Thanks Fred,

Wanted to get some ideas down on paper before I forget the details, and to serve as a roadmap in the future. Working on so many different things all of which will take place over long time periods...so wanted to write down the thoughts.

I'm certain James has more details and ideas.

Regards,

Mike

See bold.

- 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. ***

Fred,

James and I were chatting electronically about the recent CIO events, and I wanted to share my opinions as food for thought recognizing that these are only opinions as all the facts are not in, and I don't know for sure what has happened and what is the correct course of action.

It's not clear to me that the synthetic credit hedging strategy failed, as it worked quite well for some time (and perhaps until very recently), and then began to lose effectiveness and they didn't realize this until they tried to reduce part of it. I think it's possible bank processes failed, not the micro strategy of the synthetic credit hedge.

Agree – it wasn't the basic strategy; it was the specific trades done to adjust the position that failed; this seems to have eliminated all the benefit accrued so far. So the problem was the selection of the strategy to make the change.

I admire Risk for standing up and taking blame for inadequate limits, but that's only part of the problem. No one will ever know prospectively how issues may arise; that's why there's multiple forms of controls. Issues sometimes manifest themselves thru risk, other times thru models and assumptions, others thru valuation, and others thru combinations of factors (likely in this case).
Agree – Also CIO probably needs to focus more on the short term time horizon as well as the longer holding periods (Recall Ina’s comments).

Many processes probably may need to be enhanced and management may want to rethink their strategy approval processes (note the MRA in 2010 attempts to get at this). I think all the senior managers, including Jaime Dimon, who approved this strategy shouldering the blame. I think Ina Drew considers herself to be a real money manager; she is not. She is a more like a ALM manager. The CIO function is in a bank. A real money manager produces returns monthly (sometimes more frequently) to investors who can withdraw at any time. This instills a certain amount of discipline in risk/return vs. liquidity. They know that any investment they make may need to be liquidated in short order, therefore they need to be conscious of their size, size of trades, and market ability to absorb their investments when they need to exit (I realize they have liquidity lines of credit to assist with this, but this provides for orderly liquidation, it does not provide for long term unwinds with large market risk exposure). Ina doesn’t have that type of discipline forced upon her b/c bank liabilities are not correlated strongly to her return, and she doesn’t have the risk that investors may withdraw funds if they are unhappy with her investment selections.

Agree – CIO needs a more balanced perspective

In reality Ina Drew is a hybrid, and should manager her function/business as a hybrid. Items that are marked to market probably should have the same processes as IB, as at the end of the day JPMC has limited appetite for P&L vol. Also, limits tend at JPMC to be set once there are material exposures. In this case, because of the size of JPMC’s balance sheet, they would likely set the limits very large anyway. Moreover, there are so many permutations on how to reduce with derivs (indices, branches etc) that the limit system would have to have been extremely comprehensive, and it is unlikely they would have set it up that way (particularly if they didn’t have the exposures yet) even if they did think of notional limits. So, I think that traders would have found other means to exit other than unwinding what they had. If reserves provided proper incentives to unwind vs. find less costly alternative the situation may have been better.

Once the bank finishes their investigations etc, we can also spend more time pulling this apart. CIO was on the schedule for October

More robust reserving for concentrations and liquidity may likely have resulted in traders rolling out of existing HY trades earlier before they became off the run indices, as there may have been an incentive to hold more actively and deeply traded indices rather than holding onto an older index as liquidity fell, and JPMC’s concentration relative to market size increased. If the bank was not able to roll into another more liquid HY index that was a suitable hedge, this would have been an indication that the strategy may be breaking down, or that correlations have changed and holdings should be changed to match available credit hedges. It may not ever be known what happened, but somewhere in between initiating the position and the point where the bank decided to reduce the HY hedge the market’s willingness/ability to absorb JPMC’s size changed, and that should (I believe) be reflected in their P&L thru reserves (call it concentration or liquidity) and this would have provided the incentives to the bank to reduce exposures before it became a multibillion dollar issue. This is another way of saying that there was no process in place to reevaluate the strategy as long as it was in place in working in terms of current P&L, so they wouldn’t know they were driving on a road where the bridge was out until they got there. The reserving process, sensitive to changes in concentrations and liquidity, are the road signs warning of danger ahead. Limit structures do not provide this warning until you get to the end of the road.

I wasn’t satisfied with the comments made about valuation process and thresholds yesterday, and so we have some followup here. I am not sure they got the point, probably because of that “time horizon” comment. In addition to reserve, there were likely problems with the thresholds themselves. So this is another followup. (Valuation was one of the things Hogan said they are looking at)

In the case of this micro strategy, one can look at the market and make a case that the reason why they could not exit the HY CDS were not due to AMR, EK, LTRO, but due to a pronounced change in market perceptions of risk as one could one could sell IG instead. "What does that tell you? (To quote a former trading mentor of mine.) I think that tells you (and with hindsight it’s clear) that the market has changed materially, and no longer holds historical relationships true; therefore the JPMC traders use of historical relationships (correlations) was in error, because forward correlations were now materially different and likely to remain that way (as JPMC’s later analysis agreed). Market’s seemingly insatiable appetite to take the other side of JPMC’s trades possibly indicated that the IMPLIED market price of this correlation has collapsed…something that eventually became realized in the losses at JPMC.

gree and when evaluating strategy’s perhaps traders should have looked at more scenarios. We will see what they did.
While having more granular limits would have certainly helped, the limits alone would not provide the proper incentive for traders to unwind the trades they have vs enter new ones and adding complexity. For as long as it is less costly to the traders P&L to enter new risks vs closing old ones, new risks will be added. This is a simple law of trading that will always hold true. With complex products traders can always find a way to reduce a type of exposure by adding a new one. The sue is when relationships assumed between the risks break down (correlations) the whole strategy implodes and multiple illiquid risks need to be unwound instead of one. And unwinding this is more complex that it seems because lifting one leg without the closing the other exposes new risks again, and it is extremely difficult to find the other side to multiple legged complex risks strategies; in other words it’s unlikely that you will find someone who will want both legs of your complex hedge at a time when it’s moving so much against you (or at any time for that matter because the other side of complex hedging strategies do not “naturally exist”).

Processes for new strategy should have included stresses to that strategy. But would they have stressed to extent market is currently dislocated? Probably not, b/c they would have based upon historical spreads and correlations which are now no longer relevant and the moves to current level would have been considered beyond extreme. I think this is a similar issue as the hybrids books. JPMC may not stress the complex risks enough. By putting the complex illiquid products thru the typical stress scenarios the bank is effectively ignoring the illiquidity because the standard scenarios assume an exit and rebalance which may not be feasible. The normal stress processes do not assume events happen multiple times, and do not go extremely deep into tails.

Agree I am curious to see what they did, though

I have no concerns generally with the overarching strategy of the CIO function and what they were attempting to do. I think, however, that processes may need to be strengthened. I understand the bank is looking at all processes right now; but, I think we should consider steering them towards changes in valuation policies and processes for mark to market items, initiating a new strategy review process that is documented and signed off by all control functions (sort of like a NBIA), and a review of stress processes for complex products and strategies (something I think the bank fell short of with respect to hybrids). Prospective strategies should be run thru the complex stress scenarios as part of the NBIA look-a-like process.

Agree

Just thinking on paper, not saying that any of this is fact, or the solution.

Regards,

Mike

Mike Kirk

Capital Markets Examiner

Large Bank Supervision

Phone: 212 899-1383

Fax: 301 433-9209

This message is intended for designated recipients only. 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.
Just FYI — we did an examination of the CIO at the end of 2010 and have a follow-up planned soon. We had some concerns about overall governance and transparency of the activities. 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. She said that everyone knows what is going on and there is little need for more limits, controls, or reports. At the conclusion of the exam, we issued the following MRA.

- Management should update and amend investment policies to clearly define the processes used to manage the investment portfolio as well as document current portfolio objectives and investment parameters.

The risk management framework for the investment portfolios (Strategic Asset Allocation and Tactical Asset Allocation) is not well documented. While overall risk controls and communication appear to be sound, the absence of a documented methodology with clear records of decisions and other approvals makes it difficult to determine whether portfolio risk management and control are governed according to senior management and DRPC expectations. Discussions with managers and a review of audit work enabled us to clarify how investment decisions are made and what parameters and limits exist around investment activities. Nevertheless, it is our expectation that the following minimums be formally documented:

- While trades, portfolio decisions and market analysis focus on maintaining an agreed upon duration of equity (DOE), there is no report that summarizes support for the agreed upon DOE. Senior ACOO receives only the DOE synopsis page, and documentation leading up to decisions and/or minutes of those discussions should be kept.

Guidance articulating overall portfolio objectives or exposure targets and asset parameters is not used. While we recognize the need for maintaining flexibility in portfolio management, practices and decisions should be documented.

Reporting and analysis on below-investment-grade and nonrated (NR) securities should be documented better to ensure ongoing compliance with OCC Bulletin 2004-25.

It just goes to show that it is difficult to always be smarter than the market. Humility is good.
Hi John,
If there's a daily P&L distribution like those that we get from the IB, can you add either me or my boss Fred Crumlish to it as soon as possible. Thanks, James

---

Hi John,

We'd like to get the synthetic credit P&L for the past five weeks broken out on at least a weekly basis. If you've got regular reports that show this, just forwarding them would be best. Also, we are on the distribution for daily P&Ls from the IB. If CIO MTM positions are also distributed daily, we'd like to get the reporting on the same basis. I am on the distribution for the daily MSR P/L Estimate.

Thanks, James
Exactly, Let's see what the "lessons learned" says...

- 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. ***

From: Wong, Elwyn
Sent: Tuesday, May 15, 2012 1:17 PM
To: Kirk, Mike; Crumlish, Fred; Fursa, Thomas; Hohl, James
Subject: RE:

Good point. Does not add up. Collateral dispute of $700 mil versus a double digit reserves amount?

From: Kirk, Mike
Sent: Tuesday, May 15, 2012 1:14 PM
To: Wong, Elwyn
Subject: RE:

just looked at it and can't find what I would think is the whole book... wondering are there items they weren't price testing?

Wondering how could they have a large collateral dispute and with these reports showing pricing this tight (16MM adjustment only)

Is the synthetic portfolio completely covered by this report? It's not clear to me.

From: Wong, Elwyn
Sent: Tuesday, May 15, 2012 11:18 AM
To: Kirk, Mike
Subject:

Talked to Tom. There is March CIO VCG report in WISDM under FVP/CIO. The Powerpoint mentioned increase by a small amount of reserves for CDS but we didn’t find total amount in Spreadsheet. I will look more closely too.

CIO VCG reports to CIO Controller not to Jean Francois Bessin obviously.
FYI - I got one CIO daily P&L distribution and then didn't yesterday. I inquired about it this morning, but haven't heard back.

From: Hohl (Regulator), James X
Sent: Thursday, May 17, 2012 8:09 AM
To: Rizaj, Admand X
Subject: RE: CIO Performance Summary - 05/15/2012

Hi, I received the daily report below on Tuesday, but didn't receive it on Wednesday. Was there a problem with the report last night? Thanks, James

From: Rizaj, Admand X
Sent: Tuesday, May 15, 2012 8:23 PM
To: CIO Daily Performance Summary
Subject: CIO Performance Summary - 05/15/2012
5-18-12
SBC Staff Briefing

From the briefing:

UPMC transactions at issue involved an effort to hedge the
bank's credit risk is not uncommon, and it
abstracting information done properly reflects sound risk
management.

As has been reported, in late 2011, UPMC made a decision
to modify its original
position. Rather than terminating
the position, the bank entered into a new position in
the combination gap,

the bank's exposure on the first position.

This has been described as a hedge on a hedge.

These transactions and the individual trades involved are
quite complicated.

The OCC has very extensive expectations around
national banks' derivatives activities, and hedging would be
expected to be undertaken in
the process for risk
identification in those activities and communications with
regulators about those activities.

We are in the process now of getting detailed information on
the activities that occurred, and comparing
that information with the standards we apply, to identify
just where breakdowns occurred.

This will also inform whether there are changes we need to
make in our administrative expectations, going forward.

It would not be appropriate to discuss confidential
or bank-specific information in public forum;
but we can give you detailed information on how we
supervised this area and our expectations.
Agreed too. That's the problem with using historical data and assuming mean reversion. It will work a lot of times, but one has to be mindful of paradigm shifts and the LTRO is a paradigm shift for the markets in the short run. Issue is JPM never stressed components of the trades beyond historical (I think). Had they looked at the components of the risks and stressed them to say 4-5-6 sds they would have the impacts of low probability events. Although my guess is they would have ignored that too! Arrogance drove this bus.

That's not worth the paper it is written on. You think they can convince my cleaning lady? A dollar on each cell of the matrix is worth the same.

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.

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.
From: Kirk, Mike  
Sent: Thursday, May 17, 2012 4:51 PM  
To: Crumlish, Fred; Hohl, James; Wong, Elwyn  
Cc: Waterhouse, Scott  
Subject: RE: CIO call with Mike Brosnan

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

---

From: Crumlish, Fred  
Sent: Thursday, May 17, 2012 4:22 PM  
To: Kirk, Mike; Hohl, James; Wong, Elwyn  
Cc: Waterhouse, Scott  
Subject: CIO call with Mike Brosnan

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:
  - 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.

- spec

*** 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. ***
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.

**COB 1/23/12**

The stand alone VaR for each LOB are as follows: IB is $72mm (vs. $120mm limit), CIO is $103mm (vs. $105mm limit), RFS is $12mm (vs. $95mm limit), TSS is $9mm (vs. $25mm limit), Private Equity is $9mm (no limit set given immateriality), and AM is $0.2mm (no limit set given immateriality).

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

**COB 1/24/12**

CIO continues to manage the synthetic credit portfolio balancing credit protection and Basel III RWA. The new VaR model for CIO was approved today by MRG and is expected to be implemented prior to month-end.
Interesting commentary. This is the SEC questioning of WilmerHale.

From: Kirk, Mike
Sent: Friday, June 29, 2012 9:06 AM
To: Wong, Elwyn; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: RE: 2nd Wilmer Hale Call

Yes, a huge percentage at that point in history.

From: Wong, Elwyn
Sent: Friday, June 29, 2012 9:01 AM
To: Kirk, Mike; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: Re: 2nd Wilmer Hale Call

That was my immediate reaction as well. Will be interesting to see what more they have to say in the 3rd call focusing on valuation. But more importantly, the few hundred million divergence was supposed to have been reflected in the PnL on the last day of March. Then in April there was another 700 mil collateral dispute! I mean, DISPUTE - that is a percentage of the mark to market!

From: Kirk, Mike
Sent: Friday, June 29, 2012 07:38 AM
To: Wong, Elwyn; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: RE: 2nd Wilmer Hale Call

Section 1 on Traders is damaging to Hogan’s reputation in respect to his interaction with regulators, in my opinion.

On the very first daily call, Hogan discussed that earlier there had been a large collateral dispute with their counterparties. I questioned him on how it was resolved and he said JPM eventually agreed to the counterparties marks and then paid out the near $400MM amount. 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. The 4th bullet point below is consistent with a collateral dispute that is resolved by agreeing to counter parties levels, and more consistent with a common sense view of likely drivers of the same.

From: Wong, Elwyn
Sent: Thursday, June 28, 2012 6:17 PM
To: Waterhouse, Scott; Crumlish, Fred; Kirk, Mike
Cc: Hohl, James; Patro, Dilip; Banks, George
Subject: 2nd Wilmer Hale Call

Wilmer Hale made Part 2 of their presentation today in terms of their findings. They have yet to finish interviewing JPM employees in London. Materials were handed out to our DC
people. Tom Dowd and Kevin Lee were 2 names I recognize.

There will be a third presentation specifically on trader marks and VCG. It is currently scheduled for next Tuesday but Wilmer Hale is asking for more time possibly until week after July 4th as they are still interviewing London employees.

Today Wilmer Hale focused on who knew what and when they knew.

Traders:

Perplexingly, traders seem to have formulated their RWA reduction strategy based on their own method of calculating RWA outside of that calculated by Risk Management/Finance (unsure how exactly the latter calculates it but it did to a large extent involve Westend and unsure why IG vs HY would reduce RWA at all). While there was not much disagreement between traders and Risk on the large reduction in VaR upon the implementation of Westend, there were lengthy debates on why RWA should increase upon the rollout of the Westend. The disagreement led to Venkat and Olivier's involvement in the first place (separate and distinct from Hogan parachuting them in by April 27th). Macris was unsuccessful in convincing Venkat that traders RWA methodology was correct and Risk Management's was wrong.

Traders had debated splitting tranches and their delta hedges into one book to calculate Comprehensive Risk Measure (CRM) and the pure index positions into another book to calculate Incremental Risk Capital (IRC).

Macris and Drew made no mentioning of increase in RWA (according to Risk Management's calculation) in February CIO ERM attended by Dimon and Braunstein.

Wilmer Hale has already begun using the term “hiding losses”, A junior trader Julian Grout was responsible for FO daily marks. He kept a record of the difference between “crude-mids” (taking market prices without taking specific consideration of circumstances and size and who it was from) and CIO marks. It was $100mil in Jan 2012 and had grown to $300mil in Mar. That record was last dated 03/15/2012. Real market marks were trued by end of Mar and the large loss on 3/31/2012 was due to that one reason. For example, a realized loss was $12 mil on a day in March when the crude-mid divergence was $600 mil. On another day, it was $18 mil loss when the divergence was $300 mil.

Bruno Iksil mused on divergence reaching $1 bil by the end of March but if CIO held out it would not lose a single penny. On a Friday, he said he didn't want to come back on Monday.

Traders were intentionally doing larger notionals to drive the market their way. They talked about “taking the P/L pain” versus the risk of building larger positions.

Traders gave much smaller loss estimates under different scenarios repeatedly during rehearsals for the earnings call and inquiries triggered by the Bloomberg London Whale article just prior to that. 80% chance of Q2 losses between $150 mil and $250 mil but
possible large drawdown intra-quarter.

A lot of emails between Bruno and Javier not less from them to Macris

When Ina met with traders to further discuss why the results of Risk Management’s RWA calculations were so different from the traders, they did not include positions put on from 3/7 to 3/20 (we now know they doubled down around this time)

Other senior hires within CIO made incidental suggestions. Head of NA CIO trading suggested using IRS swap spread to hedge credit spread widening. John Wilmott suggested using OCI to fund some unwinds. Wilmott also suggested closing the book entirely.

Dimon and Braunstein

Nothing new on this front as I have written on this extensively in the last email. In a nutshell, they only began asking for details around the Bloomberg news break and during the run-up to the 4/13/2012 earnings call. Macris told Braunstein the majority of the positions were taken in Jan and Feb but we now know the doubling down in March. Dimon, Braunstein and Hogan believed Ina and Macris well into April for at least another week after 4/13/2012 earnings call. That was when more significant losses began to show.

Risk Reporting

For the 4/13 earnings supplement, neither Levine Surtani and Matt Lynch from Risk Reporting nor Goldman/Weiland knew they should be disclosing VaR model change even though SEC guidelines said they should. They even consulted Ashley Bacon. After Goldman/Weiland sign-off, since only average VaR was reported, no one had picked up on the sudden decrease in VaR caused by the new model.

Only when 10Q was about to be filed and more people were involved such as PCW and Controllers were they then made aware of the need for disclosure.

The part on why they had to re-instate old model with a much large VaR is now familiar to us.
Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/19/2012 has decreased by $9mm from the prior day's VaR to $129mm and continues to breach the $125mm Firm VaR limit for the fourth consecutive day.
- CIO's 95% 10Q VaR* as of cob 01/19/2012 has decreased by $2.5mm from the prior day's VaR to $100mm and continues to breach the $95mm CIO VaR limit for the fourth consecutive day.
- The decrease in the Firm's VaR is primarily driven by an overall increase in diversification benefit across the Firm and position changes in CIO and MSR.
- Each LOB's contribution to the Firm's $129mm VaR (as shown by marginal VaR) are: IB driven by CIO International credit tranche book, RFS and TSS and Private Equity.
- The stand alone VaR for each LOB are as follows: IB is CIO is $100mm (vs. $95mm limit), RFS is TSS and Private Equity.

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR

EXHIBIT #79a
The Firm's 95% 10Q VaR breached its $125mm limit for the fourth consecutive day on January 19th 2012, primarily driven by CIO.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.
This email is to request your approval to implement the temporary increase of the Firm's 95% 10Q VaR limit from $125mm to $140mm, expiring on January 31st, 2012. There is a pending approval for a new model for the CIO Intl Credit Tranche book. If the new model is approved and implemented prior to January 31st, the Firm's 95% 10Q VaR limit will revert back to the original $125mm level.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

Below are estimated VaR levels for COB 1/18/12 using the new Credit Tranche model.

<table>
<thead>
<tr>
<th>COB 1/18/12</th>
<th>CURRENT FIRM</th>
<th>NEW MODEL FIRM</th>
<th>CURRENT CIO</th>
<th>NEW MODEL CIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>95% 10Q VaR</td>
<td>$137,961,471</td>
<td>$98,456,554</td>
<td>$102,385,406</td>
<td>$57,183,430</td>
</tr>
</tbody>
</table>

Proposed Change to the Firm's 95% 10Q VaR:

<table>
<thead>
<tr>
<th>LOB</th>
<th>Limit Type: Level 1</th>
<th>Current Limit</th>
<th>Proposed Temporary Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMC 95% 10Q VaR</td>
<td>$125mm</td>
<td>$140mm</td>
<td></td>
</tr>
</tbody>
</table>

If more information is required, please let us know and we will arrange to provide further details.
Blackberry friendly:

Temporary increase of the JPMC 95% 10Q VaR Limit from $125mm to $140mm.

Upon receipt of your approval, the above limit change will be entered into Market Risk Systems with a start date of January 20, 2012.

If you approve of the limit change, please reply to all with your approval.

Thank you.
I approve.

From: Hogan, John J.
To: MRM Reporting; Dimon, Jamie
Cc: Drew, Ina; Staley, Jes; Weiland, Peter; Bacon, Ashley; Waring, Mick; Doyle, Robin A.; Bisignano, Frank J; Tocchio, Samantha X; Lochtefeld, Thomas A; GREEN, IAN; Gondell, Sarah N; MRM Firmwide Reporting; Intraspect - LIMITS
Sent: Monday, January 23, 2012 3:31 PM
Subject: APPROVAL NEEDED: JPMC 95% 10Q VaR One-Off Limit Approval

This email is to request your approval to implement the temporary increase of the Firm’s 95% 10Q VaR limit from $125mm to $140mm, expiring on January 31st, 2012. There is a pending approval for a new model for the CIO Intl Credit Tranche book. If the new model is approved and implemented prior to January 31st, the Firm’s 95% 10Q VaR limit will revert back to the original $125mm level.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.
The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

Below are estimated VaR levels for COB 1/18/12 using the new Credit Tranche model.

<table>
<thead>
<tr>
<th>COB 1/18/12</th>
<th>CURRENT FIRM 95% 10Q VaR</th>
<th>NEW MODEL FIRM 98,456,554</th>
<th>CURRENT CIO 102,385,406</th>
<th>NEW MODEL CIO 57,183,430</th>
</tr>
</thead>
</table>

Proposed Change to the Firm's 95% 10Q VaR:

<table>
<thead>
<tr>
<th>LOB</th>
<th>Limit Type: Level 1</th>
<th>Current Limit</th>
<th>Proposed Temporary Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMC</td>
<td>95% 10Q VaR</td>
<td>$125mm</td>
<td>$140mm</td>
</tr>
</tbody>
</table>

If more information is required, please let us know and we will arrange to provide further details.

Blackberry friendly:

Temporary increase of the JPMC 95% 10Q VaR Limit from $125mm to $140mm.

Upon receipt of your approval, the above limit change will be entered into Market Risk Systems with a start date of January 20, 2012.

If you approve of the limit change, please reply to all with your approval.

Thank you.
Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/20/2012 is $131mm of the $140mm limit, an increase of $3mm from the prior day's revised VaR.
- CIO's 95% 10Q VaR* as of cob 01/20/2012 is $100mm of the $105mm limit, materially unchanged from the prior day's VaR.
- Each LOB's contribution to the Firm's $131mm VaR (as shown by marginal VaR) are: IB (driven by CIO International credit tranche book), RFS (CIO $80mm mVaR, primarily Private Equity (and TSS), and TSS.
- The stand alone VaR for each LOB are as follows: IB is CIO is $100mm (vs. $105mm limit), RFS is TSS is Private Equity is and AM is

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$1.4bn to +$1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.
From: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>
Sent: Tue, 24 Jan 2012 23:31:28 GMT
To: Market Risk Management - Reporting <marketriskmanagement-reporting@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Weilland, Peter <peter.weilland@jpmchase.com>; Weisbrod, David A <David.A.Weisbrod@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Beck, David J <david.j.beck@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Morzaria, Tushar R <tushar.r.morzaria@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Delosso, Donna <Donna.Delosso@jpmorgan.com>; Bisignano, Frank J <frank.j.bisignano@jpmorgan.com>; Rauchenberger, Louis <louis.rauchenberger@jpmorgan.com>; Lake, Marianne <Marianne.Lake@jpmorgan.com>
CC: Doyle, Robin A <Robin.A.Doyle@chase.com>; Waring, Mick <Mick.Waring@jpmorgan.com>; GREEN, IAN <ian.green@jpmorgan.com>; McCaffrey, Lauren A <lauren.a.mccaffrey@jpmorgan.com>; Tocchio, Samantha X <samantha.x.tocchio@jpmorgan.com>; Chiavenato, Ricardo S <ricardo.s.chiavenato@jpmorgan.com>; Chen, Dan <Dan.Chen@jpmorgan.com>; Market Risk Reporting <Market_Risk_Report@jpmorgan.com>
Subject: JPMC Firmwide VaR - Daily Update - COB 01/23/2012

--- Redacted by the Permanent Subcommittee on Investigations

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/23/2012 is $134mm of the $140mm limit, an increase of $3mm from the prior day's VaR.
- CIO's 95% 10Q VaR* as of cob 01/23/2012 is $103mm of the $105mm limit, an increase of $3mm from the prior day's VaR.
- Each LOB's contribution to the Firm's $134mm VaR (as shown by marginal VaR) are: IB (driven by CIO International credit tranche book), RFS (Private Equity and TSS), and AM.

The stand alone VaR for each LOB are as follows: IB is CIO is $103mm (vs. $105mm limit), RFS is , TSS is , and AM is .

*CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from $+1.4bn to $+1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

10Q Externally Disclosed VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.
This should be the last day of firmwide VaR breach. A CIO model change is planned 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. John

---

**Firmwide 95% 10Q VaR**

- The Firm's 95% 10Q VaR as of cob 01/26/2012 has increased by $8mm from the prior day's VaR to $161mm and has breached the $140mm Firm VaR limit for the third consecutive day.
- CIO's 95% 10Q VaR* as of cob 01/26/2012 has increased by $8mm from the prior day's VaR to $120mm and has breached the $110mm CIO VaR limit for the third consecutive day.
- The increase in the Firm's VaR is primarily driven by an overall reduction in diversification benefit across the Firm and position changes in CIO.
- Each LOB's contribution to the Firm's $161mm VaR (as shown by marginal VaR) are:
  - IB $107mm VaR, primarily driven by CIO International credit tranche book, RFS Private Equity and TSS
  - CIO $107mm mVaR, primarily driven by CIO International credit tranche book, RFS Private Equity and TSS
  - Private Equity is
  - TSS is
  - and AM is

* CIO continues to manage the synthetic credit portfolio balancing credit protection and Basel III RWA. The new VaR model for CIO was approved by MRG and is expected to be implemented prior to month-end.

**10Q Externally Disclosed VaR**

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.
Just got it.

From: Weiland, Peter
To: Goldman, Irvin J
Sent: Mon Jan 30 18:52:30 2012
Subject: FW: JPMC Firmwide VaR - Daily Update - COB 01/27/2012

This is the email you want.

Peter Weiland
Tel: +1 212 834 5549
Mob: +1

From: Market Risk Management - Reporting
Sent: Monday, January 30, 2012 6:49 PM
To: Market Risk Management - Reporting; Dimon, Jamie; Hogan, John J.; Zubrow, Barry L; Staley, Jes; Drew, Ina; Goldman, Irvin J; Weiland, Peter; Weisbrod, David A.; Bacon, Ashley; Beck, David J; Braunstein, Douglas; Morzana, Tushar R; Wilmut, John; Dellosso, Donna; Bisignano, Frank J; Rauchenberger, Louis; Lake, Marianne
Cc: Doyle, Robin A.; Waring, Mick; Market Risk Reporting; GREEN, IAN; McCaffrey, Lauren A; Tocchio, Samantha X; Chiavenato, Ricardo S.; Chen, Dan
Subject: JPMC Firmwide VaR - Daily Update - COB 01/27/2012

Firmwide 95% 10Q VaR
- 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).
- Each LOB's contribution to the Firm's $108mm VaR (as shown by marginal VaR) are: IB CIO ($35mm mVaR, primarily driven by CIO Synthetic Credit), RFS Private Equity, and TSS
- The stand alone VaR for each LOB are as follows: IB CIO is $66mm (vs. $95mm limit), RFS is TSS is , Private Equity is

10Q Externally Disclosed VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Confidential Treatment Requested by J.P. N

EXHIBIT #79h
From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: Tue, 28 Feb 2012 23:48:50 GMT
To: Enfield, Keith <Keith.Enfield@jpmorgan.com>; Weiner, Pamela <pamela.weiner@jpmorgan.com>
Subject: FW: CIO Business Review Materials

FYI

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell:

From: Wilmot, John
Sent: Tuesday, February 28, 2012 6:32 PM
To: Dimon, Jamie; Braunstein, Douglas; Zubrow, Barry L; Drew, Ina; Hogan, John J.; Macris, Achilles O; Tse, Irene Y; Goldman, Irvin J
Cc: Warren, Shannon S; Gunselman, Gregg B; Jain, Manish; Will, Kathleen; Alvelo, Alexandra X; Peterson, Ruth J; Serpico, Gina; Beamon-Fontenelle, Margaret; Adam, Phillipa C; Gonzalez, Jeanette; Rios, Martha I; O'Donnell, Julie
Subject: CIO Business Review Materials

Attached please find the CIO Business Review materials for our discussion tomorrow, February 29th at 2:00 pm.

John

John C. Wilmot | Chief Investment Office | john.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell:

-- Redacted by the Permanent Subcommittee on Investigations

EXHIBIT #80
## Business Review agenda – CIO

### February agenda (1 ¼ hrs)

<table>
<thead>
<tr>
<th>Discussion Topics</th>
<th>Presenters</th>
<th>Pages</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Review of current agenda</td>
<td>Drew</td>
<td>1-4</td>
<td>[20 mins]</td>
</tr>
<tr>
<td>(i) Discussion points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Financial Summary</td>
<td>Wilmot</td>
<td>5-7</td>
<td>[5 mins]</td>
</tr>
<tr>
<td>3. CIO Business Structure</td>
<td>Drew/Wilmot</td>
<td>6-10</td>
<td>[5 mins]</td>
</tr>
<tr>
<td>(i) Overview</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) RWA Forecast</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>4. SAA Portfolio Analytics</td>
<td>Goldman/Macris/Tse</td>
<td>11-16</td>
<td>[20 mins]</td>
</tr>
<tr>
<td>(i) Overview</td>
<td>Goldman</td>
<td>11</td>
<td>[10 mins]</td>
</tr>
<tr>
<td>(ii) RWA Efficient Portfolio</td>
<td>Goldman</td>
<td>12-13</td>
<td></td>
</tr>
<tr>
<td>(iii) Alternative Portfolios</td>
<td>Goldman</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>(iv) Economic Impact Analysis</td>
<td>Goldman</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>(v) OCI and PV Sensitivity</td>
<td>Goldman</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>5. Risk</td>
<td>Goldman</td>
<td>17-18</td>
<td>[10 mins]</td>
</tr>
<tr>
<td>6. Reinvestment Activity</td>
<td>Macris/Tse</td>
<td>19-30</td>
<td>[20 mins]</td>
</tr>
<tr>
<td>(i) 3Q11 - 1Q12 Purchases</td>
<td>Macris/Tse</td>
<td>19-25</td>
<td></td>
</tr>
<tr>
<td>(ii) What we are looking at buying</td>
<td></td>
<td>26-29</td>
<td></td>
</tr>
<tr>
<td>7. FX Capital Hedging</td>
<td>Macris</td>
<td>30</td>
<td>[5 mins]</td>
</tr>
<tr>
<td>8. Other Corporate Activities</td>
<td>Drew/Wilmot</td>
<td>31-32</td>
<td>[5 mins]</td>
</tr>
</tbody>
</table>

### Business Review scorecard

<table>
<thead>
<tr>
<th>Business Topics covered</th>
<th>Review required in Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Corporate Activities</td>
<td>✓ 31-32</td>
</tr>
<tr>
<td>Control Environment</td>
<td>✗ 33</td>
</tr>
<tr>
<td>Material changes to Mission Critical</td>
<td>✗ 34</td>
</tr>
<tr>
<td>Appendix - SPAR Analytics</td>
<td>✗ 35-43</td>
</tr>
</tbody>
</table>

[INTERNAL DISCUSSION]
CIO Business Structure – Mandate and Approach

- Optimize and protect the Firm's balance sheet from potential losses, and create and preserve economic value over the longer-term
CIO Business Structure (continued)

- Volcker Rule permits risk-mitigating hedging activity, so the prohibition on prop trading does not apply to the "purchase or sale of a covered financial position" by a banking entity that is made "in connection with and related to individual or aggregated" positions.
- As proposed, however, the Rule may adversely affect certain ALM activities. CIO is selectively reducing certain MTM Trading Account activities and calibrating under 50 day activities across the division.
- Further alignment of activities within Volcker Rule framework has resulted in the consolidation of Strategic and Tactical Asset Allocation portfolios. CIO has completed transition from legacy "SAA & TAA" to consolidated financials, risk management and portfolio structure.
- MIM Overlay is for non-AFS eligible transactions and for more dynamic hedging activities.
- CIO is resizing the credit book as a hedge for fat-tail risk.

**North America**

- **MBS Hedging**
  - Focus on mortgage, activities are linked to hedging the mortgage-sanity curve.

- **Agency MBS**
  - Selectively reducing certain MTM overlay activities and calibrating under 50 day activities across the division.

- **Non-Agency & CMBS**
  - CMBS generated significant income and credit will remain in the portfolio.
  - Leverage generated in CMBS and currently targeting opportunistic activity in MBS portfolio will positions to benefit from 2013 MBS.

- **Corporate Debt & Preferreds**
  - Focus on bank debt and preferred equity structured debt valuing balance sheets and corporates.

**International**

- **Rates**
  - Duration management and spread management strategies for non-AFS eligible transactions.

- **Emerging Markets Credit**
  - Focus on emerging market sovereigns and non-sovereigns.

- **Synthetic Credit**
  - Focus on structured credits and non-sovereigns.

- **FX Hedging**
  - Management of the foreign exchange exposure through derivatives, managing and mitigating through derivatives.

**JPMorgan Chase & Co.**

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

- RWA trends reflect CIO structure

2012 trend will reflect continued reduction to MTM Overlay offset by continued rotation into higher RWA rates and credit within SAA
CIO Summary Risk Metrics

**Risk Overview**
- Integration of OAS and general commercial ratings, including OAS risk models to support the probability of credit events, to improve total risk management framework.
- Credit crisis/structured risk (credit selloff/rates rally) drivers analysis.

**VaR Highlights**
- Enhanced VaR technology in branches.
- VaR calculation with approval by VAR Mkt Risk.
- VaR reduction in market risk.
- VaR limit reduction for trading desk.
- VaR limit reduction for capital management and risk for MSRs.

**CIO - Global 10Q VAR**

JPMORGAN CHASE & CO.

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

JPM-CIO-PSI 0001958
CIO Market Risk Summary

Redacted by the Permanent Subcommittee on Investigations
CIO Reinvestment Activity – 3Q11 through YTD12
CIO Reinvestment Activity – 3Q11 through YTD12

Redacted by the Permanent Subcommittee on Investigations
CIO International Core Credit: Tail Risk Book

Currently the Core Credit Book is:

1. An option with positive convexity, positive carry and upside on large spread widening and default (similar to 2008-2009)

2. Current Position:
   - US mortgage-related issuers (RMBS, CDO, REO, RESCAP, ALLY)
   - May be US government and banks are looking for a settlement
   - Conspicuous underwriting practices

3. Europe countries, including Greece and Portugal may opt to underwrite some national champions like banks or telecom operators.

These events could generate US$200mm-500mm P&L gains.

Capital

- This is a Tail Risk Book that had under Basel I an RWA cost of US$5bn end from 2007-2011 has generated US$2.4bn total return
- Under Basel 2.5, Risk Weighted Assets are estimated to increase 5-8x (methodology still in development); this would increase the RWA of the core credit book to US$36bn however, CIO is currently working to reduce this to US$20bn for year end 2012
- Despite effectiveness of the Tail Risk Book hedging credit portfolio, the change in regulatory capital regime is likely to force a re-size / run-off of synthetic portfolio in order to maintain RWA targets for the Firm
- CIO continues to coordinate with IB Risk to improve the applicable RWA and capital levels
Directors Risk Policy Committee – CIO 2012 Opportunities and Challenges

Chief Investment Office
Ina Drew
Irv Goldman