

Testimony of Ina R. Drew

Former Head of the Chief Investment Office, JPMorgan Chase & Co.

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Good morning, Chairman Levin, Ranking Member McCain, and members of the Subcommittee. Thank you for the opportunity to meet and discuss with you my perspective on the losses incurred last year in JPMorgan Chase's synthetic credit portfolio, one of many portfolios managed by the Company's Chief Investment Office (CIO) when I was the head of that office. I am greatly saddened by the entire episode, which has caused financial and reputational harm to JPMorgan Chase and a large number of people with whom I was honored to work, and I deeply regret that the losses occurred on my watch. I am also saddened that the losses led to my departure from the Company, to which I had devoted 30 years of my life.

Before I address the synthetic credit portfolio, I believe it would be useful for the Subcommittee to know about my background and career and about the range of asset-liability management activities of the CIO at JPMorgan Chase.

My background and career at JPMorgan Chase

After attending public schools, I graduated from The Johns Hopkins University, as part of only the fourth class that admitted women, with a degree in international studies. I went on to earn a master's in international affairs from Columbia University. I have been a member of the Board of Trustees of The Johns Hopkins University for the past twelve years.

In March 1982, I joined Chemical Bank in New York and thus began my 30-year career at what would ultimately become JPMorgan Chase. Over the course of my career at the Company I worked primarily in the area of asset-liability management, and I received a succession of promotions and increasing management responsibilities. By asset-liability management, I am broadly referring to transactions and portfolio positions designed for the purpose of managing assets and liabilities on the Company's balance sheet, earning a favorable rate of return on capital, and prudently hedging exposures and risks in the Company's lines of business.

I helped the Company manage assets and liabilities through a series of significant mergers and acquisitions, including those involving Texas Commerce Bank, Manufacturers Hanover, Chase Manhattan, J.P. Morgan, Bank One, Bear Stearns and Washington Mutual, and I worked closely with a series of CEOs, including Walter Shipley, William Harrison and Jamie Dimon.

In 1999, I became the head of Global Treasury, the unit responsible for asset-liability management for the Company. In that role I oversaw the management of the Company's core investment securities portfolio, the foreign-exchange hedging portfolio, the mortgage servicing rights (MSR) hedging book, and a series of other investment and hedging portfolios based in London, Hong Kong and other foreign cities. As of mid-2004 – the time of the merger with Bank One and the beginning of Mr. Dimon's tenure as Chief Executive Officer of JPMorgan Chase – I reported directly to Mr. Dimon. During 2005, the Global Treasury function was renamed the Chief Investment Office (CIO) and was moved out of the Company's investment banking division to become a Corporate function.

During Mr. Dimon's tenure as CEO my responsibilities increased significantly, for two principal reasons. First, the CIO's purview was expanded to include several additional books, including the JPMorgan Chase employee retirement plan, the company-owned-life insurance portfolio, and the capacity for both investment and hedging activities in the credit markets. Second, the Company's balance sheet grew significantly as a result of the acquisitions of Bear Stearns and Washington Mutual and the large inflow of retail deposits during the financial crisis.

In 2006, I became a member of the JPMorgan Chase Operating Committee, the highest-level management and strategy committee of the Company. During 2007 and 2008, I served on the industry-wide Treasury Borrowing Advisory Committee. I am proud to be one of a small number of women who rose to senior positions in the financial industry.

Asset-liability management activities of the CIO

The CIO engaged in a wide range of asset-liability management activities. As of the first quarter of 2012, the CIO managed the Company's \$350 billion investment securities portfolio (this portfolio exceeded \$500 billion during 2008 and 2009), the \$17 billion foreign exchange hedging book, the \$13 billion employee retirement plan, the \$9 billion company-owned-life insurance portfolio, the strategically-important MSR hedging book, and a series of other books including the cash and synthetic credit portfolios.

Our department engaged in all of these activities as part of what we viewed as prudent and normal-course asset-liability management for a large financial institution such as JPMorgan Chase. In varying combinations, each activity was designed to preserve and enhance Company assets and to protect, or hedge, against losses and liabilities in the Company's various business lines resulting from various types of risks. Those risks included interest rate risk, foreign exchange risk, liquidity risk, duration risk, and credit risk.

I recognize that we are focused today on the 2012 losses in the synthetic credit book, but it is worth noting that the CIO's asset-liability management activities in total – including the strategic hedges in the synthetic credit book – contributed about \$23 billion to the Company's earnings from 2007 through 2011, helping to offset business losses incurred during that difficult period of time. My colleagues and I in CIO worked extremely hard to protect the Company, through the financial crisis and beyond, by investing conservatively and prudently hedging business risks. I am extremely proud that our investing and hedging strategies – which were developed over many years and were more successful than those of many other major financial

institutions – played a critical role in the Company’s efforts to weather the financial storms during this period of time.

My management of the CIO

As head of the CIO, I had a team of six experienced and accomplished financial professionals who reported directly to me. With respect to most of the various books I oversaw, including the cash and synthetic credit books, I delegated responsibility to, and relied on, my CIO management team. Several of my direct reports – including Achilles Macris, who had supervisory responsibility for the cash and synthetic credit books, among other responsibilities – were members of the JPMorgan Chase Executive Committee, which consisted of the top 50 or so executives of the Company. Mr. Macris, who was based in London, served as head of the CIO for Europe and Asia. My management team also included a Chief Financial Officer of the CIO who also reported to the Chief Financial Officer of the Company. Separately, there was a team of independent Risk Management personnel assigned to the CIO, all of whom reported up to the Chief Risk Officer of the Company. This included several CIO Risk personnel based in London and several who were focused on the synthetic credit book.

I managed the CIO in a variety of ways. I had daily meetings or communications with all of my direct reports and with CIO Risk Management personnel. I reviewed key written reports, including regular Risk Management reports and regular portfolio summaries from members of my management team or their teams. I held weekly portfolio review meetings, which covered most of the major books managed by the CIO, including the cash and synthetic credit portfolios managed by the London office. These meetings always included London personnel via videoconference, and always included a review of risk management issues. I visited the London office several times each year, and Messrs. Macris and Martin-Artajo came to New York several times each year; through these visits and otherwise, I met with them in person at least several times each year.

The synthetic credit book

The synthetic credit book, which was started in late 2006, was designed principally as a protective macro-level hedge against stressed credit environments, and it served this purpose well. From 2007 through 2011 – a period which included the financial crisis of 2008-2009 and the ensuing difficult and uncertain credit environment during 2010-2011 – the book had positive returns every year and contributed in total approximately \$2 billion to the Company’s earnings. These gains helped offset losses in various credit-sensitive business activities, including the Company’s very large loan portfolio, which totaled approximately \$700 billion during 2011 and 2012.

The synthetic credit book consisted of a portfolio of synthetic credit derivatives based in various segments of the credit markets. Generally speaking, the book was positioned to generate significant returns during stressed or difficult credit environments and modest returns during more benign credit environments.

Mr. Macris had supervisory responsibility for the synthetic credit book, which was executed and managed out of London. The book was managed on a day-to-day basis by Mr.

Martin-Artajo, who reported to Mr. Macris and who supervised the activities of the book's traders, including the principal trader, Bruno Iksil. Messrs. Macris and Martin-Artajo enjoyed reputations as experienced and highly-skilled managers who had extraordinary expertise in credit derivatives. They also had a five-year track record of successful management of both the cash and synthetic credit books. I naturally relied heavily (and I thought appropriately) on their views and judgments concerning the synthetic credit book. I also relied on the analysis and judgment of the CIO Risk Management and Finance personnel assigned to review the positions in the synthetic credit book. I believed that such reliance was reasonable.

2012 developments in the synthetic credit book

In December 2011, in accordance with a Company-wide plan to reduce risk-weighted assets (RWA) in anticipation of the new Basel III capital requirements, and consistent with the widely-held view within the Company that the macro credit environment was broadly improving, I told Messrs. Macris and Martin-Artajo that the overall size and RWA of the synthetic credit book would need to be reduced over the course of 2012. I also emphasized to them that they needed to keep the book within all applicable risk limits, including value-at-risk (VaR), and that the book's VaR would need to be reduced over the course of 2012.

In January 2012, they informed me that because most of the book's short positions were in the relatively illiquid high-yield market, the most cost-effective near-term way to manage the book was to put on offsetting long positions in the more liquid investment grade market, thus moving the book towards a neutral or balanced position, rather than a large net short. They also explained that this situation would necessitate a one-quarter delay in RWA reduction as compared with what had been originally contemplated. This delay was approved by the Company's senior management.

Also in January the Company's independent Model Review Group, part of the corporate Risk Management organization, approved a new, and purportedly better and more accurate, value-at-risk (VaR) model for the synthetic credit book. The process of developing and seeking approval of the new VaR model had been pending since the middle of 2011. Although I, as well as the Company's senior management, was well aware that a new VaR model was pending, I had no involvement in the process of developing, requesting or approving the new model and no basis to personally assess the merits of either the new or old model.

In February Messrs. Macris and Martin-Artajo informed me on several occasions that they were in the process of moving the book to a more neutral position, that the book remained appropriately positioned and net short on a risk-adjusted basis, that the book remained within VaR and other relevant risk limits, and that they were continuing to work to try to reduce RWA. These same conclusions were reported to the Company's senior management in late February, as part of the annual CIO business review, during which Mr. Macris discussed the overall credit risk protection afforded by the book.

In late March, pointed concerns regarding the investment grade long positions were raised to my attention. I learned from Mr. Martin-Artajo that he believed that other market participants had learned of the CIO's investment grade long positions and were skewing market valuations by taking positions against the CIO. Soon thereafter, CIO Risk Management

expressed concerns to me that the book's traders had recently purchased very large amounts of investment grade long positions. Shortly thereafter, in a group videoconference that included CIO Risk Management personnel, Mr. Martin-Artajo reiterated his concern about other market participants skewing market valuations and recommended that the traders purchase even more investment grade long positions in order to counteract the skewed valuations. I immediately instructed Messrs. Martin-Artajo and Iksil to cease all trading of investment grade long positions. I also instructed them, along with Mr. Macris, to do a full review of the book, and to prepare a written analysis and plan for reducing the book going forward.

Over the course of the next few weeks, during which time the book experienced a few days of large mark-to-market losses, I and CIO Risk Management personnel received a series of reassuring analyses and conclusions from Messrs. Macris and Martin-Artajo. Indeed, throughout this period, I made successive requests of Messrs. Macris and Martin-Artajo for greater analysis and explanation of the book's positions. Their responses were seemingly thorough and consistently reassuring. On multiple occasions, both orally and in detailed writings, Messrs. Macris and Martin-Artajo expressed their confident belief that, notwithstanding the issues that had been raised and the recent mark-to-market losses, the synthetic credit book remained properly balanced; the investment grade long positions were strategically appropriate; the recent mark-to-market losses reflected temporary market dislocations due to unsustainable actions by other market participants; and the losses would dissipate over the near term. In addition, Messrs. Macris and Martin-Artajo provided several detailed written scenario analyses estimating, with high confidence, that the book's second quarter performance would range between a \$350 million profit and a \$250 million loss.

I have since come to learn – based on the Company's public statements in July 2012 and Task Force Report in January of this year – that valuations for many of the book's positions were inflated and not calculated or reported in good faith; that the original version of the second quarter scenario analyses reflected much higher projected losses and was specifically re-done before it was sent to me so as to reflect lower projected losses; and that some members of the London team participated in or condoned such conduct and hid from me important information regarding the true risks in the book. I have also since come to learn – based on the same public statements of the Company – that the new VaR model was flawed and significantly understated the true risks in the book. Needless to say, I had no knowledge of these things at the time.

CIO Risk Management received all of Messrs. Macris and Martin-Artajo's written analyses and conclusions, including the second quarter scenario analyses. In addition, during this critical period I kept the Company's senior management apprised of the issues and the conclusions being presented by Messrs. Macris and Martin-Artajo. Over the week leading up to the Company's April 13 earnings call, I made sure that Messrs. Macris and Martin-Artajo's written analyses and conclusions, including the second quarter scenario analyses, were distributed to senior management and that senior management had an opportunity to raise questions and issues directly with them.

My oversight of the synthetic credit portfolio

I believe that my oversight of the synthetic credit portfolio, including during 2012, was reasonable and diligent, and it was accomplished through multiple means. I relied on Messrs. Macris and Martin-Artajo, each a recognized expert on credit derivatives, to vet and supervise trading strategy and to keep me apprised generally on the trading and the performance of the book. They did so through regular written reports from their team and numerous video, telephone and in-person conferences. I relied on the Company's formal risk metrics – in particular VaR, stress performance, and CSW 10% – to alert me to excessive risks, and I relied on CIO Risk Management to alert me to particular problems or concerns.¹ I relied on the independent Model Review Group to vet the VaR and other risk models. Further, I relied on CIO Finance – in particular the Valuation Control Group – to ensure that the book's positions were valued properly.

When issues or concerns were brought to my attention during the first quarter of 2012, I responded forcefully and thoughtfully and ensured that the key people, including Risk Management personnel, were analyzing the issues and critically assessing the risks. I insisted that Mr. Macris and Mr. Martin-Artajo, the executive and manager with the greatest expertise and experience in credit derivatives, focus on and analyze the issues, assess future risks, and report back to me. I ensured that CIO Risk Management personnel were fully engaged and provided their independent analysis and judgment. When pointed concerns were brought to my attention in late March, I made sure that key members of the company's senior management were fully informed of the issues, received the written analyses and conclusions coming from Mr. Macris and Mr. Martin-Artajo, and had a full opportunity to raise questions with the London team.

Ultimately, it appears that my oversight of the synthetic credit book during 2012 was undermined by two critical facts of which I was not aware at the time but have come to learn based on the Company's Task Force Report and other public statements: (i) the new VaR model was flawed and significantly understated the real risks in the book; and (ii) some members of the London team failed to value positions properly and in good faith, minimized reported and projected losses, and hid from me important information regarding the true risks of the book. I believe it goes without saying that it is extremely difficult, if not impossible, to oversee a portfolio under such circumstances.

Also, it appears that my oversight of the book was undermined by control failures by CIO Risk Management and CIO Finance. In particular, it appears that CIO Risk Management failed to properly understand and assess the risks in the book, and that CIO Finance failed to properly review the position valuations recorded by the traders.

I recognize that the Task Force Report makes certain management-related criticisms of me, but I respectfully disagree with many of those criticisms. For the reasons cited, I believe that

¹ During the first quarter of 2012, CIO Risk Management included a manager, Keith Stephan, who sat with the traders in London, a more senior manager, Peter Weiland, who received daily reports with details of the positions and the trades, and a chief risk officer, Irv Goldman, who although new to that position had spent over a month in London in mid-2011 getting to know the London team and developing a better understanding of the synthetic credit portfolio.

my management of the CIO and oversight of the synthetic credit book was reasonable and diligent. It is also important to note that the Task Force Report itself lays out the critical factors – the flaws in the new VaR model and the deceptive conduct by members of the London team – that undermined my management and my oversight of the book.

My departure from JPMorgan Chase

In late April of 2012, following a series of additional large mark-to-market losses in the synthetic credit book, it became clear to me and other members of senior management that the reassuring analyses and conclusions provided by Messrs. Macris and Martin-Artajo, including the second quarter scenario analyses, had been erroneous. This realization led to detailed reviews by Corporate Risk Management and other members of senior management, which in turn led to the Company's May 10 filings and its conference call with investors and analysts regarding the CIO losses.

I was, and I remain, deeply disappointed and saddened that such significant losses occurred in the business unit I oversaw, a unit I managed diligently and successfully for many years. Although asset-liability management, by its nature, involves regular ups and downs in both investment and hedging books, I had never before experienced a situation like this one. Though I did not (and do not) believe I bore personal responsibility for the losses in the synthetic credit book, in late April I began to consider whether, for the good of JPMorgan Chase, I should step down and make it easier for the Company to move beyond these issues. In the wake of the May 10 disclosures I approached Mr. Dimon and told him that I thought it would be best for the Company if I stepped down. He reluctantly agreed, and shortly thereafter I submitted my retirement letter. Similarly, although I did not (and do not) believe that I engaged in any misconduct, I offered to give up a significant amount of my recent JPMorgan Chase compensation, which I have done, in recognition of the size of the losses and my position as head of the business.

Since my departure I have learned of the deceptive conduct by members of the London team, and I was, and remain, deeply disappointed and saddened to learn of such conduct and the extent to which the London team let me, and the Company, down.

Looking back over my long career at JPMorgan Chase, I know that I – like the vast majority of the people with whom I worked – always did my job with integrity and care and always tried to act in the best interests of the Company. In the end, I left a job and a company I loved dearly, after 30 years of dedicated service, because of significant losses that occurred on my watch.

I thank you for the opportunity to submit this statement, and I will be happy to answer any questions you may have.