Request Testimony from CEO and Top Execs on Implementation of Dodd-Frank Volcker Rule to Prohibit Speculative Trading

Washington, DC (May 22, 2012) – Today, Rep. Elijah E. Cummings, Ranking Member of the House Oversight and Government Reform Committee, and Committee Member Peter Welch sent a letter to Chairman Darrell Issa requesting that the Committee hold a hearing with JPMorgan Chase & Co. Chairman and CEO Jamie Dimon and other executives involved in the trading strategy that resulted in losses exceeding $2 billion.

“Since JPMorgan is the nation's largest bank holding company,” the Members wrote, “it is important for us to understand the true nature of this trade, as well as the potential for the bank's losses to grow. We also need to understand the impact of this specific incident on the financial market and the prevalence of similar trades, as well as its significance for the ongoing implementation of Dodd-Frank and the Volcker Rule.”

Cummings and Welch requested testimony from Dimon, as well as Bruno Iksil, the trader departing JPMorgan's London office as a result of his involvement in the losses, and Ina Drew, JPMorgan's former chief investment officer who headed the unit responsible for the trade resulting in the multi-billion dollar loss.

The full letter follows:

May 22, 2012

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On May 10, 2012, JPMorgan Chase & Co. disclosed more than $2 billion in losses over a period of six weeks resulting from a trading strategy that its Chairman and Chief Executive Officer, Jamie Dimon, called "poorly constructed, poorly reviewed, poorly executed, and poorly monitored." According to recent reports, JPMorgan's losses may have grown by an additional $1 billion since its original announcement. Both the Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) reportedly have initiated investigations.

Because JPMorgan's activities have clear implications for the federal government's efforts to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are writing to request that the Committee hold a hearing with Mr. Dimon, as well as Bruno Iksil, the trader who will be departing JPMorgan's London office as a result of his involvement in these recent losses, and Ina Drew, JPMorgan's former chief investment officer who headed the unit responsible for the bank's problematic trades.

As you know, our Committee played a pivotal role in identifying the lessons of the 2008 financial crisis. In testimony before the Committee on October 23, 2008, the former Chairman of the Federal Reserve, Dr. Alan Greenspan, famously admitted:

I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such as that they were best capable of protecting their own shareholders and their equity in the firms.

JPMorgan's recent losses exemplify the risks that continue to threaten the stability of our financial system and highlight the critical importance of the Dodd-Frank legislation, which our Committee's previous investigation helped inform. Unfortunately, almost two full years after Dodd-Frank became law, many of its provisions have yet to be fully implemented. For example, the Volcker Rule appears to contemplate trades such as those that led to JPMorgan's recent losses. The Volcker Rule prohibits banking entities from engaging in speculative trading activities using deposits, referred to as "proprietary trading." Banks are regulated more heavily than securities firms because banks have the benefit of Federal Deposit Insurance Corporation (FDIC) deposit insurance and access to the Federal Reserve's discount window lending facility.

Since the passage of Dodd-Frank, regulators, including the Federal Reserve, FDIC, the Office of the Comptroller of the Currency, the SEC, and the Commodity Futures Trading Commission, have been engaged in a coordinated effort to implement the Volcker Rule. On November 7, 2011, a proposed rule was published in the Federal Register. On April 19, 2012, the Federal Reserve issued a statement clarifying that entities subject to the Volcker Rule would have until July 21, 2014, to “fully conform their activities and investments” to the rule.

JPMorgan has strongly opposed implementation of the Volcker Rule and has sought to create a loophole allowing the bank to engage in proprietary trading practices under the guise of hedging risk. JPMorgan claims that the transactions generating the recent $2 billion losses were hedging activities that would not have violated the Volcker Rule. However, the difference between “profit-seeking” and hedging activities is “tied up in the still-incomplete Volcker rule.” Press reports indicate that JPMorgan executives, including the head of its investment office that suffered the $2 billion loss, “met with Federal Reserve officials and warned that anything but a loose interpretation of the trading ban would hurt the bank’s hedging activities.”

JPMorgan’s characterization of these transactions as hedging activities raises serious questions. As a former employee in JPMorgan’s corporate risk management department asked in a May 14, 2012, article in American Banker:

[H]ow does a long credit position result in a hedge? The press reports suggest that it was offsetting a hedge against the loan book, but if that were true the gains and losses on one side should offset those on the other side. Since that has not happened on a mark-to-market basis, something needs to be explained.

Since JPMorgan is the nation’s largest bank holding company, it is important for us to understand the true nature of this trade, as well as the potential for the bank’s losses to grow. We also need to understand the impact of this specific incident on the financial market and the prevalence of similar trades, as well as its significance for the ongoing implementation of Dodd-Frank and the Volcker Rule.

On February 9, 2011, you issued a staff report listing a number of regulations you believe “merit additional scrutiny, including the “Dodd-Frank Volker Rule.” We believe an examination of JPMorgan’s recent activities would be beneficial to determining whether the Volcker Rule is being developed consistent with Congress’ intent.

Thank you for your consideration of this request.

Sincerely,

Elijah E. Cummings Peter Welch

Ranking Member Member