Treasury Reveals What JPMorgan Was Really Doing With London Whale Trades

By Pam Martens and Russ Martens
Global Research, June 18, 2015
Wall Street on Parade 15 June 2015
Theme: Global Economy

Jamie Dimon, Chairman and CEO of JPMorgan Chase, Testifying Before Congress

The U.S. Treasury's Office of Financial Research (OFR), the body created under the Dodd-Frank financial reform legislation to make sure another 2008 epic crash never happened again, quietly released a report last week which not only suggests another 2008-style crash is possible but that regulators will likely be blindsided again.

The report, written by Jill Cetina, John McDonough, and Sriram Rajan, reveals that the big Wall Street banks are ginning up their capital measures by engaging in opaque and potentially dangerous "capital relief trades."

To illustrate how dangerous this kind of capital relief arbitrage can be, the report says that JPMorgan's London Whale trades (which blew a $6.2 billion hole in the insured bank) was a capital relief trade.

Here's the precise language from the report:

"JPMorgan Chase & Co.'s losses in the 2012 London Whale case were the result of CDS [Credit Default Swap] usage which was undertaken to obtain regulatory capital relief on positions in the trading book."

That analysis stands in stark contrast to Jamie Dimon's testimony on the London Whale before the Senate Banking Committee on June 13, 2012. Dimon told the Committee that the London Whale trades were to "hedge the company against a systemic event, like the financial crisis or Eurozone situation. Among the largest risks we have as a bank are the potential credit losses we could incur from the loans we make."

While few people actually believed Dimon's version of what was going on, it was more widely believed that this was simply high-risk proprietary trading that JPMorgan did not want to admit to because it was occurring in its insured bank rather than its investment bank using its own capital.

Read more

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Pam Martens**
and **Russ Martens**