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United States Senate

WASHINGTON, DC 20510

June 1, 2012

Mr. Thomas Curry
Comptroller of the Currency
Administrator of National Banks
Washington, D.C. 20219

Dear Mr. Curry:

Congratulations on your recent appointment and confirmation. It is unfortunate that our first formal communication comes as a result of trading losses reported by JPMorgan Chase & Co. ("JPMorgan"), one of the institutions for which your agency has oversight responsibility. Last year, your agency testified before the Senate Banking Committee's Financial Institutions and Consumer Protection Subcommittee that, "[g]iven the importance and the role that these large institutions play in the overall financial stability of the U.S., we have instructed our examiners that these organizations should not operate with anything less than strong risk management and audit functions – anything less will no longer be sufficient."[1] Unfortunately, I am concerned that this commitment was not fulfilled in the JPMorgan case.

I firmly believe that full transparency and disclosure regarding the actions of JPMorgan and its regulators will lead to better comprehension and more informed public discourse regarding what went wrong with JPMorgan's trading losses and what next steps, if any, policymakers should consider. To that end, I respectfully request that you to provide, in writing, responses to the following questions:

1. According to recent reports, your agency has 70 staff members at JPMorgan, but none in the bank's Chief Investment Office in either New York or London.[2]

   Please describe in detail the nature of your supervisory presence at JPMorgan. What was your presence prior to the institution's acquisitions of Bear Stearns and Washington Mutual? Are all of your supervisors physically stationed at JPMorgan offices? How many examiners do you have at JPMorgan? In which offices are they located, and how many are in the New York and London offices? How many are devoted to capital markets activities conducted in the trading, treasury, or any other offices?

2. According to other reports, JPMorgan's risk committee contains only one member with any financial industry experience, and includes a former director of AIG.[3]

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[1] Testimony of David K. Wilson, Deputy Comptroller, Credit and Market Risk, Office of the Comptroller of the Currency before the Subcommittee on Financial Institutions and Consumer Protection, United States Senate Committee On Banking, Housing, And Urban Affairs, June 15, 2011 *at* 7.

[2] *See* Jessica Silver-Greenberg & Ben Protess, *Gap Is Disclosed In U.S. Overseers In JPMorgan Loss*, N.Y. TIMES, May 26, 2012 *at* A1.

[3] *See* Dawn Kopeki & Max Abelson, *JPMorgan Gave Risk Oversight To Museum Head With AIG Role*, BLOOMBERG, May 25, 2012.

Please describe, in detail, your review of the risk management controls at institutions like JPMorgan, including examiner review and executive and board oversight of the office in which the trades in question were made. How do you monitor compliance with such risk management requirements, and what penalties are imposed for non-compliance? Does your agency challenge institutions' Value at Risk (VaR) models, and if so, how does this process work? Did your agency challenge JPMorgan's VaR models? Were you notified of JPMorgan's decision to move to a new VaR model? Are you examining this decision, and JPMorgan's subsequent decision to return to their older VaR model? Does your agency use its own models or analyses to assess trades?

3. There have also been reports about the dramatic growth in the size of JPMorgan's Chief Investment Office, and the discrepancy between the size and composition of that office's investments and those of similar institutions.[4] At last year's hearing, your agency said that, "[g]iven the volume and complexity of the literally hundreds of thousands of transactions that flow through large banking organizations, it is not feasible to review every transaction in each bank, or for that matter, every single product line or bank activity in each supervisory cycle."[5]

   Please explain your agency's process for reviewing trading operations, including strategies or positions, at large institutions, including any "hedging" and other trades conducted within such institutions' treasury departments. How do the investments of JPMorgan's Chief Investment Office compare with those of other similarly sized institutions? Are other large, complex financial institutions employing investment strategies similar to those of the JPMorgan's Chief Investment Office? If the size and nature of JPMorgan's positions are unique, are you concerned? If you are unsure about the size and nature of other institutions' positions, are you examining whether such institutions may be employing similar strategies?

4. In April, one JPMorgan executive told investors that the trades in question were "fully transparent to the regulators, they will view them, have access to them at any point in time, get the information on those positions on a regular and recurring basis as part of our normalized reporting[.]"[6]

   When were the positions in question first entered into? Were the media reports in early April of an unusually large trading position taken by JPMorgan's Chief Investment Office the first

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[4] *See* Bradley Keoun, Donal Griffin & Michael J. Moore, *JPMorgan Veered from Hedging Practices at Competing Banks*, BLOOMBERG, May 22, 2012 (citing $188.1 billion growth in JPMorgan's Chief Investment Office's portfolio of corporate bonds, asset-backed securities and private label mortgage bonds); *see also id.* (comparing JPMorgan's Chief Investment Office portfolio concentration to smaller holdings at Wells Fargo, Citigroup, and Bank of America); *see also* Daniel Schafer & Ajay Makan, *JPMorgan's 'Whale' Causes a Splash*, FINANCIAL TIMES, May 11, 2012 (noting that the JPMorgan Chief Investment Office's securities holdings have tripled in the past 5 years).

[5] Testimony of David K. Wilson, *supra*, at 18.

[6] Transcript, JPMorgan Q1 2012 Earnings Call, Apr. 13, 2012, *available at:* http://www.morningstar.com/earnings/earnings-call-transcript.aspx?region=USA&t=JPM&qindex=5&pindex=6

time that these positions were brought to your attention?[7] If not, when were they first reported to your agency and when did your agency first learn about them? Please describe your agency's response and any actions taken subsequent to these trades being brought to your agency's attention, as well as any actions taken after the early April media reports on the positions in question and JPMorgan's May 10th announcement of large trading losses.

I look forward to your responses as soon as possible, and to your testimony before the Committee next week. Timely and detailed responses from your agency will both improve the discussion at next week's hearing and help determine what further hearings and factfinding, if any, will be required at the subcommittee level. Should you have any questions, please contact Graham Steele on my staff at graham_steele@brown.senate.gov.

Thank you for your assistance with this important matter, and congratulations again on your new position. I look forward to working with you on future matters that come before the Senate Committee on Banking, Housing, and Urban Affairs.

Sincerely,

Sherrod Brown

Sherrod Brown
United States Senator

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[7] *See* Stephanie Ruhle, Bradley Keoun & Mary Childs, *JPMorgan Trader's Positions Said to Distort Credit Indexes*, BLOOMBERG, Apr. 6, 2012.