BankCreditNews.com
Daily News on Commercial Lending & Consumer Credit

Senate panel to unveil JPMorgan investigation findings in Volcker Rule hearing

Published on September 26, 2012 by Rita Uplend

Carl Levin

A U.S. Senate panel investigating the multi-billion trading loss by JPMorgan Chase that occurred several months ago will unveil its findings at a hearing to pressure regulators to shore up the controversial Volcker Rule.

The Permanent Subcommittee on Investigations, headed by Sen. Carl Levin (D-Mich.), interviewed JPMorgan officials and examiners at the Office of the Comptroller of the Currency, the agency responsible for oversight of JPMorgan, Bloomberg reports.

Some industry experts maintain that JPMorgan's $5.8 billion trading loss during the first six months of the year could have been prevented by the Volcker Rule, which prohibits banks from engaging in proprietary trading. Regulators have struggled to differentiate between proprietary trading and risk-hedging, an activity permitted under Dodd-Frank.

The Senate panel's examiners interviewed officials from the OCC, including Scott Waterhouse, the examiner-in-charge for JPMorgan, and Julie Williams, the OCC's chief counsel. The panel also plans to meet with Comptroller Thomas J. Curry, according to Bloomberg.

After JPMorgan disclosed its losses in May, Levin and Sen. Jeff Merkley (D-Ore.), both of whom engineered the Volcker Rule, urged Congress to close up “ill-advised loopholes” from the rule.

“Last fall’s proposed rule ignored the clear legislative language and clear statement of congressional intent and allowed for so-called ‘portfolio hedging,’” Levin and Merkley said, Bloomberg reports. “Now, in recent days, we’ve seen exactly what ‘portfolio hedging’ might mean. This ‘JPMorgan Loophole’ is big enough to drive a ‘London Whale’ through.”

The letter referred to Bruno Iksil, the London trader responsible for JPMorgan’s credit-derivatives book. Iksil was known as the London Whale because of the sizable bets he made.

Jamie Dimon, JPMorgan’s CEO, testified before the Senate Banking and House Financial Services committees in June that the Volcker Rule may have prevented the trades but added that the rule was unnecessary because other regulatory changes could reduce risk in the U.S. banking system, according to Bloomberg.

Other American regulators are investigating the circumstances surrounding the massive trading loss. An internal bank review revealed that some U.K. traders may have tried to hide their losses from the bank’s top leaders.

Mary Miller, the undersecretary for domestic finance at the U.S. Treasury, and Martin Gruenberg, the acting chairman of the Federal Deposit Insurance Corp., both said that regulators hope to finish the Volcker Rule before year’s end.

Mark Calabria, the director of financial regulations studies at the Cato Institute, said that Levin and Merkley hope to push regulators to restrict risk-hedging in the final version of the Volcker Rule, adding that the process is “not as strong as they hoped,” Bloomberg reports