

PRESS RELEASE

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## SEC Charges Two J.P. Morgan Traders With Fraudulently Overvaluing Investments to Conceal Losses

**FOR IMMEDIATE RELEASE**  
**2013-154**

*Washington D.C., Aug. 14, 2013* — The Securities and Exchange Commission today charged two former traders at JPMorgan Chase & Co. with fraudulently overvaluing investments in order to hide massive losses in a portfolio they managed.

The SEC alleges that Javier Martin-Artajo and Julien Grout were required to mark the portfolio's investments at fair value in accordance with U.S. generally accepted accounting principles and JPMorgan's internal accounting policy. But when the portfolio began experiencing mounting losses in early 2012, Martin-Artajo and Grout schemed to deliberately mismark hundreds of positions by maximizing their value instead of marking them at the mid-market prices that would reveal the losses. Their mismarking scheme caused JPMorgan's reported first quarter income before income tax expense to be overstated by \$660 million.

In a parallel action, the U.S. Attorney's Office for the Southern District of New York today announced criminal charges against Martin-Artajo and Grout.

"The trading instruments were complex but these traders had a simple rule to follow: tell the truth about their fair value," said George S. Canellos, Co-Director of the SEC's Division of Enforcement. "Yet these traders brazenly accumulated a massive position in derivatives with lax oversight, and then lied to cover up their massive losses when the market turned against them."

According to the SEC's complaint filed in the U.S. District Court for the Southern District of New York, Martin-Artajo and Grout worked in JPMorgan's chief investment office (CIO), which created the portfolio known as Synthetic Credit Portfolio (SCP) as a hedge against adverse credit events. The portfolio was primarily invested in credit derivative indices and tranches. The market value of SCP's positions began to steadily decline in early 2012 due to improving credit conditions and a recent change in investment strategy. Martin-Artajo and Grout began concealing the losses in March 2012 by providing management with fraudulent valuations of SCP's investments.

The SEC alleges that Martin-Artajo directed Grout to revise the manner in which he marked SCP's investments. Instead of continuing to price the portfolio's positions based on the mid-market prices contained in dealer quotes the CIO received, SCP's positions were instead marked at the most aggressive end of the dealers' bid-offer spread. On several occasions, Martin-Artajo provided a desired daily loss target to conceal the extent of the losses. Grout entered the marks every day into JPMorgan's books and records, and sent daily profit and loss reports to CIO management in which he understated SCP's losses. For a period, Grout maintained a spreadsheet to track the difference between his marks and the mid-market prices previously used to value SCP's positions. By mid-March, this spreadsheet showed that the difference had grown to \$432 million.

The SEC alleges that contrary to JPMorgan's accounting policy, Martin-Artajo instructed Grout on March 30 to wait for better prices after the close of trading in London in the hope that activity in the U.S. markets could support better marks for SCP's positions. The concealment of losses continued beyond the first quarter. By late April, trading counterparties raised collateral disputes over SCP positions totaling more than a half-billion dollars. Shortly thereafter, JPMorgan's management stripped the SCP traders of their marking authority and began valuing the book at the consensus mid-market prices.

The SEC's complaint alleges that Martin-Artajo and Grout violated Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 and Rules 10b-5 and 13b2-1, and aided and abetted pursuant to Section 20(e) of the Exchange Act violations of Sections 13(a) and 13(b)(2)(A) and Rules 12b-20, 13a-11 and 13a-13.

### Related Materials

- [SEC complaint](#)

The SEC's investigation, which is continuing, has been conducted by Michael Osnato, Steven Rawlings, Peter Altenbach, Joshua Brodsky, Daniel Michael, Kapil Agrawal, Eli Bass, Daniel Nigro, Sharon Bryant, and Christopher Mele of the New York Regional Office. The litigation will be led by Joseph Boryshansky.

The SEC appreciates the assistance of the U.S. Attorney's Office for the Southern District of New York, Federal Bureau of Investigation, United Kingdom Financial Conduct Authority, Office of the Comptroller of the Currency, Federal Reserve Bank of New York, and Commodity Futures Trading Commission.

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