Statement

of

Thomas J. Curry

Comptroller of the Currency

Before the

Permanent Subcommittee on Investigations

Committee on Homeland Security and Governmental Affairs

United State Senate

March 15, 2013

Chairman Levin, Ranking Member McCain, and members of the Subcommittee, we appreciate this opportunity to discuss the OCC's oversight of JPMorgan Chase as it relates to the bank's more than $6 billion loss from credit derivatives trades in the Chief Investment Office. The OCC has supported the Subcommittee's investigation into this incident, and we look forward to continuing to cooperate on this matter.

The risk management culture and processes at the bank that allowed these significant trading losses to occur are completely unacceptable to the OCC. A strong culture of corporate governance and oversight was clearly lacking and thus internal controls failed to identify and manage the mounting risks in the CIO. Equally troubling was the failure of the bank to provide timely and complete information to the OCC as events unfolded.

This is a serious breach in the conduct we demand from bank management when dealing with our supervisory staff.

The OCC takes these matters very seriously. In January, we issued a comprehensive cease and desist order that directed the bank to correct the unsafe and unsound practices and legal violations related to the CIO's derivatives trading. As more fully described in our Cease and Desist Order, we found deficiencies in a number of core functions, mainly, oversight and governance; risk management processes and procedures; controls over trade valuation; development and implementation of models; and internal audit processes. We are closely monitoring the bank's compliance with our order and evaluating what additional actions might be necessary.

Had the bank's risk management and audit processes worked as intended, this activity should have been highlighted to us. Nonetheless, there were red flags that we failed to notice and act upon. However, once we became aware of the potential scope of the problem, we quickly took actions. First, we directed the bank to provide us with granular information about its trading activities in the synthetic credit portfolio of the CIO so that we could fully assess the risks being taken. We also launched a full-scale, comprehensive review of the activities and oversight of the CIO and Synthetic Credit Portfolio.

The review had two components. The first was a comprehensive review to assess the quality of management and the risk management processes in the CIO function.

We looked at the effectiveness of board oversight, including whether the risk committee members were appropriately informed and engaged; the types and reasonableness of risk measurement metrics and limits; the model governance review process; the valuation control process; and the quality of work by the independent risk management team, as well as internal audit. We closely monitored the bank's wind down of the SCP on a daily basis. In addition, we assessed the adequacy of the information reported within the holding company and the bank. We wanted to know first, whether they had adequate information to monitor their own risk, and second, whether the information provided to the OCC was sufficient for us to evaluate the risks and risk controls associated with the positions undertaken by the CIO.

The second prong was an internal review to assess the quality of our supervision and lessons we could learn to strengthen our supervision at the bank, and across the large bank population that we oversee. Our goal here is to ensure that we focus our resources efficiently and effectively to identify risks, assess banks' governance and risk management, and ensure that weaknesses are addressed promptly.

As a result of this review, we are taking a number of steps to strengthen our supervision of large banks. For instance, we are working to ensure that we receive and act upon timely and complete information; that we regularly review models and reports banks use for regulatory capital purposes; and that we treat as red flags any sudden changes in key risk areas. Our lessons learned are more fully described in my written statement.

The Subcommittee's report contains thoughtful recommendations that will further enhance our supervision of derivatives activities. Although we are carefully studying the details of the recommendations, we fully agree with the principles they embody. Indeed, several of the recommendations reinforce requirements in our Cease and Desist Order.

We will continue to investigate this matter and the new information provided in the Subcommittee's report. Be assured that I will not hesitate to take additional action if warranted in response to any new information we learn from the report.

I am joined today by Scott Waterhouse and Michael Sullivan. Scott is the OCC's Examiner-in-Charge of JPMorgan's national bank and Michael is a PhD Economist with a background in quantitative analysis and risk modeling who led the OCC's internal review.

I would like to now turn to Scott and Michael to introduce themselves to the Subcommittee, and then we will be pleased to answer your questions.