United States v. Javier Martin-Artajo
United States v. Julien Grout
Prepared Remarks for U.S. Attorney Preet Bharara
August 14, 2013

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

Today we unseal federal criminal charges against two former traders at JPMorgan Chase & Company, the largest financial holding company in the United States and the parent of the nation's largest bank.

We have filed conspiracy, wire fraud, and related charges against these two traders for their alleged participation in a scheme to hide the true extent of massive losses in a synthetic credit portfolio maintained by the Chief Investment Office of JPMorgan. All told, as the world now knows, those losses ultimately reached over $6 billion.

The named defendants are Javier Martin-Artajo, who served as a Managing Director and Head of Credit and Equity Trading for that office; and Julien Grout, who was a Vice President and a derivatives trader there.

As the complaints describe, at the heart of this case are alleged lies and misrepresentations about the fair value of synthetic credit derivative products, and in particular, credit default swaps on JPM's books.

But while the transactions and financial products involved may be complex, the criminal conduct alleged is simple and straightforward.

The defendants deliberately and repeatedly lied about the fair value of billions of dollars in assets on JPMorgan's books in order to cover up massive losses that mounted month after month at the beginning of 2012.

Those lies misled investors, regulators, and the public, and they constituted federal crimes.

As has already been conceded, this was not a tempest in a teapot, but rather a perfect storm of individual misconduct and inadequate internal controls.

We also announce a cooperation and non-prosecution agreement with another former trader at JPMorgan, Bruno Iksil.

Before I review the charges in more detail, let me introduce our partners in this prosecution and investigation, which began well before the Senate issued its thorough report in March.

These are difficult cases to investigate and piece together. The reason we are here is because of these incredibly smart and dedicated career public servants who pored over thousands of documents, interviewed dozens of witnesses, and built this case through sheer hard work.

I am joined by our partner in this and so many other cases, the FBI, led by George Venizelos, the Assistant Director-in-Charge of the New York Field Office, and represented today by April Brooks, the Special Agent-in-Charge of the Criminal Division of the New York Field Office, FBI Assistant Special Agent-in-Charge Doug Leff, Supervisory Special Agent David Chaves, and Special Agent Matthew Taylor. I want to thank April and her team – including FBI Supervisory Special Agent Mario Pisano, Special Agents Taylor, Jonathan Polonitza, and Salvatore Cincinelli – for their incredibly hard work and assistance.

We're also joined today by George Canellos, the Co-Director of the Enforcement Division of the SEC, as well as Andrew Calamari and Michael Osnato, Director and Assistant Director of the New York Office. I want to thank George and his team for their assistance in connection with this investigation.

I also want to acknowledge the career prosecutors from my office. They are Eugene Ingoglia and Matthew Schwartz, the AUSAs handling the prosecutions, and their chiefs, Marc Berger and Anjan Sahni.

Let me now take a few minutes to talk about the particulars of today's charges.

First, as I mentioned, the two defendants were traders in JPM's Chief Investment Office, or CIO. What was the purpose of the CIO?

Well-functioning banks have excess deposits – meaning the difference between the amount of money put in by customers and the amount of money lent out to other customers. In JPM's case, that differential, in 2012, was a whopping $350 billion (which is, by the way, more than the GDP of many countries).

In JPM's case, the responsibility for wisely managing that $350 billion resided with the CIO.

Now within the CIO, there were various portfolios – one of them was called the SCP, or Synthetic Credit Portfolio.

Since at least 2007, JPMorgan's CIO invested a part of its money in risky complex credit derivative products.

That Synthetic Credit Portfolio grew dramatically in size over time, and was extremely profitable, generating approximately $2 billion in gross revenue. It was profitable, that is, until 2012, when things went south in a big way.

And that is where the trouble began, culminating in today's charges.

As alleged, the defendants violated their obligation to honestly value the bank's assets.

Banks that trade in these sorts of risky products are required to record their daily assets and liabilities by "marking" the positions to their fair market value – known as "mark to market" accounting. According to both the U.S. Generally Accepted Accounting Principles and also

JPMorgan accounting policy, the fair market value for the derivatives traded in the CIO was the price at which the traders could sell their positions.

But these products don't trade on an exchange, so traders are required to determine that fair market value by looking to a number of objective data points. Prudent and accepted practice is to value derivatives between bid and offer prices generally available in the market, typically close to the midpoint.

JPMorgan's own accounting policy provided that the "starting point for the valuation of a derivatives portfolio is mid-market."

And that's exactly what executives in the CIO did. They were at or near the midpoints – sometimes referred to as the "crude mid" – until 2012. That is when things took a turn for the criminal.

You see, in 2012, the SCP began to lose money at a rapid and alarming pace – approximately $130 million in January, and another $88 million in February. Why?

Because traders made big bets in these derivatives, but the market turned violently against them.

And so, as alleged, to cover up mounting losses and under pressure from above, beginning in at least March 2012, the defendants began to creatively cook the books: they summarily abandoned the valuation methodology dictated by common sense, by prior practice, and by sound accounting practices – the methodology, incidentally, used by JPM's own investment bank.

Moreover, as alleged, the defendants knew they were cooking the books with respect to valuations, because they separately kept meticulous track of what the valuations would have been if they had not lied.

The hope was that the bets would turn around. But they didn't.

And as the bets continued to sour, rather than scale back and come clean, the defendants allegedly doubled down not only on their bets, but also on their fraudulent valuations and their cover up.

Now, how did this happen? Where were the internal controls?

To be sure, the CIO had a Valuation Control Group, whose job it was to serve as an independent and rigorous check on the traders' asset valuations. But as alleged, that group was neither independent nor rigorous.

In fact, it wasn't even really a "group," as it was staffed in London with essentially a single employee. As alleged, the Value Control Group regularly tolerated wide discrepancies between traders' marks and the Control Group's own "independent" valuations.

Let me end by saying this: the difficulty inherent in precisely valuing certain kinds of financial positions does not give people a license to lie or mislead to cover up losses; it does not confer a license to create false books and records or to make false public filings.

And that goes double for handsomely-paid executives at a public company whose actions can roil markets and upend the economy.

Capitalism works best when its captains do not lie and cheat. Capitalism works best when its biggest beneficiaries play by the same rules as everyone else.

We live in a time when not just one bank – but one trader at one bank – can do catastrophic economic harm, in practically the blink of an eye. Recent history bears this out.

And that is why prosecutors need to be even more aggressive; regulators need to be even more vigilant; and – as I've been saying for years now – companies themselves need to pay much closer attention to the cultures they create.