This text below is inspired by a translation from a French text that was published on the website of Paul Jorion in late June 2017, ie about only 2 weeks after this website would go live. I answered here a very straight question: “how do you differ from the official version?” And here is my “story”, the only one that have conveyed since 2012. It was then meant to summarize how my website differs from all the reports that the bank and the authorities have made on the “London Whale” case. It was 143 pages long for Paul Jorion. Now it is 29 pages long. What I have added are further details on key topics like ‘profits’, like ‘orders’, like ‘valuation’, like ‘mismarking’…. Needless to say, this account vastly differs from any media reporting although some outlets are closer than others. This text below thus predated by a month or so the decisions of the DOJ as disclosed on July 21st 2017. It may well have been the “recent statements and writings” that would shake the tree. It contradicted ahead of times the WSJ subsequent article of August 3rd 2017. Yet it corroborated the statements of Dimon on August 8th 2017 to some extent and clarified ahead of times the context of the ultimate decision of the SEC in late August 2017.

But, back in June 2017, this text was also displaying my ‘story’ as an anchor amid all the changing stories that would have been conveyed since 2012 and onwards… In sharp contrast to what all the authorities and the bank would do between 2012 and 2018, I will deploy only one “story” to tell all along, be that on the public stage or confidentially towards the authorities. This story has two faces for reasons that I already explained in the preamble of June 12th 2017. There is thus my testimony as a witness of the events answering questions that were imposed on me. Here I solely had to answer questions under oath on the events and evidence of the time. I could not volunteer in providing my understanding. Anyway the investigation teams had always had much more information than me notably about the executives’ documents and their own documents. And there is therefore my public account that is a reconstruction combining my testimony and my later inferences.

Against the rumor that the WSJ article underlined on the 3rd August 2017, I have not changed my “story”. All those years since 2012 I just had for my own sake to reconstruct the real course of events with the many parties involved. My employer would hide critical facts from me. The regulators would play a very critical role in the backyard of my own job too, unbeknownst to me as my employer wanted it to be all along. This is what shows up here in this part. In June 2017 I have announced the many smokes and mirrors that I would uncover. I showed first the main take-away and how misleading the media reports had been all along. I next showed that the bank made big money in the scandal with the blessing of regulators. Here the focus shall be set on what this scandal means notably in jurisprudence terms for the future. I just have one account and here is how it differs from all the official versions taken altogether.

This text matters since in the rest of this section of the website I will show how all the authorities and the bank would keep changing their “story” of the “London whale” case. And to start with, let’s see what my only story is versus the other tales……I will try to point whenever needed what is that I testified on before the authorities. The following text highlights the 3 main differences: my role was not at all the one pictured by the bank, the valuation protocol was not at all the one suggested in the public reports, the scandal did cause a massive gain for the bank not a loss at all….Since all this “London whale” myth from the very start was both highly personalized and highly misleading, I will keep here “Iksil” as it would remain the genuine target name for those who started the myth from scratch and entertained it later until 2017…To be sure, they all did not speak of me but they spoke of the “trader” that “they” had planned to trap since 2010….One will better see here who “they” was.

<u>1- Iksil was not the « trader ». The medias were misguided. Who was he in that case?</u>

Iksil was neither the « trader », nor a manager and even less a Guru

Iksil was not the « trader » on this book. But he was the main person instructed to execute in the markets the trading strategy as the CIO's top management wanted it. He worked as a pair with Julien Grout under the supervision of the trader in charge in the very eyes of the CIO managers, namely Javier Martin-Artajo. The top management at CIO was embodied by Achilles Macris in London and Ina Drew in New York. As to her, Ina Drew delegated to Macris the trading operations that were given to her by her direct boss, namely Jamie Dimon, the CEO and Board chairman of the Jp Morgan's board since 2007. Nothing to do with typical "traders" betting in the markets…..There is more.

Julien Grout was in charge of processing the daily estimate performance report (also called estimate P&L and positions report). In that he applied the valuation protocol that had been in force since 2007 at CIO. Grout also fulfilled some trading execution duties in that regard. The CIO front office staff then had been instructed by the CIO's top management and the firm-wide risk control department to operate as per a very peculiar protocol few years before 2012, ie in the course of the year 2007. This protocol was quite peculiar in many ways and demanded that one person be devoted to the valuation task continuously all along the day and another person be devoted to execution tasks only. The "valuation man" was expected to help on the execution if needed, like in emergency cases or else…

From the end of 2009, Julien Grout would be recruited, paid, instructed and reviewed by Javier Martin-Artajo in that clear context. Nothing in that would have changed by May 2012: Javier Martin-Artajo was the direct report of Grout. This is how Drew and Macris had wanted it and Artajo could do little to change this setup actually. Grout was the "valuation man having some execution leeway at times". Iksil was the "execution guy" full time. Grout was neither under the supervision, nor under the instruction of Iksil. The roles of the two French men were complementary in Artajo's eyes, addressing in that the successive orders of Macris and Drew.

Iksil will testify on this line without being ever contradicted or even challenged once in front of all the authorities since 2013 (the Bank of course, but also the FCA, the SEC, the DOJ, the FBI , the CFTC….) …. The documents and evidence was abundant on that line. Iksil testified that he would provide his guidance to Grout usually if Grout wanted it. Next Grout would do as he liked. Multiple evidences proved that too. The documents of the time often show how Julien Grout would only follow instructions from Javier Martin-Artajo, even if it obviously contradicted what he and Iksil would have agreed on formerly. Iksil by the way expressed without any ambiguity his views. And thus divergences between Iksil's view and Grout's actions visibly occurred at critical times. This was in fact quite expected and normal when one knows the setup managed by Artajo. In that it was a perfect fit for the genesis of this strategic portfolio that had been wanted by Dimon in order to address the objectives that had been set to the CEO during 2006: to protect the firm against a credit crisis.

On top of his official "execution guy" role, Iksil was an employee among others at the CIO whom the CIO's management had asked to come up with trading suggestions in order to address quite specific hedging concerns as first expressed by the bank's top executives. Iksil did not attend the decision making meetings. But he was informed in part of the ultimate choice as to how the future trading strategy would be implemented. Iksil only then had to execute on the follow the trades the details of which had been determined away from him in the finest details. The latter had been checked and approved by the risk control department before execution. The roles were therefore well defined.

This picture here fully contradicts whatever the bank will say about the trades themselves. No, and against Dimon's statement on August 8th 2017, Iksil was not "asked" to do what he was told to do. These were "orders" that were known to be only part of a bigger trading strategy that Iksil did NOT know. To be clear, the trades had been fully vetted, fully monitored, fully controlled and had no technical flaws in the very eyes of the risk controllers BEFORE they would be implemented. However the trades would be knowingly illiquid and visible since 2007. That situation itself had resulted from a deliberate strategic choice of the firm's top managers done in late 2006. Evidence of the times abounds to show that it was the executives' choice going against Iksil's suggestions. The positions would therefore remain visible and il-liquid all along. This is what will ultimately would fuel the « London Whale » legend, not cause it.

The decision process was bullet proof by design. The protocols were stringent for what followed the initial stage where « trading suggestions » had been collected among the CIO staff, among whom Iksil was just one contributor. As said Iksil did not attend the meetings where the top management finalized the many propositions and determined on the follow its trading strategies in close partnership with the risk control department (Evan Kalimtgis, Keith Stephan, Peter Weiland, Irv Goldman). It was Javier Martin-Artajo who in person took part to the decisions as the known expert « trader », being himself in direct touch with the markets. As to the day-to-day practical implementation, the pair Iksil and Grout teamed up under the specific instructions of Javier Martin-Artajo. That was all set and stable since 2007.

All of a sudden in January 2012, Javier Martin-Artajo apparently "decided" to amend the org-chart in order to place Julien Grout and few other colleagues under the name « Iksil ». That was just an administrative trick for Artajo who wanted simply Iksil to handle for him ancillary tasks like dealing with printer cartridge replacements, Blackberry renewals and billing addressing, or holidays……. As Artajo justified it towards Iksil then, many emails touched on innocuous issues and were addressed to him as they were mechanically routed from what the org-chart stated in terms of reporting lines. These emails landed on his email box, he Artajo, and they were most often requests for confirmation on matters like Holiday, furniture, or else. They mostly constituted for Artajo a distraction, a waste of energy for him and a time consuming diversion from his most important duties. Artajo complained then that he had under his supervision, on top of the CIO London staff, some people in New-York and soon people based in Asia. He could not deal with all this administrative hassle 24/24. He had to delegate. He allegedly did with Iksil here what he would do with another person based in new York and another person based in Asia likewise. As per his instructions, Artajo wanted to focus himself on the important emails, not the others. Artajo was crystal clear on the other important things here.

Nothing changed as to the risks being undertaken, as to the strategy design, as to the valuation protocols in place, as to the compensation reviews, as to the objectives set to everyone : all remained under the command of Javier Matin-Artajo. This is what Drew and Macris had always wanted.

In the facts, the documents dating from January, February, March, April, May 2012 prove it on multiple occasions and in quite critical moments. Nothing had changed indeed for Julien Grout towards Iksil unless Grout had to take some days off, needed a printer cartridge or needed a blackberry change. Clearly, as per his own well defined role at CIO, Julien Grout needed the opinion of Iksil on the markets in order to refine his initial selection of prices. It was not mandatory. This was Grout's duty to secure Iksil's view as Artajo wanted it since 2007. It was Grout's choice to reach out or not Iksil to get his view, not the opposite. Here Grout operated as Artajo had made clear to him how he wanted the pair to operate when Artajo recruited Grout to join CIO. To be clear here, it was not Iksil who had recruited Grout but Artajo. And it was Artajo who determined Grout's role and duties, not Iksil. Grout was in charge of the estimate performance process and was to be a spare executing staff especially in case Iksil would be off (but not exclusively). So was the job profile of Grout from the start as decided by CIO's top managers. They were the one recruiting Grout, reviewing Grout, instructing Grout and paying Grout.

In 2012 as in 2010 and 2011, Grout and Iksil entertained routinely chats and queries in that context. But, and this was quite an unusual fact in the very first days 2012, Grout started querying Iksil more often than in the past. The written evidence of that is numerous through phone calls and Bloomberg chats. These documents show that Iksil had nothing of the "guru" image that the bank let spread throughout the media since April 2012. Julien Grout decided as per his own mind on the ultimate price that Grout had to choose. And unless Grout wanted to, he would often not follow the advice of Iksil. The pressure on Grout always came from Artajo.

The « trader » in fact was a quatuor : Dimon, Drew, Macris and Artajo

If one sketches the typical profile of a trader, there are only a limited number of characteristics that define the role itself: trading discretion, budget, compensation, limits. The trader is being given a portfolio in his name, upon which he has almost full discretion for trading, ie "buying and selling". The trader picks the risks that he will undertake in this book but nowhere else. The trader must provide a reasonable valuation of the performance of his operations. The trader must comply with limits which are defined along with a budget that the management asks him to achieve. In return for that, the trader will be compensated very generously if he succeeds in achieving his targets 3 years in a row in general. The trader is recruited most often so that he operates on financial products that HE chooses. This list of financial products was most of the times fixed and evolved very little next. The list may change if some financial products become il-liquid or simply vanish. The trader usually is a specialized market player whose focus is on a handful of products where he hopes to reach a profitable expertise for himself. Here the firm will set limits for the trader not to be breached. Thus if one draws the list of attributes that define a "trader" role in a bank like Jp Morgan, one gets to: almost full discretion on the risks, full discretion on the financial instruments used, limits, objectives, budget, compensation indexed to performance, estimative valuation, and hard limits.

Which of those attributes could be associated with Iksil ? Nothing or close…. Iksil only had discretion of 2-3 days to execute specific orders in the markets being finely detailed by his management in terms of instruments and sizes. Evidence from 2007 until 2012 shows that Iksil had NO discretion on the instruments used, No discretion in size, No discretion in timing, No discretion in estimative valuation, No knowledge of any limit, No objective in performance, No visibility on compensation whatsoever, No budget as such…. Contrary to Iksil's status in the firm, Artajo had all those attributes on his name and like most big "trader" he was not executing in the markets himself. And this is standard practice in the industry actually for "big traders". Contrary to the stereotype of today indeed, the big traders usually step through "little hands" to deploy their trades as they had rather not be bothered by vain gossips and talks entertained by market making institutions. Iksil was one of the “little hands” for Artajo’s as much as Grout was at times too and few others for this big hedging tranche book if needed.

As to Grout he had some discretion but quite limited too upon the daily estimate performance measure : he was the one who communicated the valuation prices as per Artajo’s prior consent and as per CIO’s top management will in terms of valuation protocol.

If that was not Iksil or Grout by far, who then was the « trader » deciding for the huge « London Whale Book »? In daily practice, despite the appearances, even Artajo was just an arm of this « trader » bearing so mythical features. Artajo was just the “operating” part but he certainly did not own the portfolio inside the bank despite all his attributes as mentioned above. Like Iksil or Grout, Artajo was not “asked” to do what he was told to do. He was also quite clearly “ordered” and “instructed” to “execute” down to the finest details the strategic trades and to “estimate the performance” day to day as per a bank-wide valuation well known protocol. Artajo had the full picture in valuation terms, unlike Grout or Iksil. At times Artajo would override the “valuation guy” or the “execution” guy at his complete convenience on a daily basis. Examples of this showed up in the spring and the fall of 2008, in the summer and the winter of 2009, the summer and the winter of 2010, and so on in 2011 or 2012 ….

Who would this mythical « trader » be then other than Artajo if one had to put names here? Is there anything better than “Jp Morgan” itself? It is enough to check once more the list of the attributes mentioned before. Who selected the instruments ultimately for implementation? Who had to achieve an objective of performance on this “firm-wide hedging Book”? Who determined the level of risks, the nature of the risks and the timing of implementation? Who had to be restrained by hard risk limits, such as a VaR one? The US senate Report of 15th March 2013 is crystal clear in its own description of the risk limits setup of CIO. This “Book” as such had had NO limit at all from 2007 till 2012 within Jp Morgan. Jp Morgan was the limit for this big hedging tranche book that sat at CIO legally speaking. The limits of CIO themselves would never be “hard limits” that a “trader” is always given normally to respect. These limits, should they not be respected, would be enforced by risk controllers. And in that case the “trader” may be fired on the follow if he does not comply well enough. This “book” had no limit….But who would fire the CEO in the bank for that suicidal setup then? It would either be regulators or the board of directors…. The CIO limits would be continuously adjusted so that the trading strategy on the “Book” in 2012 could be executed. Who at Jp Morgan could ever have had enough power to make that happen? The CIO limits still would be literally exploded during the first four months of 2012 despite the recent temporary increases. Therefore even the very top management of CIO was not the ultimate “trader” on this “London Whale Book”. The only decision maker left here, the sole common denominator behind all the limit breaches of CIO that led to further limit extensions all along the first 4 months of 2012, the one who decided in May 2012 to start unwinding some recent trades, it is the CEO Jamie Dimon.

He certainly had delegated to Ina Drew the implementation of his strategic trading choices, once they had been finalized through the finest granular details. As to her, Ina Drew delegated to Macris the duty to actually execute these very same trades, reviewed in detail month after month. As to him Macris trusted only his lieutenant Artajo on the day to day basis as he had explained Iksil begining in 2007. This is when Macris had recruited Artajo specifically for that purpose, having a trusted lieutenant to act in the markets on his behalf. And Artajo would remain the right arm of Macris all those years into 2012. As per the scrutiny run by the US Senate Commission, the quatuor « Dimon-Drew-Macris-Artajo » had their compensation being indexed to the performance of the « Book ». And this was visibly not the case for Iksil or Grout or others at CIO. The mythical “trader” was therefore easy to identify for this enormous "synthetic tranche book" at CIO. It was the quatuor Dimon-Drew-Macris-Artajo. That setup was the one that applied in 2012 still. Why was it always so difficult for the bank to say it?

The communication of the bank was sub-optimal. A simple description of the attributes would have been way enough to calm the markets down in Q2 2012….

The bank provided a lot of general information towards the public stage and towards the regulators soon after the first seminal articles would print on the « London Whale ». The bank would comment on the scale of the investments made at CIO (350 billion USD), the motivations underlining the trading activity on the « Book » that was targeted by the media and which aimed at protecting the $350 billion of CIO investments. That alone was not quite accurate a characterization as all the regulators watching the VaR knew (see "VaR history"). But also a lot of critical information was missing all the same. No one would hear of the actual decision making process, hear of the actual risks being undertaken, hear of the genuine owners of the huge « book », hear of the reason for the complete absence of specific risk limits, hear of the actual size of the net bank positions, hear of the diversification benefit that was brought firm-wide by the « Book » (about 40% of the total VaR of the bank and 25% VaR reduction effect). No one would hear of the way this diversification effect was closely monitored day after day. No one would hear of the "post mortem" status of the "Book" that officially had existed inside Jp Morgan since the 26th March 2012. Let's be clear here: the "Book" was a dead trading activity already 2 weeks BEFORE the seminal articles would be published and the bank just never clarified that.

Instead an extreme personalization around the name "Iksil" would be entertained through the months from April till July 2012. This obsessive focus still lasts in 2017 despite the recent statements of Dimon on CNBC in an interview dated August 8th 2017. The employer Jp Morgan never made the elementary effort to describe the perfectly logical extinction of a trading activity that had been announced officially in late 2011. That timing had followed actually a well thought of process that had started in early 2010. In short the bank just never made clear that "Iksil" had nothing central in all this and that the "Book" was already dead and therefore perfectly under control despite the recent trading activity. The bank remains ambiguous on the matter still in late 2017. As to just all the investigation reports of the authorities, they have erased that material fact from their account despite the repeated testimonies of Iksil on the matter. That is a huge miss on their part.

Since 2007 this gigantic portfolio had had no limit whatsoever. It carried about 40% of the firm-wide risks in VaR terms. It had been designed in a very specific purpose for the bank as a whole. That purpose largely predated the financial crisis of 2008 and dated back to the merger of JpMorgan with BankOne of 2004. All this deployment of trading activity had a rationale that was shared with regulators. And since early 2010 this "Book" had literally to be "killed" to paraphrase Macris as he coined it then. But the "Book" could not be unwound: the markets were too illiquid for that. That was no surprise at all. And yet the death of the book would be officially reported to regulators by late 2011. The bank definitely had a convincing plan for the regulators even though it surely could NOT unwind the book in the markets… What was it ? ….Almost 2 years had passed and one wonders…. (see "VaR History" on this website)…. And the plan worked albeit in a counter-intuitive way for investors: the "book" would be dead by mid 2012 effectively. The "London Whale" scandal would just be a diversion in all that delay, but one that had to occur as explained before in "One regulator, One Bank, One Var" on this website. This would be indeed just that, ie a "tempest in a teapot". And this is what regulators saw all along from 2004 till 2014 whatever their future investigation reports would allege….

Yes, the regulators were really closely monitoring from the very start the travails of the big hedging tranche book. They had all the reasons to do that and worry. In order to understand that, one has to remember the bond market crash of 1994, the LTCM demise in 1998, the "dot.com" bubble bust in 2000, the scandal around ENRON in 2001, the credit crisis in 2002 and the judgment against Jp Morgan on the ENRON case. Each time the prestigious US bank, the historical sponsor of the VaR in the banking industry, had seen its reputation harmed. The cause was to be found in trading risks that in hindsight had been improperly managed. Each time the conclusion was done a posteriori and it was a pain.

It is in that perspective that the new CEO of Jp Morgan Jamie Dimon in 2006 attempted to predate the « next blow ». At least he would try as he was dearly expected to….He created in 2006 this immense strategic protection activity (see the NBIA in 2006 authorizing and documenting the future of the "Book"). This protection would be dedicated to prevent the next potential trading crisis in the group. If one remembers the recent history, 1994-1998-2000-2001-2002, that made total sense. In 2004 2 years had passed with the ENRON scandal in the backyard… The next shock might come soon.

In January 2004, Jp Morgan merged with bankOne: $42 billion of intangible assets grossed up the capital of the firm instantly by 40%. That was a huge leap of faith all based upon Dimon's plans. In 2005 Jamie Dimon deployed his plans for the future. It was about time to act and fast before it would be too late again. It is therefore not a coincidence at all if Dimon appointed Drew in 2005, recruited Macris in 2005 for him to report under Drew and built up such a special CIO unit at Jp Morgan. It is not a coincidence as well if Dimon again, while the credit markets were in plain euphoria in 2006, opted to focus on the "synthetic tranches", on the subprime, on the AAA-rated tranches, and on the "basis risks" or "skew risks". Such were the salient areas of risk concentration at Jp Morgan from a systemic risk standpoint, ie the ones that bothered the watchdogs. This is right there that the protection "Book" at CIO would be meant to deploy brand new hedging strategies. The recruitment itself was secretive as much as it could be. It is even less a coincidence if Javier Martin-Artajo, a world class specialist on tranche trading, would be poached towards the end of 2006 from the IB of Jp Morgan's il-liquid credit trading team. There was no mystery as to why Artajo would be joining CIO in early 2007 when the infrastructure was at last ready for Artajo to execute "THE HEDGE".

And to be sure, the OCC and the Federal Reserve monitored it quite closely. The SEC was not far behind. The FCA would be told all about that initiative that was based in London. Yes this credit derivatives portfolio housing knowingly quite toxic risks before the future financial crisis to come would protect the bank almost certainly. That the "Book" targeted ahead of time the very spots that would fuel the coming financial crisis of 2008 was not left to chance at all…. Regulators would approve at least by their inaction to stop it since 2007. They all would see indeed the sea change at Jp Morgan through the lens of the VaR analysis. This book would weigh quite a piece of the overall VaR of the huge JpMorgan bank. This "Book" here would have no dedicated hard limit. That was plain common sense since this "book" would deliberately reduce the bank's net exposures to credit markets' systemic risk. It was so strategic to the firm's survival that even the CIO limits would be adjusted "on the fly". It just had to be justified by the need to deploy the hedging strategy as expressed by this huge “Tranche Book” of CIO. The image that ran through the corridors within Jp Morgan was the one of “the elephant in the room”.

This « elephant » phenomenon would by the way plunge the US Senate commission in deep perplexity in March 2013. That « london whale » tale itself was really too big to gobble. The investigation team of the US senate had numbered no less than 330 massive limit breaches for CIO along the first 4 months of 2012 that would all be associated with the most recent trading activity on the « Book ». How could it have ever been missed for so long ? It was not missed but fully understood instead. Not only those breaches would not be corrected, but worse, the limits would be adjusted for CIO to keep deploying the trading strategy. Who could have figured that out ever other than Dimon at the time? But what likely stunned the senate commission investigators the most was the total apparent absence of reaction of the 100 or so regulators’ staff that was sitting right in the office of Jp Morgan headquarters then. They, the 100 on-site regulators staff, however received all the alerting reports about those 330 massive breaches. Here there were about 60 people from the OCC and 40 people from the Federal Reserve! The alerts reporting though was done in due time and systematically flagging the recent trading activity on the “hedging book” of CIO that was about to die quite soon. These 100 on-site regulators staff would do rigorously nothing to stop that on the face of it. There is no evidence that they even opened the emails that constituted their very job…. They must have had a reason of course, which they had discussed with the very top executives of the bank at the time and before.

They had had this kind of discussion indeed since late 2011 at the latest. They would again have it in January 2012. They would also come back to the point in February 2012 in the heated debate around the Volcker Rule. They would once more debate it in early March 2012 in direct relation to liquidity reserves. The debate raged then between OCC staff and Jp Morgan’s chief risk officers. The US Senate report mentions an incident where it would be Peter Weiland then who would quiet the atmosphere with a suggestion of his related to CIO and CIO’s market risks. The “Book” weighed 80% at least of CIO’s market risks….And the “Book” already made CIO breach massively its whole limits reportedly….What is the chance that Weiland’s suggestion was not related to the “book” and its imminent death?

The US Senate report, despite its perplexity, would not say the obvious here: neither the OCC, nor the Federal Reserve, nor any of the chief risk officers did take the required liquidity reserves that had to be taken in direct relation to the imminent death of the « Book ». This imminent death of the « Book » would be discussed again in mid March 2012 in relation to the « externalization » plan engineered by Ashley Bacon, itself being in direct in relation to the share buybacks that the Federal Reserve kept approving since 2011. Bacon had to wait for the regulators’ approval. It would only come in June 2012…. Here was another delay completely being in the hands of regulators.

This death was official though as per the 23rd March 2012 after Drew quite « serious » accusations and elevations. This death was past its burial stage no later than the 26th March 2012. This is what “post mortem” means, isn’t it? So, there was NO « trader » left to be found around by the end of March 2012 for this enormous book that had had no limit. But the mismarking was surely here due to a missing liquidity reserve that the OCC itself had recommended in the beginning of March 2012 already… Iksil would testify on the “post mortem”, the il-liquidity, and a couple of other anecdotes. One is when Drew in early May 2012 would confess in a meeting “we made a mistake. We should have taken this reserve of whatever the P&L of the book was in 2011. I do not know $400 or $500 million. Whatever… We made a mistake ok?" And Artajo and Macris would nod silently…Iksil had not heard of it before but had had elevated himself the need for such a reserve since late 2009. That was not Iksil's job as Artajo kept saying since then…That clearly was CFO and Drew's job….And this also was the job of the regulators here to enforce such reserving policy. The bank standards procedures and policies, be they from November 2007 or from May 2012, are all saying the same thing: a reserve was required for price uncertainties. The internal auditors of Jp Morgan flagged the issue in late 2011 as the CFO of CIO testified before the US Senate commission. Evidence does exist that the issue was flagged by Iksil and Buraya in late 2009 already…. The issue would be flagged again by Iksil in late 2010, all along 2011 and many more times in early 2012…..This is where the mismarking had occurred a long time ago. And this is the one that should have fueled the restatement of 2012…..

2- The official mismarking thesis as proclaimed by the bank is just another decoy

The estimated valuation of the portfolio of CIO, or the « Book », was quite peculiar. It had been determined by the quatuor of traders as per a well defined unique protocol being in force already within the bank. The quatuor followed pure logic actually with regards to notorious il-liquidity.

Jp Morgan finally admitted some wrongdoing in September 2013. Yes the bank had hidden some realities back in 2012 and had disclosed a mismarking on the follow. As per the bank thesis, all the scandal originated from price differences, unbeknownst to the bank's chiefs, that some « traders » may have tried to conceal. The US authorities would be subtler than that and be therefore even more ambiguous. As per the SEC or the DOJ , the « traders » would have put in place a "system" that was meant to hide part of the losses by means of artificially created price differences. The US authorities would not specify whether the scheme actually succeeded in part or in whole, contrarily to what the bank would indicate in July 2012 and August 2012. Yet they would all say that these differences, therefore known more or less, did for sure induce books and records violations. One salient proof of that is the public disclosure of a restatement for the first quarter of 2012 on the bank's stated profits. This restatement amounted net to $450 million losses for Q1 2012. All the watchdogs would validate that restatement, therefore ignoring their own recommendation for reserves that they had conveyed to all the chief risk officers of Jp Morgan in early March 2012…...

As of July 2012, was this one mismarking that the bank claimed to be a victim of, an accurate characterization? Nothing is less certain as soon as one understands who the "trading quatuor" was in the firm. The ones giving the instructions, be that for trading or for valuing, could still not ignore so easily their own commands, even though they were going through dire straits. They had not acted on random. This gigantic portfolio, unique in its kind, governed in its granular risk details by this unusual "trading quatuor", was following a moving target. It thus had a valuation process that was no less peculiar but was a well designed fit to the job. It is enough to revisit the role played by this "Book" since 2006 to get the picture right. Here there would be no room left for "complacency" or "control deficiency", quite the contrary.

It was all about protecting the bank with regards to some of its exposures on financial markets in credit terms. Credit risk is pure "il-liquidity" risk. One of the benchmark risk measurement that would be used to design this huge book would be the VaR. The VaR is an amount in $ that indicates what amount the bank should expect to win or lose day to day on the markets. It’s just a figure. On the face of it, it is just a clue as to how the markets changes could impact the firms’ performance in standard conditions. It is in fact one key indicator since 1994 for all the investors, for all the banks, for all the regulators on matters like “banking industry and its exposure to il-liquid financial markets”.

The VaR of this huge portfolio of synthetic credit tranches at CIO suggested alone the existence of massive outstanding il-liquid trading exposures. That was way enough to drag the scrutiny and close supervision of just all the market watchdogs since 2007. This VaR indeed of the « Tranche Book » suggested likewise a potentially quite high risk in economic terms for the CIO that was assumed to be “safe” however. The very presence of this enormous « synthetic credit tranche book » within CIO was not « safe » by definition. The watchdogs had independent other means to check on that.

As explained in “VaR History”, all the scandal would burgeon around the VaR of this “credit hedging” book that focused on liquidity lethal risks for the bank. The VaR of the Unit at Jp Morgan that was specialized in trading, namely the Investment Bank or “IB” was about $80 million. It was a day to day measurement that held a lot of hidden risks as earnings report displayed in fact. Good year-bad year the IB produced $5 to $10 billion in trading gains and some $15 to $25 billion in gross revenues, ie 100 times to 200 times its daily VaR…. That kind of gain turns out to be a loss often times when a crisis surges. Thus the VaR figure should be multiplied by 100 to get an intuition of the risk actually being taken…

Was there the same expectation for the huge protection « Book » held within CIO, applying a projection in proportion ? The CIO « tranche book » carried a VaR of $50 million instead of $80 million. It was using the most profitable financial instruments that the IB employed to make its own profits in 2007. This comparison would suggest that the bank had expected to make something like $2 to $4 billion trading gain on this book over the years, but essentially through crisis times. This parallel also suggests that the « Book » would generate around $6 to $10 billion in gross revenue per year on average. That was not at all the fact. The proof is to be found among the exhibits attached to the US Senate Report. There is an email from Ina Drew to the Operating committee and Dimon dated the 5th April 2012 where this “tranche book” at CIO has been “very profitable” while it had generated a total gross revenue of $2.5 billion over 5 years. That makes an average $0.5 billion gross revenue per year while the « IB standards » would suggest $4 to 6 billion instead.

Was it just another gross judgment mistake from Drew then ? Not an inch. The profitability of this “tranche book of CIO” was measured on the revenue made at the very top of the firm. This book at CIO was hedging quite effectively the gains made at the IB among others. It had been estimated by the risk control department that the “tranche book” of CIO allowed the IB to boost its revenues on credit by 25%. Other businesses like RFS clearly profited from this “hedging book of CIO”. It may even have been the case that this “big hedging book of CIO” facilitated the task of the Federal Reserve of New York in 2008 in handling hastily the demise of Bear Stearns, Lehman Brothers and AIG….The very reports dated July-August 2012 of Jp Morgan explaining how the CIO loss had been balanced would only confirm this: the “Book” at CIO had hedged the bank firm-wide at almost zero cost since 2007….That was the main achievement. The VaR was the cornerstone of this hedging book and of the measure of its efficiency. The fact that it had generated itself a “small” couple of $ billion gain was just a cherry on the cake.

The VaR was the cornerstone of the valuation protocol that was in force for the "Tranche book" of CIO, aka the "London Whale portfolio" or the "SCP"

One may ask: "Hell, if this book was not here to make money on itself, how did it work?" Let's make up a simple example that is very close to the reality (cf the US Senate Report for actual figures on VaR). The IB VaR was about $80 million. The VaR of the CIO « tranche book » was $50 million. The total VaR for CIO was $60 million. And what was the total VaR of Jp Morgan? Was it $60 million+ $80 million = $140 million ? No it was not that figure by a large extent. It was much lower than that. The VaR for the whole Jp Morgan bank was only of $105 million. These figures here are just proxies chosen to simplify the discussion here. From $140 million down to $105 million, ie about a 30% reduction, one can observe what the hedging role played by this « tranche book" of CIO was. That was a feature that Jamie Dimon had wanted to build back in 2006. That was a phenomenon that the risk control department would scrutinize like oil on fire every day since 2006. That was a thing that Dimon and the operating committee of the firm would shape day to day.

One may argue that actually with the IB alone, and thus without the "tranche book" of CIO, the firm-wide VaR may have been of $80 million "only", not $105 million in total. Remember here that Jp Morgan is a conglomerate where the IB weighs "only" 50% of the group. But the IB would trade on behalf of the many businesses that sit under the "Jp Morgan" brand. And these many businesses have risks as well in VaR terms. Thus the firmwide VaR would be above $105 million given the other businesses that partnered with the IB, with or without CIO. The risk department had thoroughly checked on that effective diversification back in 2006 already and would be instrumental in shaping the "book" in 2007 and onwards.

In practice this enormous hedging book located at the « safe » CIO allowed the bank to take more risk in trading on credit markets than it would have otherwise. It allowed also other business like RFS to take more risks routinely. But this « hedge », being held at the « safe » CIO, could not lose much money…Otherwise the "hedge" could not be deemed "safe" any longer….And the CIO would not look "safe" either…. The figures that the risk control department circulated for years between 2007 and 2012 were around 25% of « diversification benefit ». Thus in real terms the book made the bank realize "safely" higher profits to the tune of 25%. If one assumes that Jp Morgan produced on average $15-20 billion net profits per year and if one assumes that 50% of these profits came from trading, one can grossly infer that this huge hedging book of CIO had induced a boost being worth 25% of the 50% represented by trading gains. This leads to 12,5% of the total profits printed by the bank year after year. And this phenomenon lasted from 2007 to 2011, ie 5 years. And 12.5% of an average $17 billion profit per year over 5 years gives $9 billion. This is what Drew actually had in mind when she pointed to the $2.5 net reported gains from within CIO over the same period of time.

This is just an order of magnitude that shows how this "hedging" book was actually measured within Jp Morgan. Still, although this is $9 billion rather than $2.5 billion, this is "only" a bit less than $2 billion per year. This remains on the low end of the IB productivity targets. But this $9 billion attributed gain to the « tranche book » of CIO is not the only one that it brought to the firm. One should consider for example that Jp Morgan visibly could claim that it had had a massive hedge going into the financial crisis of 2008… Whether that was viewed as a bluff or another decoy by market peers, the CIO did have trades that all the market players needed in 2008 and onwards. Some would say that Jp Morgan had some "currency" for its trading counterparties during the crisis. This alone made Jp Morgan be the sole bank that was « overcapitalized » while all the others looked short of capital in the economic trough. That gain in prestige may just have been smokes and mirrors indeed. But it did work its magic between 2008 and 2012 included. Here in 2012 one speaks of a net $60 billion gain that could be locked at last….

As a way to summarize, the gross return of this book was just the tip of the iceberg as to what the « tranche book » had produced for the brand Jp Morgan. And this had happened not by coincidence but right when the world went through the worst banking crisis on the record since 1929. Of course Jamie Dimon and the very top of the hierarchy were fully aware of what they had created and managed for so long : a huge hedging strategy for the firm as a whole that had proved to be a "damn good valuable currency" in dire straits. That outcome had not surged by coincidence at all: it had been wanted by the regulators as well. The strategies had here targeted from the very beginning price uncertainties, systemic risks, basis risks, skew risks. This all boiled down to addressing pure liquidity risks. And of course the bank chiefs would design a valuation protocol for this « tranche book » within the « safe CIO » that would be fit to the challenge that they had set for themselves since 2004.

Thus this protection would only use financial instruments that were actively quoted and monitored by the Investment Bank (the IB) of Jp Morgan. Quite naturally the « mid price » that was to be employed in the official "mark to market" procedure of the firm was determined at the IB of Jp Morgan, not CIO anyway. This "mid price » for this big hedging book would be verified day after day through many control checks independently of CIO anyway. The stakes were sky high for the gigantic Jp Morgan bank which had to provide its crowd of clients with a reliable price for their own valuation needs. There was no room at all for the « safe CIO » and its « strategic tranche book » to mess up the existing process. And by the way the « Book » of CIO was treated as a « client » by the IB, a very « big client » among others, in the routine.

The CIO did not manage its « mark to market". The standard had been in place since 1993 quite officially so.

As such there was just no need for CIO to provide its own make of market prices within Jp Morgan. This enormous book of tranches, targeting basis risks, was here to hedge the whole firm against many « price uncertainties » at the end of the day. Common sense dictated that CIO in its own protocol would only contribute to reduce price uncertainties by documenting them the best way it could. The job of providing a consensual « mid price » was done as per the US GAAP or as per the "mark to market" requirements set by the SEC or the OCC for years then. However, in the context of ensuring a sound and effective diversification of risk through a real protection, one had to secure the reliability of those "consensual mid prices" independently so. Those "mid prices" provided automatically through the IB trading businesses were crucial for the whole bank, for all the bank's clients, and therefore for the whole markets given the sheer size of Jp Morgan. These "consensual mid prices" had to be real safe. How to ensure that? The "safe" CIO had a mission to fill here.

The initiative came from the risk control department ironically enough in the course of the fourth quarter of 2006. The « tranche book » of CIO, applying the IB « mid prices » mechanically since all its trades were channeled and managed by design through the IB collateral teams, appeared to consume "too much VaR" (cf Fiona Longmuir and Bob Rupp on the matter). The news had come up at CIO as per the CIO risk controllers of the time. Where did they get that information from ? They got that from the firm-wide risk management monitoring routine procedures. They alone at CIO could not have guessed that. They had been content with that “noise” that they had noticed. That was plain visible but benign as far as CIO was concerned. However the firm-wide risk control group had critical recommendations to make on the valuation protocol of the CIO’s “hedging tranche book” for the sake of the firm itself as a whole. That change was to be implemented and not be discussed by CIO.

The “tranche book » of CIO was of modest size though in late 2006. It was just warehousing « test trades » as Macris had coined it. Javier Martin-Artajo was in talks to join CIO but had not made the move yet. Drew and Macris waited for Artajo to come. Yet the firm-wide risk controllers already had their say on the valuation process to be applied on this « firm-wide hedging book ». They already observed what they knew quite well independently so: the “Mid prices” that the IB set for all the bank businesses every day were not reliable enough for the bank itself. Likely they were good enough for regulators, good enough for most clients, good enough for the bank’s trading counterparties in general. But they were not good enough for the bank itself to manage accurately its own aggregated risks. Indeed, the firm-wide risk controllers observed daily through the lens of the VaR analysis (see VaR history) that the IB « mid prices” caused nonsensical fluctuations on the sole performance of the “strategic hedging firm-wide Book” that was lodged in the “safe CIO”. That did not look so “safe”, did it?

Yes, in the very early days of existence, the « book », albeit just 10% of what it would be in 2007 and onwards, revealed what all the regulators worried about, what all the bank executives worked hard to address, namely that the IB “mid prices” on CDS were not reliable “enough”. One may simply say that the bank was « too complex » or that it was « too big too fail » as well….As soon as the very first “test trades” would be valued using the IB “mid prices” only, the problem surged like a nose in the face. This intervention of the firm-wide risk controllers to amend the CIO valuation protocol at the very early stage, BEFORE the IB prices would supersede everything, is revealing of what the procedures and policies were at Jp Morgan since 1993 in valuation terms. Since the very first day of its existence the “hedging book” of CIO followed a “mark to market” process that was commanded and analyzed from the top of the bank at the risk control department for Jp Morgan firm-wide. And this process was always based on the IB “mid prices” in any event. It was about fine-tuning the IB “mid prices” from the top of the firm. That was vital.

There is just nothing to be surprised about in that conclusion above. It is the mere consequence of a direct guidance that had been issued by the SEC as mentioned in the SEC annual report of 1992. The SEC then simply required that the “mark to market” be processed by a unit that was independent from the unit that was taking the risks in the markets. This rule would become the standard in the banking industry fully supported in that by Paul Volcker and by the CEO of Jp Morgan at the time, namely Denis Weatherstone. The 2 men would chair the « Group of 30 » that gathered large corporate CEOs, the biggest accounting and auditing firms and a couple of regulators. They would produce a report to highlight their consensus. So ironically, Jp Morgan suggested in July 2012 in the case of the « London Whale » scandal that it had NOT applied the very standards that it had promoted with Paul Volcker 20 years before! ….and applied for itself for 20 years at least already!

This is just unbelievable, isn’t it ? It is unbelievable all the more so as this price difference was there in December 2011 already. It is even more unbelievable as the whole chain of chiefs of CIO would elevate along with the IB collateral team this price difference internally and loudly "all the way up" as per March 23rd 2012 at the latest. That would happen therefore one full week before the month would close. And all the regulators investigating the « London whale » case would allege that indeed Jp Morgan had violated a standard that it had been quite instrumental to establish across the whole banking industry 20 years ago. This also is unbelievable, isn't it ? Yes it is unbelievable and Iksil would always testify on this line towards all the investigation teams. And yet, all the regulators keep pretending that this is what happened in 2012 since they all validated the restatement that Jp Morgan disclosed in August 2012.

This is really stunning as, back in 1993, all the regulators would follow the lead of Jp Morgan and Volcker on this standard above. The OCC in particular, the primary regulator of Jp Morgan in 2011 and 2012, had made it a mandatory feature since 1993. Then one may ask : « how the hell Nick Leson (1994), Jerome Kerviel (2008) or Kweku Adoboli (2011) have been able to bypass the system?" They all had managed to avoid the control checks. The answer is very simple : they all had had a prior experience at the Back Office, ie right where they could learn how the independent body was setting the ultimate mark to market "mid prices". Since 1995 actually, with the case of Nick Leson, the Back-Office employees most of the time were told that they had really little chance to ever move to Front Office positions in the future. As to the IB traders among whom one would find those who would set day to day the « mark to market mid prices », they also knew that they should expect some adjustments due to reconciliations that occurred away from them but within the bank. That organization prevailed at Jp Morgan in March 2006 with certainty while CIO was plugging its future trading hedging business into the firm-wide procedures and systems.

Having said that, the initial differences in prices were not at all condemned or forbidden. Quite the opposite actually….The appearance of differences in prices would force traders to be more transparent on their own choices and more careful looking forward. In short, they were never sure their own estimate P&L would be validated by the firm. They therefore took maximum care to be able to justify in hindsight what they had done. Ignoring what the consensus would happen to be, they had to ready themselves for some rational explanation anyway. That situation had fostered good discipline among all the traders. And all was fine for the firm itself since it could then collect crucial information about its own unwinding costs bearing on $trillions of notional amounts. That was quite an astute way to prepare for a liquidity crisis. But that was far to be enough. The "safe" CIO and its future big "hedging tranche book" would do much more than that to document the price uncertainty day after day for the firm….

The price differences would be actually wanted, even ordered as far as the valuation protocol of the "tranche book" of CIO was concerned. Here that price difference emanating from a "hedging » point of view would take a strategic dimension.

But let's get back to 2006 with this enormous hedging portfolio, embedded within the « safe CIO ». It consumed too much VaR. So said the firm-wide risk controllers. They alone could come to this conclusion when one knows that the VaR computation procedure was centralized as much as the margin calls were centralized in the firm. They alone could worry about that feature and make the appropriate inferences as to what the cause was for this « over consumption » of VaR. As explained in « VaR History », this was not at all a benign issue. That had a direct impact on the mere ability of Jp

Morgan to expose itself to the financial markets fluctuations. The firm-wide risk controllers were adamant : the daily P&L of the « hedging book » was too volatile in the sense that the prices were not good enough. The root cause for that was easy to find out: the IB “mid prices” on tranches and indices were not well synchronized. True, they were all captured at 5 PM London Time or at 5 PM New York time. But the many IB traders were not necessarily aware that their price or the one of another colleague would be picked. More they would not talk much one to each other. Thus the prices that they sent altogether to the risk control staff were conveying an element of market noise that was actually based on insufficient accuracy, not market moves as such. How to decipher one from the other? One independent team had to look deep into the correlation between diverse prices. And this analysis had to be consistent with the main risk factors that bothered the risk controller and the top executives of the bank. Here the firm had to do something for itself. The “hedging book” of CIO, focused precisely on correlation issues between prices, could help. It was at least one of the best candidates to set the focus on the question of this visible price inaccuracy.

In a fashion similar to the negative of a film tape, or as a two-way mirror, the risk controllers asked CIO to provide concurrent prices, which would be intuitive, subjective, but which would provide well synchronized prices between the financial instruments that were in use in the huge “hedging book” embedded at CIO. The risk controllers were definitely not looking for another “mark to market” “mid-price” but for harmonized prices, something which would allow them to adjust more finely the IB prices. The risk controllers were here refining the firm-wide mark to market procedure which remained fully based on IB “mid prices”. They also were looking for additional clue about this intrinsic price uncertainty that came along with the official mark to market procedure in force at the bank.

This evolution at Jp Morgan, using the « hedging bok » of CIO, for matters that concerned the firm-wide existing mark to market process occurred in late 2006. It happened even before the « big book » would be ramped up to become enormous indeed. The protocol that CIO would follow in the future will be itself refined across the diverse events that paved the financial crisis in 2007 and 2008. This will impact a book that would weigh 40% of the total VaR of the Bank Jp Morgan itself. Nothing was small here. No “detail” stone was left untouched. At every month end, some adjustments emanating from CIO will make teeth grind at the IB. The enormous diversification benefit that the big « hedging book » brought was perceived as insufficient and the “Book” often was portrayed as a spoilsport. This anecdote shows once more that the CIO difference was quite well known and intensely scrutinized. The reconciliation was done in multiple ways across the firm. Every day the IB staff overrode CIO prices first for the mark to market of CIO. Every month the CFO looked back at the monthly differences and proceeded to adjustments that impacted both CIO and the IB. The orders were crystal clear on both sides. The roles were completely defined at CIO and at the IB as well.

Artajo himself had been very clear and concise as soon as he had joined CIO in March 2007. Iksil and his pair colleague who was in charge of the estimate P&L had received many times the instruction to ignore the consensus, ignore the “exact mids” from dealers and ignore the fixed closing times. They would stay all night and would not even send an estimate if needed… The goal was to achieve a sensible cross selection of prices covering strategic hedges for the firm. For that, the “valuation man” of Artajo could decide to ignore what he believed to be a manipulation of dealers from one day to the next. Iksil would help on that. If the manipulation lasted, so be it, it would be ignored for more than one day. Still the estimate P&L had to reflect the real market moves…That caused issues at times. But that would work well between 2007 and 2011 despite the financial crisis: there was a market for most of the positions that was more or less active. The problem would be in 2012 that there was no market actually for about 80-90% of the positions…..

As explained before and in « VaR History » too, the CDS prices were fundamentally uncertain. That was well known and that was the major concern of regulators about CDS markets actually. Thus this fact was nothing new in October 2006 when the risk controllers of Jp Morgan asked CIO to alter a first time its estimate P&L process. What was their stated goal then? They said that they wanted to "filter" the noise that could pollute the measure of the performance of these quite strategic positions for the firm. They were complex by design and therefore required a lot of fine tuning that would drive prices away from crude "exact mids" picked here and there. The very survival of the bank may depend one day on this fine tuning. It may well allow predict in advance the next chaos. Here was a compelling argument to justify the change…Since 1998 people knew that consensus prices could not be trusted on the eve of a financial crisis…

Iksil will testify between 2013 and 2016 many times on all the matters described here before all the investigations teams. He was truthful, unchallenged and corroborated by abundant evidence of the time. The FBI checked on that, right? The bank of course always knew this account here is true. Nobody would even suggest that Iksil's repeated testimony on those lines was questionable. And Iksil will testify 6 times like this over 40 days in total just answering factual questions.

The valuation protocol at CIO clearly differed and on purpose on 2 fundamental accounting rules. And that was the case for this « hedging book » in particular.

The instruction from the firm-wide risk controllers in 2006 had been to deliberately process a valuation that would anyway be in breach of the accounting standards. That was harmless as it was done at the very early stage of the process itself that covered the whole firm. As explained before Jp Morgan could not be satisfied for its own sake with blind consensus « mid prices » or satisfied to rely only upon structurally myopic traders. That was simply not their job to focus on those "synchronization" matters. The bank knew what this meant as it was the employer and the one giving the orders to all. Is it therefore surprising at the end of the day to see that the bank made this exception with a clear purpose in connection with this big hedging book embedded in the "safe CIO"? ...No it is not. More it was known in advance actually…

The purpose followed by Jp Morgan would be carved in stone as early as 2006 through the NBIA which was making the birth of the hedge official. The NBIA stated that CIO **should use the IB prices** on principle. But it was not said that the CIO **"had to" or "must" use the IB prices.** This alone meant that CIO and the IB would structurally differ within Jp Morgan while having direct open trades together in the future. This alone mandated a daily reconciliation and adjustment. This check was simply here to avoid that a blatant Ponzi Scheme emerged between CIO and IB price differences. This was really Basic financial control here dating back from the 19th century actually. The US senate report will analyze it and conclude that CIO would actually **never use the IB prices** in its daily estimate performance reports. Thus day after day it is sure that someone at Jp Morgan reconciled and adjusted IB prices or CIO prices or both. And that was done outside of CIO…. This also means that the restatement tale of July 2012 is a pure invention.

The proof of that 'July 2012 restatement" invention was set in 2006 through the NBIA. It was also written that VCG, ie the department controlling the prices, would be in charge of deciding whether it should adjust the CIO prices where the IB held positions on similar instruments. This would be done in discussion with CIO, not the IB….That discussion with the IB was NOT needed at all….

Thus the reconciliation was known to exist, had a protocol itself to follow which involved an independent group bridging the gap between CIO and the IB. It may or may not impact the performance of CIO within JP Morgan. The firm was structured to handle flawlessly these well expected differences. …..The NBIA can be found among the exhibits of the US Senate Report. One would get a crystal clear confirmation of all this through the call transcript of March 23rd 2012, that is also available among the exhibits of the US Senate Report. In that call Pinto is pretty assertive : the IB controls the mark to market of CIO as soon as margin calls are processed with the counterparties. And here the books were not mismarked. Yet CIO elevated then a $500 million difference that was already flagged by the IB collateral staff….As of March 23rd 2012… And there was NO dispute then with external counterparties…. One obvious inference here is that the CIO prices in principle should only be applied internally at Jp Morgan in any case. This again shows that the restatement of July 2012 was a fake one. This also shows that the April 20th 2012 so called collateral dispute had been manufactured on purpose and should never have occurred actually…. Iksil testified on that and the evidence exists of the time to support it.

This does not mean that there was no mismarking at all at Jp Morgan. But that was not one mismarking that was due only to price differences emanating from the estimate P&L of CIO for this "hedging book". The issue really was that the IB and the CIO had materially differed for weeks and the no liquidity reserve would be taken for that visible price uncertainty. This is the genuine mismarking that was salient towards late 2011 already. This is the one that concerned the Federal Reserve in December 2011 already. That fact though had been left unknown to Iksil by its employer.

Further evidence of the actual mismarking is actually provided through the call of April 17th 2012, also available in the US Senate Report exhibits. Here one can see Drew instructing Artajo to eventually pick prices being outside of the standard quotations in "bid offers" in order to show a gain that day. Artajo here confessed that he did not know… He did not know what the prices were. He did not know what the markets were doing. He really was not sure…..Sounds like very il-liquid positions, no? In that call Drew not only displays her full knowledge of the protocol, her full involvement in diverging materially from IB prices or any "mid price", and her full awareness that liquidity reserves are missing here about the "tranche book" of CIO.

These 3 documents mentioned above prove at the least that the price differences were known by Drew and by no less than the CEO of Jp Morgan UK in the person of Pinto. The controllers, the internal auditors, the IB staff managing the collateral and margin calls were also all aware of those differences. They could never have missed them since CIO would almost never send its own prices at the right time to process the accounting standards day to day...Indeed CIO had no fixed time schedule to communicate the estimate P&L report that contained CIO's prices. As said CIO may not even bother to send prices for a full day and would then not even bother alerting the IB collateral staff of that…. And this would likely happen in terrible days where the markets would be under stress! How the hell then could the IB staff address at fixed hours in the day the many collateral and margin calls that referred explicitly one by one to CIO's trades held in the huge "hedging book"? They just could not if they relied upon CIO's own prices. They only demanded that CIO had booked its trades so that they would be routed instantly to the IB systems. They would thus mechanically apply IB prices by defaults and wait next for controllers and CIO to adjust internally CIO's performance reports at a later stage. This is precisely what the NBIA described already in 2006. They at IB Collateral management had no other choice as the counterparties of CIO's trades would come back every single day with a new margin call figure and a new collateral requirement figure. And the counterparties of CIO, being themselves big market markers, had no other choice than demand a reconciliation every day. That was the standard they themselves had to follow since 1993, as per the prescriptions of Jp Morgan, Paul Volcker, the SEC, the OCC and a couple of other big audit firms…..

The market players had in particular to follow two important rules to process their "mark to market" on tranche books like the one of CIO. The first one was to have fixed estimate valuation time schedule. CIO would apply none of this for the « hedging tranche book". The second one was to adjust the quoted tranche prices that used a fixed index price in order to reflect the actual traded price for the index. CIO as well would do none of that for the big "hedging tranche book" that it had…..These standards though were quite explicitly endorsed and applied at Jp Morgan like others. They were mandatory if counterparties ever hoped to agree on margin calls and collateral postings. They had to follow that road to process their mark to market…. And CIO just never followed the rules here. Someone else in Pinto's department at the IB did the job for CIO every day….Pinto was assertive that his staff had had no collateral disputes.

Thus for these price differences to have ever existed beyond few hours it is solely because someone outside of CIO but within Jp Morgan decided to maintain them. Iksil testified consistently that he alone had provided all the reasons to the IB controller Allistair Webster as to why these price differences had originally existed and how they should be adjusted whatever the criteria would be. This little remark here has vast consequences as to the reliability of just all the official public reports. Indeed it shows that a mismarking definitely occurred but the top of the bank had had all the information in due time anyway. This has vast implications. Iksil testified on that line before the SEC. The DOJ did not go much into these details in 2013 and would not come back later. The FCA avoided discussing this matter with Iksil that it had however initially identified as key for its own investigation.

It is worth repeating it since this shows the genuine face of the "London Whale" scandal that none of the regulators involved have uncovered. The accounting standards adopted explicitly by the bank in its valuation policies and procedures were quite clear. This was the case for both the valuation procedure dated November 2007 and the one dated January 2012 (see again the US Senate report exhibits). They imposed fixed closing times. CIO for the hedging book had a floating closing time (that was not mandatory actually) instead spread between 5PM and 10 PM London time. This regularly caused issues for back office people at CIO for month end in particular. As said CIO may even NOT produce a performance report at times (see 2008, 2009, 2010 and late 2011)…

And the accounting standards adopted by the bank imposed that the original quoted tranche prices be adjusted to the quoted index price from an initial "reference index price" that had come along with the tranche quotes originally. CIO would just never make this adjustment that was mandatory every single day anyway. These "violations" made by CIO came on top of the fact that CIO would NOT use IB prices. They were all blatant. They were all surely messing up the margin call and collateral management process. They were thus an ongoing issue every day for the bank to perform its mark to market process. In short, the famous "mid price" that was to serve in this critical "mark to market" for the firm books and records was NOT coming from CIO anyway. Julien Grout knew this quite well. Needless to say that all his management line, starting with Artajo, knew very well the orders that they had channeled to Grout away from Iksil.

Yet, the CIO had to comply with its own rules here. It could not do anything about this strategic hedging book weighing alone 40% of the firm-wide VaR and based on the most complex and il-liquid derivatives traded in the markets. The « firm » as such was the biggest bank for its traded volumes in the financial markets on CDS. The stakes were huge. In practice though, even if Julien Grout would set a rubbish price, the books and records of the bank would be safe. There had been a blatant proof of that back in February 2009 where the IG9 index price had mistakenly been left unchanged for several days at CIO. CIO would learn of it from the IB collateral team which still had independently processed the margin calls on behalf of CIO all those days independently of the mistake that had been done at CIO. Yet, checking on CIO's cash balances with Back Office, the IB collateral team had been able to spot where the problem was in CIO's prices anyway. The problem at CIO would be fixed right after that, ie before Grout would join CIO. From then on a "fat finger" of Grout would be flagged the next day straight. Grout could not potentially mix up prices and estimate P&L figures.

Yes the valuation protocol was bullet proof. A potential mistake of CIO was automatically erased by the IB collateral management staff every day. And thereafter any mistake of CIO in prices would soon or later be flagged as CIO was 100% transparent inside the firm towards the IB staff. How could one ever have doubted that not only the bank but also every single regulator involved would have checked on that "safety and soundness" pattern long before 2012? This was just common sense: Grout was alone in pricing subjectively, out of "fixing" times, 40% of the firm-wide Var without even complying technically speaking with the explicit accounting standards of the firm. Of course Grout would be automatically overridden….And it does not mean that Grout still was free to make mistakes. He was controlled closely by the IB collateral team every day. One can get a sense of what was being done reading the April 20th 2012 email chains involving Mark Demo. The evidence again is accessible through a search amid the exhibits attached to the US Senate Report of March 2013. Even though Grout would be over-ridden automatically, the coming adjustment would be influenced by Grout's selection of prices something which would impact the sole performance of CIO within the firm. At the end of the day whatever the adjustment it would be a zero sum game between CIO and the rest of the firm, by design and as per the standards in force since 1993. The July 2012's restatement as it was justified therefore really had no ground.

But with the scandal and the many investigations reports, one is led to believe that Grout and Artajo did something wrong anyway. Truly, they did not act as they should have. This is what appears when one looks at the communications of Iksil of the time. How can Iksil be fully exempt of charges then, working with the two others? One wonders… After 5 years of investigations centered on Iksil actually from the very start….After 6 cross examinations and 40 days of questioning of Iksil again…. Only the version of Iksil prevails…. Iksil's story never changed….The Bank would change its version… The FCA would change its version… The DOJ and the SEC would ultimately also change their version…. What about the defendants in their own testimonies? What about the media here ? This will be dealt with later.

This website here will explore the basis of this testimony of Iksil and how it contrasted with the official versions that would all change in the end. The bank for example would fire Iksil in an accumulation of blames. But in August 2017, Dimon would admit that Iksil was not the guy to blame… Really? What a reversal of "personal view" that no one could have guessed…..The FCA would only try to charge Iksil between 2012 and 2015 aside from Macris. And finally the FCA would dismiss itself in full via the RDC committee…. To say the least the FCA did not respect its own charter in "human rights" terms. The SEC and the DOJ would try quite assertively to charge Grout and Artajo in 2013, raising a "full storm of misconduct", contrasting this with Iksil's behavior that had been "central" and a voice of reason setting many times the alarm bells. But in 2017, the SEC ad DOJ would have lost their "belief" due to Iksil's recent "writings and statements" while having no blame to issue against Iksil actually. Was that clear to anyone here?

Well this website will expose always the very same story through different angles. The layers of smokes and mirrors have been knowingly accumulated and need be removed one by one. There has been first an overview in June 2012 explaining the issue. There was next a part that documented one cornerstone of the whole scandal, namely "profits" and VaR. This third part here will display the role of the regulators in all this. Here is an appetizer….

The organization was clear and rational from Grout up to Dimon

The many public reports will try to pretend that the CIO "traders" had wrongly deviated from "mid prices" by using an internal expression in use at CIO then, the "Crude mids". Misleadingly so the bank and the other official reports pictured that the "crude mids" should have always been the basis at CIO for processing its "estimate P&L". This was a known gross mischaracterization of the facts done by all the public reports at their time of issue…. As the « crude mids » for the CIO people were NOT captured at fixed time anyway, even less so at 5PM London time or 5PM New York time. And these "crude mids" of CIO staff would NOT refer to any consensus since none would match in time by design of the very protocol followed all day at CIO. And these "crude mids" of CIO for this "hedging tranche book" were ANYWAY NOT applying the industry practice and market standards for valuation as to the adjustment made on every tranche price from the index reference price towards the closing index price. Iksil would testify on these facts towards all the investigation teams. Iksil would even explain how it was actually quite sensible to operate like this at CIO on this huge hedging tranche book….

And Iksil testified what the logic was at CIO. It was one strong and quite sensible logical process that was followed here. One basic reason was that CIO applied no correlation model. … NO model risk….Another basic reason was that CIO had no closing time per se…. No "timing" risk….One last reason was that CIO was 100% transparent inside the firm… No "information gap" risk….. So those "crude mids" in the language of CIO staff were NOT what all the authorities and the bank have tried to make believe ie the target famous "mid prices" that the mark to market protocol expected to reach. Most of the time before 2012 Artajo and Grout would discuss the estimate performance based on these "crude mids" at around noon up until 1h30 Pm London time. They may be reviewed towards 3PM London time again if anything happened in the markets. They would be reviewed again around 5PM London time as the dealers sent their closing "mid prices" for their mark to market. But neither Grout nor Iksil would stop as New York was alive and kicking, not closing yet… And the prices may therefore be reviewed again until 9PM London time while actually Artajo and Grout were already refining their judgment for the day. Iksil would participate or not. There were thus all day the "'crude mids" on the one hand and the mandatory "refinements" that the firm-wide risk controllers had been demanding since late 2006. This process at CIO for the huge "hedging tranche book" was a complete alien when compared to US GAAP or firm's standard policies and procedures.

Iksil did testify on those lines many times and quite clearly. They, Grout and Artajo, had a very rational process here to follow though: they were here to monitor the performance all along the day and close the day at their convenience when they felt they had reached some certainty as to what they thought had happened during the session. They were NOT bound by any margin call or collateral posting timing. All this subsequent mandatory step in the mark to market, ie margin calls and collateral postings, was fully managed at the IB on behalf of CIO. What Artajo, Grout and Iksil were here for was to report on what they had seen in the market that would affect the big hedging tranche book that weighed about 40% of the firm–wide VaR for quite strategic reasons. The routine conventions of the industry, the standards set by the watchdogs, had equally little weight here. The job was done anyway at the IB. And CIO would be overridden for obvious other reasons….

Notwithstanding the fact that this big book was complex, exposed to synthetic tranches, it had just no limit as such. That was one more compelling reason to NOT let CIO value alone this big hedging tranche book. Besides there had been no intent to actually limit the size of this big hedging book: the markets were the actual limit for this big hedging strategic book. That was it. The evidence is abundant on the matter. If its evolution was to induce the whole CIO to breach its CIO's limits, the CIO's limit would be increased. Iksil could NOT testify on that as Iksil knew of no limit for this book. But the Senate commission did testify on that matter extensively. The US Senate report showed in that regard that in 2012 the CIO would be breaching 330 times its own limits during the first 4 months of 2012, reportedly due to the latest trades that had been made on this "tranche hedging book". And the CIO's limits would be always adjusted on the way up. When the evolution of the « tranche book » suddenly made the firm itself breach its VaR 10-Q limit, the firm-wide models would be adjusted and the CIO VaR limit would be large enough for the trades to proceed anyway….As unbelievable as it may sound, once one gets that the design of this book was piloted from the very top of the firm based on its net exposures, that all makes sense…. Except maybe some last minute firm-wide VaR model changes as « VaR History » showed….After all the crisis that Jp morgan had sailed through (1994, 1998, 2001, 2002, 2003, 2008), the US bank would never let 40% of its 10-Q VaR left in the hands of highly subjective French guys and a Spaniard... the "London location" would never be an excuse. Here is a complete myth that Iksil would testify against every time. Yet this myth will be vastly entertained in the media since 2012 for a reason that has remained unexplained until June 2017.

All was crystal clear however, and from the very start. Iksil would testify many times about his own recruitment interviews when he had met Drew or Macris for the first time. The two of them explained him in February 2006 that this book would the one of « Jamie ». It would be huge, holding enormous positions. It would make huge losses or even bigger gains. But in any event the performance was for the bank and no « trader » had any claim on it whichever way. This book was the property of the bank. In simple terms the « bank » was the « trader ». Its limit was the market itself….This is not proprietary trading though. This is a mandatory hedging strategy that regulators and the board of the firm wanted to have before it was too late.

They all believed in 2006 that the synthetic markets were going to crash soon. But they did not know when. They would all follow the lead of « Jamie » here. They were also very clear that their « execution man » had not arrived yet. Their “trader” as they said was not recruited yet. This was not Iksil for sure and they made it very clear. Many layers of chiefs were to come soon between Iksil and Macris to monitor this vital project for JpMorgan. They would flag that Artajo was their man in February 2007. He would be the “trader in charge” for them to execute in the markets. He was the one that was to follow every detail of the implementation day to day on behalf of Dimon through Drew and Macris.

And where does Iksil fit in all this? Artajo would be the “brains”. Iksil would be their « eyes » and their « ears ». They wanted to preserve Artajo from the markets gossips and spying schemes. Iksil would be instructed every 3 days by Artajo having therefore a very limited visibility on the chiefs’ plans that Artajo knew in part. Thus their “trader” was not easy to reach for the market players. Iksil was here but knew little as the counterparties knew. Iksil was a screen. All was clear and perfectly logical be that for the roles or for the valuation. Indeed, given the intensive need to trade at the best price for massive sizes, Iksil would have no spare time to process the estimate performance. More as this book had to be monitored almost « live », the need to pick prices all the time was even more compelling than for any other trading book. It was not enough indeed to have a blind estimated performance day to day. The top chiefs needed visibility. They were piloting a tanker in a small port here. So there was another man to run estimate valuations all day long and report the events to Artajo. Iksil would do none of that. Grout will join CIO in 2010 to actually replace the one who formerly processed that estimate performance measure all day. All day long Grout picked prices on his monitors, keyed them in the valuation engine and reported to Artajo whatever change he had seen. He may not tell Iksil by the way, just Artajo. As to Iksil, he would execute Artajo’s orders all day. The organization was clear, logical and yet systematically distorted by all the future public reports.

The decoys piled up in 2012. The light is not made at all on the decoy mismarking that would blur the real mismarking

What the hell happened then in 2012 that would mess up all this well oiled structure in Jp Morgan? Things had deteriorated actually much earlier than January 1st 2012. Since March 2011, as Iksil testified many times and published in February 2016 (ie 16 months before the DOJ’s ambiguous decision), the “hedging tranche book” of CIO was already set in run-off status. To be clear, the book was not expected to trade much due to vastly insufficient liquidity. That had been made clear by March 2011, ie one full year before March 2012. The “book” was therefore already prepared to expire quietly being split between a brand new investment book and a “residual” hedge that CIO would let just die as well. As Iksil would tell in March 2011 face to face in London Drew, Macris, Artajo, Stephan, Weiland, Kalimtgis and CFO staff at CIO, the CIO would not be able to unwind its legacy exposures in the markets. The dealers had no capacity to warehouse the “hedging tranche book” positions any more. They were “full” as they said. More, with the advent of the Volker Rule plus the Basel 2.5 or Basel III rules, the CDS markets liquidity could only worsen looking forward. The picture was super clear.

In 2012, ie 9 months later, the markets had predictably become almost inactive for most of the legacy exposures that the CIO had on the huge “hedging tranche book”. The tranche markets themselves were dead in practice. Of course some prices looked really weird. The market makers would not stand by the quotes that they had just sent. They would not let their client print these quotes for valuation purposes. They would often specify that these were just « indicative prices ». Yet Julien Grout still had to pick about 100 different prices for 100 different financial derivatives products. And he still had to adjust them as per his intuition so that they moved harmoniously to display what was the likely performance of the "tranche Book" of CIO.

Nobody was fooled far from it about this deep lack of liquidity and reliability of the quoted prices. In February 2006 Drew already wondered aloud during Iksil's interview to join CIO, which among the CDS would be reliable enough for Jp Morgan to deploy its strategic hedge. The candidates were scarce. CIO and Jp Morgan would by the way opt to pick the most liquid ones based on the most il-liquid segments of the CDS markets. Thus Drew and Dimon would choose the Subprime, the LCDX for leveraged loans derivatives, the super-senior tranches and the HY tranche markets. Since 2007 the CDS markets that influenced the performance of the "big hedging book" therefore were notoriously not reliable. It had just gone worse and worse since then. Grout, Iksil, and all their management line knew that the first estimates using « crude mids » were really gross measures, ie unreliable themselves for the purpose of this "hedging book". This is where the expression "crude mids" took its origin from. That was "crude", that was "gross", that was unreliable, that had to be refined, that was vital for Jp Morgan… And that was to be monitored and refined at best next. And of course this refinement would be subjective. That was going counter the requirements of the "mark to market" which was to be a blind consensus devoid of interpretations...

This process would operate relatively well until 2011 despite the ongoing decline in reliability. Julien Grout would issue his first « batch » of prices a little after the « crude mids" stage. This "first batch" was mostly using "crude mids" with already little refinements. What mattered was that Grout had questioned for himself a little bit the "crude mids" that he observed. That was around 1-2 PM London time. Artajo would be informed as the process was. That was the first « market snapshot » that included both the european markets moves of the morning and the opening of the US market. This is where Grout would make some refinements actually as he had normally a finer picture on Europe that on the US. Grout would struggle after August 2011 in his process but still he would be autonomous, ie he did not need the view of Iksil necessarily so to perform his job at the "first batch" stage.

But in the very first days of 2012, Grout was allegedly in a deadlock. He would not be able to go beyond the « crude mids » stage all day and would NOT produce any "first batch" that he was confident with. Grout would then regularly turn to Iksil for his view, not providing any of his "first batch" as a starter. Grout knew that Iksil depended on this "first batch" since 2011 though. And Grout would deliver nothing in 2012 starting on the very first day of the year 2012… So Iksil could not help much since he himself waited for Grout's first batch to infer what trades made most sense for the book given Artajo's instructions. And Artajo was adamant that Iksil had to trade in the first polace to help Grout out. That was an uneasy situation. The pair could not operate in good conditions at all. As such no one would be surprised at CIO. Iksil testified that he had elevated the issue around the deep lack of liquidity in front of Drew face to face in September 2011 in New York, then again in December 2011 in London this time. Once again, CFO staff and risk control staff would also hear the issue that was growing. Iksil testified as well with many evidence proving it that the dire situation of 2012 itself was elevated no later that the 10th January 2012. There is an email chain dated January 10th 2012 where Iksil is NOT part of but also where Artajo, Drew and Macris talk of unwind costs, reserve releases, and "maximize P&L" while stop unwinding. This email chain had been sparked excluding Iksil but based on Iksil's recent report of the issue mentioned above. The evidence on the matter is abundant, although it is kept under confidential seal by all the authorities in late 2017. It shows un-mistakenly Grout and Iksil wondering about the « crude mids » and where the prices of Grout should be refined with regards to these "crude mids". Iksil regularly commented on this difference in written form as well to Artajo. That was happening in January 2012 already.

What this abundant evidence shows is that Grout, Iksil and A rtajo openly discussed of the best way to define a difference from the « crude mids ». They spent most of the day trying to figure this out in the best possible way. They often times had diverging opinions. And they equally often if not more often agreed at the end of the day. Yet Iksil disagreed with Artajo and Grout on the fact that the CIO price should be out of the bid-offer as they were quoted by dealers. Here the authorities found an issue. And they were right to focus on it. But they would apparently ignore that it was Drew who ordered Artajo to eventually stay outside of the quoted bid-offers. The evidence is found among the exhibits of the US Senate Report : it is a call transcript dated April 17th 2012. This call is corroborated by the testimony of Iksil and significant evidence dating back from March 5th and March 6th 2012. One can see a further confirmation of the fact that this instruction came from Drew in the slides that Drew herself had made for a Board meeting that she would have on the 20th March 2012. In her slides, she would pick the 6th March 2012 as the last performance measurement date for the book while she would use risk metrics dating back from late 2011 otherwise. Had she not known of the change she would most likely have picked another more recent date for the performance.

The authorities and the bank will all allege that this order had been self generated between Artajo, Iksil and Grout. But the evidence proves otherwise. Iksil testifies on that since 2013 before all the authorities: the order came from New York. He testifies also why he disagreed at times and had made sure no information was lost anyway. The evidence existing between Iksil and the IB controller Allistair Webster proves that indeed no information was lost anyway. But this evidence and Iksil's testimony are maintained under confidential seal….

So what was the problem at the end of the day ? ….Drew had ordered Artajo to stay outside of the "bid-offers" "if appropriate"… Of course…And Iksil disagreed with that instruction…. Iksil weighed almost nothing in the process as the April 17th 2012 shows. And Grout and Artajo would follow Drew's orders anyway… They would NOT tell Iksil the whole story here and deliberately so (see maybe one day confidential evidence of March 13th-14th-15th 2012 and March 23rd 2012 among others). And Iksil would independently secure that no information would be lost for the bank and for CIO altogether….At the end of the day, the issue is expressed through the suggestion that the bank Jp Morgan would publish in July 2012 that some "traders" may have tried to conceal part of the losses. If such was the case Drew was the "trader" as much as Artajo or Grout were. And Iksil certainly could NOT be put in the same bag. Yet the bank would fire Iksil with maximum potential damage over the rest of his life…..pretending that Iksil had let Drew order what she had ordered against Iksil's well expressed views….

Thus once again, the restatement of July-August 2012 was misleading in alleging unknown price differences. And Drew would vastly misrepresent her role here and the facts in 2013. Thus it no doubt is the way CIO had arrived at these differences that was an issue. It was not a risk that the price differences could be missed. It was a risk that the known difference could be misinterpreted outside of CIO. If such was the case Iksil testified that it was not due to misinformation as such. All was well understood. As described above the price differences were mechanically overridden at the IB and then they were reconciled and analyzed for the VAR analysis day to day. Ultimately a crowd of risk controllers and accountants would make monthly adjustments sitting between CIO and the IB based on these differences that they had wanted to have since 2006. The evidence shows, and Iksil testifies consistently so, that Iksil disagreed with Artajo's orders or Grout's choices at critical times. Grout or Artajo would hear Iksil's arguments as sensible. Still they would follow Drew's instructions. And Iksil would document all this and communicate all this at the time.

Were Artajo or Grout acting unbeknownst to their chiefs as the authorities and the bank alleged? Iksil for sure did not: he elevated everything he knew and that was way enough. Drew denied being "aware"….The US Senate commission expressed without ambiguity its perplexity on the matter. Take the confidential evidence between Iksil and Webster in early May 2012, or the April 17th 2012 call, or the earlier March 23rd call between Artajo and Pinto, or the confidential evidence of March 5th, 6th, 15th, 16th, 20th, 21st, 23rd 2012 and one really wonders. Add to that the many reversals of Drew herself when she testified confidentially so as reported in the US Senate report and one gets a pretty clear answer…Ina Drew's boss was Jamie Dimon. She would be « retired » hastily on May 14th 2012 with a golden parachute that balanced quite well the bonus that she had visibly surrendered.

There is no record of her being sued by the authorities. The missing liquidity reserves at Jp Morgan is a matter that has been left to silence most of the time. One can find here and there a reference among the US senate report footnotes and exhibits. For example the OCC connected the estimate P&L of CIO to reserves as early as mid-May 2012. The OCC examiner stated « it doesn't add up ». More the OCC also commented once that the firm had increased its reserves in July 2012 but not enough by far in relation to this "hedging book". The Senate footnotes quietly alluded to the fact that all this mess "may" have originated from a share buyback plan that was connected to Basel III standards, which induced much bigger liquidity reserves for the "hedging book" of CIO. Thus the earnings for Q1 2012 should have been lower due to missing liquidity provisions. This issue about il-liquidity had been flagged many times by Iksil since late 2011 actually. Now this restatement coming from lasting price differences was wrong. So it appears that a fake mismarking tale has been publicized and hid a genuine mismarking on liquidity reserves. There would be this good old « London Whale" tale to make people believe that all this was a typical "trading scandal" while it was not that at all. Why did Jp Morgan went into all these smokes and mirrors?

<u>3- The bank was making a unique fortune, as planned long before. That was not a loss at all</u>

The Economist-End September 2013- « When the fine is a crime »….

What is the end result for Jp Morgan ? No doubt CIO lost $6.3 billion on the « hedge ». Anyone who looks at the history of the share price shall notice that this "London whale" was at worst a "hiccup". A more detailed report, « JP gains in 2012 », shows that this was a $60 billion gain net of costs that would appear between 2012 and 2014. These extra $15 billion costs or so could have been avoided. This question matters : was it a massive gain or a massive loss at the end of the day for the firm? The answer is clear : it was a huge, unique, historic gain whatever the costs. The document shows the perfect synchronization of this fortune for Jp Morgan and the “collateral $6 billion damage” that plagued CIO then. It matters. Indeed, people have heard of market manipulations, of losses, of profits, of scandals, of trading. All this counted in $billions. But the genuine event that remains undisclosed today other than on this website is that there was happening a multi-tens of $billion gain within the balance sheet of Jp Morgan. And this gain here had nothing to do with “chance”, “coincidence” or “hazard” or “mistakes”. The Federal Reserve of New York shall, for its own defense, shall have to evoke this gain that it was monitoring closely then. One can find a reference to that in the response that the Federal Reserve of New York will make to the OIG report (October 2014)….If one considered all this event as a “crime”, as in a typical crime novel, one should follow the lead of “who is profiting most from the crime?” The answer would point to the authors of the crime itself. It is not as simple as one may think… Smokes and mirrors again….

So far the bank has presented itself as a victim of an event that it actually had rather entertained by its own ambiguity. As expressed already in June 2017 on this website, the bank could have cleared all the burgeoning scandal quite fast. It would never do that still now….As Drew would write in capital letter in an un-missable email to herself, Dimon had weighed the « risks » and the « rewards » of his communication strategy then…. The bank was not quite that, “a victim”….

Jp Morgan would make a sort a « mea maxima culpa » between May 2012 and October 2013. Still the bank slid a couple of mischaracterizations as explained before. The official “settled” version in 2013 shall be wrong on the actual market manipulation. It shall be wrong on the actual mismarking. It shall be extremely wrong on the economic impact. It shall be wrong on the roles played, especially the one of Iksil. And just all the authorities will « validate ». In particular what is found missing in late 2013 is the personal accountability of all the top chiefs of the bank. Carl Levin, the chairman of the US Senate Commission will post on his website the following comment : “***The size of the penalties is testimony to the great damage risky derivatives bets can do, and that's important. However, the whole issue of misinforming investors and the public is conspicuously absent from the SEC findings and settlement. Our PSI investigation showed that senior bank executives made a series of inaccurate statements that misinformed investors and the public as the London Whale disaster unfolded. Other civil and criminal proceedings apart from this settlement are continuing, so there is still time to determine any accountability on that matter.*** “

The fact is that all these executives had been in regular conversation about this “hedging tranche book” with top regulators since 2010 at least… And the regulators had been quite concerned and scrutinizing the matter since 2010. Therefore should the bank top executive be made accountable, so would some top regulators be likewise….The famous British weekly « The Economist » titled then « *When the fine is a crime ».* The article is freely accessible on the web. One would certainly read that « The Economist » mostly invoke less regulation. This is true but this is not the central point in this article if one reads it twice. The UK weekly and quite liberal outlet also mentions that the light is unlikely to be made ever on this “loss” actually. Thus while Carl Levin stated that it was not “too late”, “The Economist” suggested that it would just never occur here. As the “London whale” scandal shows in 2017, one may conclude, “more regulation” means actually “much less transparency”.

The official figures deserve a better look indeed. This is what the document « JPM gains in 2012 » endeavors to make. Jp Morgan produced every quarter about $4-5 billion profits since 2010. Through the second quarter of 2012, Jp Morgan admitted in contrition that it had been crumbling under huge trades that were flawed and thus were losing an unexpected fortune. The loss counted in many $billions. That « admission » here happened in the mouth of Jamie Dimon. As shown before a peculiar mismarking had just been engineered against the elevations of Iksil and against the report of the IB controller Allistair Webster. The whole planet will be moved by the « rare moment of honesty ». This emotional reaction will last until July 2012. Obviously Jamie Dimon will fail here in finding the words that would have calmed down the speculation against Jp morgan.

It was scary and so simple all the same. On balance the bank could rely on $5 billion profits, absent any catastrophe. And here it had lately found itself glued with these "CIO flawed trades that were losing a fortune". This had cost already $5 to $6 billion by the first week of June 2012…How unlucky Jp Morgan was with its internal gambling! Anyone could then freely speculate: « but then Jp Morgan might very well be in the red this quarter!" This would be quite an event in the « fortress balance sheet" that had confessed already "poor controls", "complacency", "hard to unwind positions"….Of course investors are scared and feel compelled to sell their Jp Morgan shares in such a case. The price dives of course. Jamie Dimon in return, like a white knight, announced that he would buy the shares of his bank. He is transparent. People are in disbelief given the massive uncertainty surrounding the coming profit for Q2 2012. Everyone expects a « zero » or close despite the many reassurances of the CEO on the public stage. Dimon would state that the firm would remain « solidly profitable »… How ambiguous that was in the context of this reportedly unstoppable $6 billion trading unwanted loss…..

On the 12th July 2012, there is a new surprise as described on this website already. The bank finally prints $5 billion profits for Q2 2012…. It is just as if the loss at CIO counted for nothing…The earnings figure would be as it had been tentatively announced at the start of the second quarter of 2012 actually. The "London whale" scandal had NOT impacted the firm's profitability. Wao! Dimon has a magic wand or he is a genius….Investors quickly reverse course and rush to buy the shares of Jp Morgan in the markets. But many will buy them back at a much higher price than where they had been induced to sell in the first place.

In guise of a loss the bank recorded a massive profit right when the scandal plagued its reputation and the CIO

Overall the year 2012 will turn out to be an exceptionally good one. This is plain visible in the 10-Q reports. Ironically enough the turnaround will be exactly between the first quarter and the second quarter of 2012. There were indeed many pending issues around liquidity reserves in Q1 2012. They were not at all a « tempest in a teapot ». But the « tempest in a teapot » itself, namely the « london whale » scandal, will act like a genuine catharsis. Indeed, beyond an estimate $25 billion gain recorded for 2012, the bank will generate a lot of tangible capital, and will materially reduce its operational costs looking forward. The bank will start also amortizing fast its huge intangible assets…. At last….The markets will pick that turnaround in the following quarters. But the media would keep ignoring the facts on the matter maintaining their original misleading stance that the « london whale » scandal was a loss for the firm. They will keep saying that this was a $6 billion loss for the bank. Poor Jp Morgan!

In fact the year 2012, as detailed in « JPM gains in 2012 », is uniquely a good vintage if one looks at the history of the brand back to 1998. What a confusing picture the media and the authorities keep conveying in late 2017 still ! "It is behind us" says the bank… Sure it is… This must be because the bank had to pay $1 billion fine, plus settle other cases with another $13 billion fine. This was expensive, wan't it ? Well, net of those « collateral costs » and others, the bank made a net $60 billion tangible capital gain between June 2012 and January 2015.

As the document « JPM gains in 2012 » also shows, the CIO did lose $6 billion due to market price changes happening on CDS through Q1 and Q2 2012. Yet the firm itself did not lose that by far if markets prices only are the reference. The gross figure indicates rather $1.5 billion loss over the first 2 quarters which is "business as usual". One may even argue that the bank made money on its net exposures when one includes the IB and RFS. This would make total sense when one remembers that this huge « hedging tranche book » was just a protection protecting even bigger risks stored elsewhere in the bank. Once one looks at how the firm itself attributed the ultimate performance across the different business units, one can reach a net gain of $2 billion on credit derivatives. But this is a tentative estimate since the bank only discloses what is « sees » and not necessarily what its counterparties saw. Thus one may conclude that it was a "trading gain" on the spot towards the end of Q2 2012. And yet the bank will claim that it was "$6 billion trading loss".

It has been shown in « JPM gains in 2012 » that this $6 billion » loss figure was solely the effect of an opaque, last minute, one-off negative adjustment imposed by the ALCO. The top executives here would not rely on market prices to impose this $6 billion "trading loss" paradoxically enough. They would not even be based on in-house risk models. They would even less stand by their usual prudent attitude towards their "last minute trading adjustment"…..

More a quick look at other provisions shows that the firm actually increased its provisions (litigation and deferred tax expenses) to the tune of $2 billion. That must be a coincidence that led indeed the bank to report its earnings as originally announced. This shadowy $2 billion provision balanced this apparent $2 billion « trading gain » it seems, irrespective of whatever the ALCO figures would be for "principal transaction" figures. As explained, one can infer that the bank provisioned $1.3 billion through its "deferred tax benefit/expense". There would be quite a unique labeling mistake here, just for the Q2 2012 10-Q. How weird and coincidental for an automated form… Jp Morgan clamored a victim status, being egregiously afflicted by a $6 billion trading loss, but mistakenly so took a $1.3 billion reserve through the "deferred tax" line and took even more reserves at "Corporate" for litigations. Ironically the « victim » Jp Morgan in Q2 2012 was projecting even higher profits looking forward for 2012….

Another look at the « Maiden Lane » gain on the calendar of 2012 would have shown that there was no need for Jp Morgan to actually restate the earnings of Q1 2012. The firm could easily have respected the timing of the « maiden lane » gain, that was Q1 2012 and not Q2 2012 for 90% of it and still have taken a $600 million liquidity reserve for price uncertainty. For a strange and undisclosed reason, this quite predictable gain on "maiden lane" for Q1 2012 will be deliberately postponed to Q2 2012. Had it not been the case, the restatement would not have occurred. There would have been no accounting scandal like the one that has been shown. Likely another one would have surfaced though… Maybe one of a much bigger magnitude politically speaking... Indeed this « maiden lane » operation had been supervised by the Federal Reserve of New York since 2008. Going on the website of the Federal Reserve of New York one could see that this "maiden lane" deal here was coming to expiry with no further loss. That was predictable in 2011 and was confirmed in the facts in the course of Q1 2012. That gain was known in early April 2012 and should have been accounted for then for Q1 2012. It would not be. It would be postponed, triggering also artificially the restatement of Q1 2012 in Q2 2012. And all this happened in direct connection to « Maiden Lane" that was a transaction controlled by the Federal Reserve. And this wrong calendar attribution in July 2012 occurred under the direct supervision of the Federal Reserve of New York….

The book was about to die. This was known to be done at the benefit of the bank. This is what Iksil testified on as well

The website here mentioned the $25 billion net gain for 2012 and the $60 ultimate net gain over time by the end of 2014. The website also described in « VaR history » that the bank opted to go sideways in late 2010 against its own interest on the face of it. It showed as well that regulators were closely monitoring all the travails of the big "hedging tranche book" of CIO since 2006 actually. It was shown in" JPM Gains in 2012" that those gains materialized in the "tangible equity" of the bank versus "other assets". This would trigger an outperformance of Jp Morgan shares worth of $70 billion "all costs included" . This outperformance cannot be attributed to economic growth or markets rise or central bank zero rates policy. This outperformance perfectly timed with the "London whale" scandal itself.

This « tangible gain » in capital was long planned. Towards the end of 2010 Jamie Dimon had announced all this to all the regulators and the investors. At the end of the day that would be a gain. But the path followed was undefined yet. As show in VaR history, a fake promotion, blind and deaf regulators, misleading risk reports and other manipulations will occur starting in late 2010. All that amounted to make Iksil trade stupidly and make him look like a "bad trader". But this will not work. Iksil will alert. Iksil will not make the stupid trades.

What was the factor making the bank go sideways and the regulators go so inefficient altogether in such a lasting and timely fashion? As « JP Gains in 2012 » along with numerous evidence of the time show, the "IG9 10yr skew" was the cornerstone. Depending on its level, the bank could record $15 billion or $60 billion immediate gains in tangible capital on paper. The optimal point was at an IG9 10yr skew at zero. It was quite an absurd outcome if common sense, mathematics or financial markets history were a guide (see VaR History here). It was one outcome though that brought a lot of capital to all main CDS dealers on the planet aside of Jp Morgan itself….. And this is what happened at last in June 2012. This is exactly then that the bank will finally make this so easy transfer of the CIO "tranche book" to the IB portfolios. This is right then that all the anxious watchdogs will authorize the official death of this big "hedging initiative", this "SCP" in their files. The bank and Ashley Bacon had been waiting since March 14th 2012 the final approval of these watchdogs…At last they had said "yes".

This is what the bank will flag to the speculators but only in late June 2012…. that the whole tale is over for them. They would not unwind their bets against Jp Morgan for sure. And so the bubble against CIO will end soon after. Thus Jp Morgan will not have struggled at all to unwind the CIO positions. All had been long planned since late 2010. All had been fine tuned by the IB staff daily all along 2011 (see the March 23rd 2012 call with Pinto on High Yield). It was even more closely scrutinized inside the firm in 2012 as CIO was allowed to breach indefinitely all its limits for the catharsis to happen. There was no loss but a massive gain, one gain that happened at Jp Morgan and in almost any other bank having skew risks. There was nothing going out of control here, quite the opposite. There was no critical information missing at all at any point in time. And regulators were aware of everything except the “writings and statements” of Iksil. This included that liquidity provisions had been missing knowingly for quite a while in direct connection to their “SCP”.

This is in substance how Iksil’s testimony and this public account altogether differ from just all the official public reports.