today?
03/23/2012 07:34:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais bon on a du carry
but we have some carry
03/12/2012 07:34:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah? cela t’a ete confirme/
ah? it was confirmed to you?
03/23/2012 07:34:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c pas necessaire
it is not necessary
03/23/2012 07:34:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu ne perds pas 500M sans consequences
you don’t lose 500M without consequences
03/23/20 12 07:34:30 BRUNO TKSIL, JPMORGAN CHASE BANK, says
garde le pour toi
keep it for you
03/23/201207:34:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh oui
03/23/201207:34:52 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
c le bon sens qui me dit ca
good sense tells me so
03/23/201207:45 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/201207:47:29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oui
03/23/201207:47:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh yes
03/23/201207:47:38 BRUNO TKSIL, JPMORGAN CHASE BANK, says:
tente de collecter des prix fermes
try to collect firm prices
03/23/201207:48:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je n'ai rien vu de ferme pour le moment
I haven't seen anything firm for now
03/23/201207:48:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh yes
03/23/201207:56:47 JULIEN GROUT, JPMORGAN CHASE BANK, says
Bruno? tu as besoin de qqch?
Bruno? do you need anything?
03/23/201208:13:16 JULIEN GROUT, JPMORGAN CHASE BANK, says
bon bruno
well bruno
03/23/201208:13:26 JULIEN GROUT, JPMORGAN CHASE BANK, says:
javier est reparti dans un conf call avec A
javier is back again in a phone call with A
03/23/201208:13:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je n'ai pas pu lui parler
I couldn't talk to him
03/23/201208:14:05 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh yes
03/23/201208:14:24 JULIEN GROUT, JPMORGAN CHASE BANK, says:
mais bon il n'avait pas l'ai concerne par des slide .. plutot autre chose
but anyway he did not seem concerned by the slides.. rather something else
03/23/201208:14:35 JULIEN GROUT, JPMORGAN CHASE BANK, says
je vais chercher le dej et je reviens
I am going to get lunch and I come back
03/23/201208:26:17 JULIEN GROUT, JPMORGAN CHASE BANK, says
tu es la?
Are you here?
BRUNO IKSIL, JPMORGAN CHASE BANK, says:

urgent
urgent

BRUNO IKSIL, JPMORGAN CHASE BANK, says:

reregar ton email
look at your email

BRUNO IKSIL, JPMORGAN CHASE BANK, says:

tri to find roman shukhman's runs on ig9 in order to show that they are "more steep"/steeper and that they put the ig9 10 yr more than the market

BRUNO IKSIL, JPMORGAN CHASE BANK, says:

c'etait koi deja?
What was it again?

JULIEN GROUT, JPMORGAN CHASE BANK, says:

j'avais checke sylvain, et fait une gross taille de roll s9 5y
I had checked with Sylvain and done a big size of roll s9 5y

JULIEN GROUT, JPMORGAN CHASE BANK, says:

peux de temps apres il me dit que jpm le lift dessus
shortly after he tells me that jpm lifts him from it

JULIEN GROUT, JPMORGAN CHASE BANK, says:

en recanche peux tu me rappeler ce que tu avais trade/booked?
However could you remind me what you traded/booked?
achilles comprend tres bien le francais
achilles understands French very well
03/23/20 1209:03:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cad?
Which means?
03/23/20 1209:03:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je veux le timing exact
I want the exact timing
03/23/20 1209:03:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says
de quoi?
of what?
03/23/20 1209:04:03 JULIEN GROUT, JPMORGAN CHASE BANK, says
ben des evenements
well, of the events
03/23/2012090416 JULIEN GROUT, JPMORGAN CHASE BANK, says
parce que si tu as deja traite du roll avant moi la dessus
because if you have already treated some roll before me on that
03123/2012090420 JULIEN GROUT, JPMORGAN CHASE BANK, says
ca sera encore plus limpide
it will be even clearer
03/23/20 120904:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu vois?
Do you see?
03/23/20 1209:04:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne me souviens plus
I don’t remember
03/23/201209:04:39 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok je regarde le blotter
ok I look at the blotter
03/23/201209:04:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c quel jour?
What day is it?
03/23/20 1209:05:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah ui ! tu as traite 250m de roll s9 avec db a 7h55 !
oh yes! You dealt with 250m of roll s9 with db at 7h55!!
03/23/20 12 0905:29 JULIEN GROUT, JPMORGAN CHASE BANK, says
le 4-jan
on 4th Jan
03/23/20 120906:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok
ok
03/23/20 1209:0618 BRUNO IKSIL, JPMORGAN CHASE BANK, says
tu as le chat?
Do you have the chat?
03/23/20 120906:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ajoute le
add it
03/23/20 1209:06:29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
avec sylvain? oui
with Sylvain ? yes
03/23/201209:06:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne vois rien chez moi
I can’t see anything on mine
03/23/201209:06:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais je me rappelle
but I remember
03/23/201209:14:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok apparemment tu as booké le trade vers 8h20 ce jour là, moi j'ai trade a 9h.
ok apparently you booked the trade around 8h20 this day, and i traded at 9h.
03/23/2012 09:14:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cool
cool
03/23/201209:5007 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pour l'instant je n'ai que 5 'pieces' au dossier
for now I have only 5 documents in the file
03/23/201209:53:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde ton email
look at your email
03/23/201209:53:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vu
seen
03/23/201209:53:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
um de plus
one more
03/23/201209:54:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ben oui on ne va pas bosser comme si on était parano tout le temps aussi
well yes, we are not going to work as if we were paranoid all the time!
03/231201209:54:25 JULIEN GROUT, JPMORGAN CHASE BANK, says:
6 pieces
6 documents
03/23/20120956:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde tes chats a toi avec JP guys
look at your own chats with the JP guys
03/23/2012 10:05:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je fais Mark Shirfan
I look at Mark Shirfan
03/23/2012 10:2250 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vois les emails stp
look at the emails please
03/23/2012 1023 14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je vois
I see
03/23/2012 10:23:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
là var explose
the var explodes
03/12/312012 10:23:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oui
yes
03/23/2012 10:23:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c foutu
it is over
03/23/2012 10:23:37 JULIEN GROUT, JPMORGAN CHASE BANK, says:
le seul moyen c le book a zero
the only way is the book at zero
03/23/2012 10:25:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu peux me dire ce que t'a dit ade ce matin?
Can you tell me what ade told you this morning?
03/23/2012 10:25:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
3 gars de l'ib sont venus lui demander ma taille sur ig9
3 IB guys came to ask him my size on ig9
03/23/2012 10:26:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne veux pas savoir qui c
I don’t want to know who it is
03/23/2012 10:26:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je suis sur le call
I am on the call
03/23/2012 10:28:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
as tu eu des updates sur les marginal?
Did you get the updates about the marginal?
03/23/2012 10:28:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:
no
03/23/2012 10:28:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
rwa
rwa
03/23/2012 10:28:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
48.7
48.7
03/23/2012 10:28:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
les marginaux sur le rwa
the marginals on the rwa
03/23/2012 10:29:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
on rien .. en cours
no, nothing .. in progress
03/23/2012 10:29:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
j'en ai besoin
I need them
03/23/2012 10:29:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je sais
I know
03/23/2012 10:29:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je viens de relancer pat
I just asked Pat again
03/23/2012 10:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
merci
thanks
03/23/2012 10:31:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu peux me faire les transcripts de david gildenberg a CS stp?
Can you please do/check david gldenberg’s transcripts to CS?
03/23/2012 10:31:38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je suis sur le call
I am on the call
03/23/2012 10:31:45 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 10:31:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout est sur le chat de cs
everything in on cs’ s chat
03/23/2012 10:31:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
peux tu le faire.
can you do it?
03/23/2012 10:32:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 10:57:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
appelle moi qd tu peux
call me when you can
03/23/2012 10:57:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tjs en ligne?
Still online?
03/23/2012 10:57:43 JULIEN GROUT, JPMORGAN CHASE BANK, says:
dis moi quand tu as pu retrouver les chats de David Goldenberg
tell me when you can find David Goldenberg’s chats
03/23/2012 10:57:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
stp
please
03/23/2012 12:00:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c sur le chat de cs sur la fin de mois
It is on cs’ s chat at the end of the month
03/23/2012 12:00:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et il ya celui de citi
and there is the citi one
03/23/2012 12:00:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
il faut montrer les deux en parallel
you need to show both in parallel
03/23/2012 12:00:34 JULIEN GROUT, JPMORGAN CHASE BANK, says:
peux tu me les envoyer stp?
Can you send them to me please?
03/23/2012 12:01:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok je fqs citi
ok I do citi
03/23/2012 12:01:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu peux fque cs?
Can you do cs please?
03/23/2012 12:03:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
C’ETAIT SUR QUOI DEJA ? LES 6B?
About what was it again? The 6B?
03/23/2012 12:04:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok laisse tomber
give it up
03/23/2012 12:04:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je e fais
I do it
03/12/2012 12:04:54 JULIEN GROUT, JPMORGAN CHASE BANK, says: desole y avait javier j’ai perdu le fil
sorry javier was here and I lost track
03/23/2012 12:04:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says: pas de pb
no pb
03/12/2012 12:05:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: regarde tes email
look at your emails
03/23/2012 12:05:16 BRUNO TKSIL, JPMORGAN CHASE BANK, says: je faire janvier et fevrier sur credit suisse
I am going to do January and February on credit suisse
03/23/2012 12:05:44 JULIEN GROUT, JPMORGAN CHASE BANK, says: peux tu te rappeler des chats ou les traders te disaient que l’IB poussait sur ig9?
Can you remember chats where the traders told you that the IB insisted on ig9?
03/23/2012 12:07:45 BRUNO TKSIL, JPMORGAN CHASE BANK, says: non
no
03/23/2012 12:07:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says: aucun
none
03/23/2012 12:19:23 JULIEN GROUT, JPMORGAN CHASE BANK, says: bruno
bruno
03/23/2012 12:19:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui
yes
03/23/2012 12:19:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ignore le dernier email pour csfb*
disregard the last email for csfb
03/23/2012 12:19:49 BRUNO TKSIL, JPMORGAN CHASE BANK, says: c un dupe
it is a trick
03/23/2012 12:19:52 JULIEN GROUT, JPMORGAN CHASE BANK, says: bon j’ai les marginals old fashion
well, I have the old fashion marginals
03/23/2012 12:19:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ah demande a Javier
ah ask Javier
03/23/2012 12:20:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says: quel pnl on print today
what pnl we print today
03/23/2012 12:20:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je ne sais plus la
I don’t know anymore
I don’t know anymore
03/23/2012 12:20:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
j’ai aussi les marginales pour un split IRC/optimal tranches book, ça t’intresse?
I also have the marginales for a split IRC/optimal tranches book, are you interested?
03/23/20 12:20:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
out
yes
03/23/2012 12:20:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
stp va voir javier
please, go see javier
03/23/2012 12:20:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oke vais aller lui demande. il pense que les pieces que j’ai amasses ne sont pas assez
ok I am going to ask him, he thinks that the documents that I collected are not enough
03/23/20 12:20:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/2012 12:20:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je vais aller lui envoyer
I am going to send them to him
03/23/2012 12:22:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
dis moj qd core delta est updated
tell me when core delta is updated
03/23/2012 12:24:27 JULIEN GROUT, JPMORGAN CHASE BANK, says
done
done
03/23/2012 12:24:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
si on doit faire bcp plus de ig9 vs ig18 il faut faire une simulation sur le rwa via Pat
if we must do much more ig9 vs ig18, we need to do a simulation on the rwa via Pat
03/23/2012 12:27:17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon je fais le pnl la
well, I do the pnl now
03/23/2012 12:27:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
ok?
03/23/2012 12:29:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says
ah non on ne fera jamais ça!
oh no, we will never do that!
03/23/20 12:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yen a mare a la fin
enough is enough
03/23/20 12:30:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu as parle a Javier?
Did you talk to Javier?
03/23/20 12:37:12 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu noteras qu’il veut faire les simuls de capital AVANT de traiter
you’ll notice that he wants to do the capital simulations BEFORE dealing
03/12/20 12:51:30 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon ca va douiller sur la compression là
it is going to be spent/expensive on the compression now
03/23/20 12:52:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 12:53:00 JULIEN GROUT, JPMORGAN CHASE BANK, says:
as tu parlé à Javier?
Did you talk to Javier?
03/23/20 12:56:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:
b?
b?
03/23/20 12:56:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 12:56:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
ok
03/23/20 12:57:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
we show -3 until month end on this one
we show -3 until month end on this one
03/23/20 12:57:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
anyway
anyway
03/23/20 13:08:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
arrete
stop that
03/23/20 13:08:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu ne perds pas 200m en compression
you do not loose 200m with compression
03/23/20 13:08:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
on a 34m de cs01 en ig, hy unc'd today (par rapport à nos marques) et ig+3.25. ca fait 110m
we have 34m of cs01 in ig. Hy unc'd today (in comparison with our marks) and ig+3.25. it makes 110m
03/23/20 13:09:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
Ok?
03/23/2012 13:09:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ecoute je n'ai pas le temps
listen, I don't have time
03/23/20 12:13:09:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pok
why?
03/23/20 12:13:09:51 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok
03/23/20 12:13:09:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je suis avec pat pour voir les trades
I am with pat to see for the trades
03/23/20 12:13 :10:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout ce que je te demande c de dire a Javier ce que tu vois
all that I am asking you is to tell Javier what you see
03/23/20 12 13: 10: 14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c tout et ils decide ce qu'on montre
that's it and he decides what we show
03/23/20 12 13: 10:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
parce que la moi je ne sais plus
because me, I don't know anymore
03/23/20 12 13 10:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je regarde la reduction du rwa
I look at the reduction in the rwa

03/23/20 12 14 :37 :47 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room
From: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
To: Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
        Drew, Ina <Ina.Drew@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>
        Weiland, Peter <peter.weiland@jpmchase.com>; Stephan, Keith <keith.stephan@jpmorgan.com>
CC: Weiland, Peter <peter.weiland@jpmchase.com>; Stephan, Keith <keith.stephan@jpmorgan.com>
Subject: Tranche Plan

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

Irv

Irvin Goldman | J.P. Morgan | Chief Investment Office | 270 Park Ave | ☎ Tel: +1 212 834 2331 | Email irvin.j.goldman@jpmchase.com
From: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Sent: Fri, 30 Mar 2012 14:15:25 GMT
To: Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: synthetic credit -- crisis action plan

FYI

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

Hi John,

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

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

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

Background: following years of exceptional performance in this book utilizing 5b RWA, we have decided to risk neutralize the book post the large gains on the AA events around thanksgiving. While we remained short in HY, we have bought IG to achieve a risk neural stance. Since then, and while both IG rallied and the RV between HY and IG worked in our favour, the proxing of IG long via IG 9 forwards, did not work and resulted in almost total loss of hedging effectiveness: Additionally, the RWA increased beyond my targets and I have lost confidence in my team's ability to achieve the targeted RWA and their understanding of the synthetic levers to achieve the RWA objectives.

Due to the size of the book, our market manoeuvrability is limited. I am further worried that the "best" course of action from a risk and economic point of view, may be conflicting with the appropriate capital utilization.

Many thanks,
Achilles

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

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

Thanks
Hi Irv,

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

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

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

best,
Achilles

---

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

Hi guys,

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

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

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

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

Clearly, we are in a crisis mode on this. The crisis team is to have short daily meetings and your daily update and progress report needs to be commercial and forward looking to mark to implementation of the stated objectives.
We will be discussing the suspension of our investment programs as well as potential OCI crystallizations at the ISMG.

Thanks,
Achilles
'London Whale' Rattles Debt Market
By GREGORY ZUCKERMAN And KATY BURNE

In recent weeks, hedge funds and other investors have been puzzled by unusual movements in some credit markets, and have been buzzing about the identity of a deep-pocketed trader dubbed "the London whale."

That trader, according to people familiar with the matter, is a low-profile, French-born J.P. Morgan Chase & Co. employee named Bruno Michel Iksil.

Mr. Iksil has taken large positions for the bank in insurance-like products called credit-default swaps. Lately, partly in reaction to market movements possibly resulting from Mr. Iksil's trades, some hedge funds and others have made heavy opposing bets, according to people close to the matter.

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

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

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

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

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

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

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

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

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

Any reduction in Mr. Iksil's position could result in profits for the hedge funds and losses for the bank, according to a person familiar with the matter. There is no indication that any such reduction is planned.
J.P. Morgan Chase has emerged from the financial crisis as one of the strongest global banks, and Chief Executive James Dimon often boasts of the company's "fortress balance sheet."

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

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

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

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

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

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

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

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

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

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

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

Write to Gregory Zuckerman at gregory.zuckerman@wsj.com and Katy Burne at katy.burne@dowjones.com
JPMorgan Trader’s Positions Said to Distort Credit Indexes

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

A JPMorgan Chase & Co. (JPM) trader of derivatives linked to the financial health of corporations has amassed positions so large that he’s driving price moves in the $10 trillion market, traders outside the firm said.

The trader is London-based Bruno Iksil, according to five counterparts at hedge funds and rival banks who requested anonymity because they’re not authorized to discuss the transactions. He specializes in credit-derivative indexes, a market that during the past decade has overtaken corporate bonds to become the biggest forum for investors betting on the likelihood of company defaults.

Investors complain that Iksil’s trades may be distorting prices, affecting bondholders who use the instruments to hedge hundreds of billions of dollars of fixed-income holdings. Analysts and economists also use the indexes to help gauge perceptions of risk in credit markets.

Though Iksil reveals little to other traders about his own positions, they say they’ve taken the opposite side of transactions and that his orders are the biggest they’ve encountered. Two hedge-fund traders said they have seen unusually large price swings when they were told by dealers that Iksil was in the market. At least some traders refer to Iksil as “the London whale,” according to one person in the business.

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

Most-Active Index

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

The Markit CDX North America Investment Grade Index of credit-default swaps Series 18 (IBOXUMAE) rose 3.3 basis points to 100.2 basis points as of 10:18 a.m. in New York, after jumping 4.4 basis points yesterday, according to Markit Group Ltd. The price of the index is quoted in yield spreads, which rise along with the perceived likelihood of increased corporate defaults.
A credit-default swap is a financial instrument that investors use to hedge against losses on corporate debt or to speculate on a company’s creditworthiness.

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

**Close Supervision**

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

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

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

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

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

**Volcker Rule**

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

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

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

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

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

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

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

Trader’s Position

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

The trader may have built a $100 billion position in contracts on Series 9 (lBOXUG09) of the Markit CDX North America Investment Grade Index, according to the people, who said they based their estimates on the trades and price movements they witnessed as well as their understanding of the size and structure of the markets.

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

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

To contact the editors responsible for this story: David Scheer at dscheer@bloomberg.net; Shannon D. Harrington at sharrington6@bloomberg.net
From: Hogan, John J. <JohnJ.Hogan@jpmorgan.com>
Sent: Tue, 10 Apr 2012 23:17:16 GMT
To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Subject: Re: Credit

Lovely

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

A bit more than we thought

From: Drew, Ina
Sent: Tuesday, April 10, 2012 07:08 PM
To: Dimon, Jamie; Braunstein, Douglas; Wilmot, John; Zubrow, Barry L; Staley, Jes
Subject: Credit

The mtn loss is 412 mil today, an 8 standard deviation event mostly from the steeping of the 1g9 curve. SPECIFIC to our position. No other high grade or high yield index moved much clearly anticipating our liquidation.

I am in the office further reviewing the pl scenario with London and will send it on shortly.
Subject: Net positions vs average trading volumes

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

The below table shows that CDX.NG.9 net position for CIO is $82.2bio, which is approximately 10-15 days of 100% of trading volume based on the 1m avg volume published by JPMorgan Research. ITX.9 net position for CIO is $35bio, which is approximately 8-12 days of 100% trading volume based on the 1m avg volume. For on the run positions the numbers are much smaller, ranging from 0.25 days to 2 days volume in IG and HY, respectively.
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Source: JPMorgan Credit Derivative Indices Daily Trading Volumes 30 Mar 2012
This is just a strategy and not an explanation. And this is Ina Drew speak before she was fired.

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

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

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

That's the point!

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

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

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

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

The x-axis is the Hedge Index Composite. I venture to guess this is the aggregate hedge that think they need to put on, related to the aggregate number on the extreme lower right hand side, the $158.498 mil. They have a whole matrix of longs and shorts and that's the composite. As fear resided and rolling 10 yr minus rolling 5 yr returned to positive, they can reduce their total hedge. As Mike said, the REDS are which they are at now --- so their hedge is not that unreasonable, IF THE HEDGE AMOUNT DID HAVE THIS RELATIONSHIP TO THE SLOPE of 5yr to 10yr CDS.

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

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

Happy to join you in your calls with Mike B.

In respect to your questions, in the order asked:

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

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

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

- You can give Mike B my cell phone number.

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

Regards,
Mike

---

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

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

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

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

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

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

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

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

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

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

- apc

*** If you have received this message in error, please delete the original and all copies, and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. ***
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From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>  
Sent: Fri, 16 Mar 2012 18:12:42 GMT  
To: Grout, Julien G <julien.g.grout@jpmchase.com>  
Subject: FW: update on Core PNL

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

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

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

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

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

Ina,

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

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

We are left here with two options:

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

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

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

I need to discuss this as soon as possible

regards