# JPMorgan CIO Trading Loss

*How the London Whale Lost $6.2 Billion and Exposed Shadow IT Risk*

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## Key Facts

**Cost: $6.2B**

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**Category: Corporate Disasters**

## Executive Summary

JPMorgan recorded approximately $6.2 billion in losses from the CIO Synthetic Credit Portfolio. Subsequent investigations identified serious weaknesses in model governance, risk controls and the implementation of a revised VaR model. This investigation reveals why shadow IT, unverified risk metrics, and unchecked complexity are governance failures waiting to happen.

## Executive Lessons

**- Shadow IT Is a Governance Failure**

Bruno Iksil built a complex derivatives portfolio using a spreadsheet model that nobody in risk management understood. When the person who builds the model is the only person who understands it, you do not have a model - you have a single point of catastrophic failure.

**- Risk Metrics Must Be Independently Verified**

The Value-at-Risk (VaR) model was manually adjusted to show lower risk. When risk metrics can be altered by the people whose bonuses depend on them being low, your risk management system is a decoration, not a safeguard.

**- Complexity Hides Risk**

The portfolio used a custom Credit Default Swap index that was so complex even other traders could not price it. When you need a PhD to understand a position, the CEO should not be allowed to hold it. Complexity is the enemy of oversight.

## Timeline

- 2012-01: JPMorgan's Chief Investment Office hastily adopts a new VaR model built with manual Excel data entry and formula errors, immediately halving the Synthetic Credit Portfolio's reported risk.
- 2012-03: The SCP breaches multiple internal risk limits while traders increase position sizes instead of reducing risk; The Senate investigation reported deficiencies in the information provided to regulators during the period.
- 2012-04-06: Press reports reveal the enormous London credit-derivatives positions of trader Bruno Iksil, dubbed the 'London Whale'.
- 2012-04-13: On an earnings call, CEO Jamie Dimon dismisses concerns as a 'complete tempest in a teapot'.
- 2012-05-10: JPMorgan publicly discloses a CIO trading loss of at least $2 billion.
- 2012-07-13: JPMorgan restates Q1 results and reports CIO losses have grown to about $5.8 billion (eventually ~$6.2 billion).
- 2013-01-16: JPMorgan publishes its internal Management Task Force report on the 2012 CIO losses, admitting risk-management and model-governance failures.
- 2013-03-15: Senate Permanent Subcommittee on Investigations releases its 300-page report and holds a hearing with JPMorgan executives and regulators.
- 2013-08: DOJ files charges against two London-based JPMorgan traders (Martin-Artajo and Grout) for hiding losses.
- 2013-09-19: JPMorgan admits wrongdoing and pays ~$920 million in combined penalties to the SEC ($200M), OCC ($300M), Federal Reserve ($200M) and UK FCA (~$220M).
- 2013-10-16: CFTC settles charges against JPMorgan for manipulative conduct in the whale swaps trades, adding a $100 million penalty.

## Sources


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- Senate hearing record: JPMorgan Chase Whale Trades (GPO published hearing, 113th Congress) (U.S. Government Publishing Office (govinfo.gov), 2013)
- SEC Press Release 2013-187: 'JPMorgan Chase Agrees to Pay $200 Million and Admits Wrongdoing to Settle SEC Charges' (U.S. Securities and Exchange Commission, 2013-09-19)
- SEC Order, In re JPMorgan Chase & Co. (Release No. 34-70458, cease-and-desist order) (U.S. Securities and Exchange Commission, 2013-09-19)
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- CFTC Press Release PR6737-13: CFTC settles charges against JPMorgan for manipulative conduct in 'London Whale' swaps trades ($100 million) (U.S. Commodity Futures Trading Commission, 2013-10-16)