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CFTC Orders JPMorgan Chase Bank, N.A. to Pay \$65 Million Penalty for Attempted Manipulation of U.S. Dollar ISDAFIX Benchmark Swap Rates

Washington, DC – The Commodity Futures Trading Commission (CFTC or Commission) today issued an Order filing and settling charges against **JPMorgan Chase Bank, N.A. (JPMC)** for attempted manipulation of the ISDAFIX benchmark and requiring JPMC to pay a \$65 million civil monetary penalty.

The CFTC Order finds that over a five-year period, beginning in at least January 2007 and continuing through January 2012 (the Relevant Period), JPMC made false reports and attempted to manipulate the U.S. Dollar International Swaps and Derivatives Association Fix (USD ISDAFIX), a leading global benchmark referenced in a range of interest rate products, to benefit its derivatives positions, including positions involving cash-settled options on interest rate swaps.

James McDonald, CFTC Director of Enforcement, commented: “This matter is one in a series of CFTC actions that clearly demonstrates the Commission’s unrelenting commitment to root out manipulation from our markets and to protect those who rely on the integrity of critical financial benchmarks.”

During the Relevant Period, USD ISDAFIX was set each day in a process that began at 11:00 a.m. Eastern Time with the capture and recording of swap rates and spreads from a U.S. based unit of a leading interest rate swaps brokering firm (Swaps Broker). ISDAFIX rates and spreads are published daily and are meant to indicate the prevailing mid-market rate, at a specific time of day, for the fixed leg of a standard fixed-for-floating interest rate swap. They are issued in several currencies and are published for various maturities of U.S. Dollar-denominated swaps. The most widely used USD ISDAFIX rates and spreads, and the ones at issue in this Order, are those that are intended to indicate the prevailing market rate as of 11:00 a.m. Eastern Time. The 11:00 a.m. USD ISDAFIX rate is used for the cash settlement of options on interest rate swaps, or swaptions, and as a valuation tool for certain other interest rate products.

The Order finds that certain JPMC traders understood and employed two primary means in their attempts to manipulate USD ISDAFIX rates: trading attempted manipulation and submission attempted manipulation.

Trading Attempted Manipulation

According to the Order, JPMC attempted to manipulate the USD ISDAFIX by bidding, offering, and executing transactions in targeted interest rate products, including swap spreads and U.S. Treasuries at or near the critical 11:00 a.m. fixing time to affect rates on the electronic interest rate swap screen known as the “19901 screen” and thereby increase or decrease the Swaps Broker’s reference rates and influence the final published USD ISDAFIX. As one JPMC employee acknowledged in an electronic communication with one of the Swaps Broker’s employees, it was possible to “muscle the fix at 11” through trading at 11:00 a.m. Another member of the JPMC Swaps Desk (JPMC Swaps Trading Assistant) provided the following

description to a colleague at JPMC regarding the efforts by a JPMC Swaps Desk trader to “muscle” the USD ISDAFIX:

[Y]ou know how there is an 11am screen print for ISDA of where rates are . . . well—sometimes clients put orders in to do trades at the 11 o’clock screen shot—so they get positioned for that and then there’s often a big push to move the screen a ¼ [basis point] in their favor but sometimes there are other dealers trying to go the opposite way so it ends up being a screaming match to try and figure out which way it’s going to go so today, [an identified JPMC swaps trader] didn’t win the battle and he was pissed.

The description of a “battle” at 11:00 a.m. to control the 11:00 a.m. reference point snapshot is consistent with both trading records during the Relevant Period, as well as recorded audio instructions at least one JPMC Swaps Trader gave to the Swaps Broker regarding executing his trades just prior to 11:00 a.m. For example, the trader gave the following instructions to the Swaps Broker just before 11:00 a.m. regarding his intentions for trading the 10-year and 30-year tenors at 11:00 a.m.:

“At 11:00, I want to hit, lift 10s. Okay . . . I’ll lift them up. I’ll play the game for up to 400 . . . I’d like to keep it up at ¼ if I can. I don’t want bonds to go over fifty so if they go up to fifty bid, I’m a ¼ offer. If they lift me, they go down immediately. I’ll, I’ll sell whatever he wants to sell, okay.”

JPMC’s efforts to manipulate or “muscle” the USD ISDAFIX and prices on the 19901 screen were common knowledge and openly joked about by certain JPMC traders. When transferring a position between desks, a JPMC trader jokingly commented, “ha, don’t let the rates go up.” In another electronic communication, a senior trader on the JPMC Swaps Desk openly mocked another senior trader on the desk for bragging about his ability to manipulate the 11:00 a.m. ISDAFIX setting in a group chat, writing “remember when i moved the screen in 2y[year] spreads at the 11am setting? [F]vcking [sic] awesome...noone [sic] was paying attention and i [sic] lifted it up and then it went down.”

Submission Attempted Manipulation

The Order also finds that on certain days in which JPMC had a trading position settling or resetting against the USD ISDAFIX, JPMC attempted to manipulate the final published USD ISDAFIX rates by submitting rates that were false, misleading, or knowingly inaccurate because they purported to reflect JPMC’s honest view of the true costs of entering into an interest rate swap in particular tenors, but in fact reflected traders’ desire to move USD ISDAFIX higher or lower in order to benefit JPMC’s positions.

Electronic communications captured examples of discussions between the JPMC submitters and other JPMC trading desk employees. As evidenced in one electronic communication, a JPMC trader requested that the JPMC submitter “give the lowest 3[year] possible (and the highest 2 [year] and 5 [year]” because his desk had “an exercise with the options desk on the 2s/3s/5s.” The request to raise and lower the particular tenors in question was made the day before the reference point snapshot was even taken, indicative of the manipulative intent of the author.

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JPMC has taken specified steps to implement and strengthen its internal controls and procedures relating to the fixing of interest-rate swaps benchmarks, including measures to detect and deter trading or other conduct potentially intended to manipulate directly or indirectly swap rates, including benchmarks based on interest-rate swaps and to ensure the integrity of the fixing of any interest-rate swap benchmark.

In accepting the Bank's offer, the Commission recognizes that JPMC provided substantial cooperation in the investigation in this matter, and commenced significant remedial action to strengthen the internal controls and policies relating to all benchmarks, including ISDAFIX.

The following staff members assisted in this case: Candice Aloisi, Jason Fairbanks, Jordon Grimm, David MacGregor, David C. Newman, K. Brent Tomer, and James Wheaton.

CFTC Division of Enforcement staff members responsible for this case are Patrick Daly, Mark A. Picard, Trevor Kokal, David Acevedo, Lenel Hickson, Jr., and Manal M. Sultan.