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Second 'Harsher and Crazier' JPMorgan Hearing Opens in House

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(Updates with hearing opening, regulator testimony, protesters, starting in first paragraph.)

June 19 (Bloomberg) -- U.S. House members criticized regulators today for failing to detect JPMorgan Chase & Co.'s loss of at least $2 billion on risky derivatives trades and pressed for additional measures to ensure similar losses don't occur in other banks.

The heads of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., the Securities and Exchange Commission and Commodity Futures Trading Commission, along with a senior Federal Reserve official offered testimony about the loss at a House Financial Services Committee hearing in Washington. JPMorgan Chief Executive Officer Jamie Dimon was to take questions later in the day.

"Just as JPMorgan should be and is being held accountable for its risk management failures, accountability must also be of the federal regulators who oversee the bank's activities," said Representative Spencer Bachus, the Alabama Republican who chairs the House Financial Services Committee. "Unfortunately, because Dodd-Frank failed to consolidate and streamline the current convoluted and chaotic regulatory structure, as House Republicans proposed, achieving regulatory accountability is every bit as important now as during the height of the financial crisis."

The hearing drew protests from about two dozen nurses wearing green and red caps and red nursing shirts holding protest signs and chanting "Jamie Dimon, you're no good. The people need a Robin Hood."

'Reckless Speculation'

"He's a really good example of the kind of reckless speculation that should be taxed," said Matthew Kavanagh, director of U.S. advocacy for Health Gap, an AIDS activist organization that organized the protest with National Nurses United. The groups are lobbying for a "Robin Hood" tax on derivatives, stock, currency and other Wall Street transactions to subsidize health care benefits.

In the hearing, SEC Chairman Mary Schapiro told lawmakers her agency is focused on JPMorgan's disclosures while banking regulators detailed their review of the firm's risk management practices.

"The Federal Reserve continues to evaluate whether the governance, risk management and control weaknesses exposed by this incident may be present in other parts of the firm," Scott Alvarez, the Fed's general counsel said. "To date, we have found no evidence that they are, but this work is not yet complete."

Second Appearance

Dimon's appearance was to be his second on Capitol Hill in less than a week. He wasn't expected to fare as easily as he did when members of the Senate Banking Committee spent much of their June 13 hearing complimenting Dimon or asking for his advice on financial laws, banking analysts said.

"He won't get lawmakers apologizing for asking him questions like in the Senate," said Paul Miller, a former examiner for the Federal Reserve Bank of Philadelphia and analyst at FBR Capital Markets in Arlington, Virginia. "There will probably be more outrage. They won't be as friendly."

The House hearing was expected to last longer and be less controlled as Dimon faces more than 60 lawmakers, most of whom are up for re-election in November and motivated to capture local headlines, said Mark Calabria, director of financial regulation studies at the Cato Institute and a former senior aide to the Senate Banking Committee.

"The harsher and crazier that they can get, the more of a chance that they'll get press coverage," Calabria said. "It's the House, so there's always a bit more wildness to it."

Federal Inquiries

The hearing is the first held by the House on the trading losses, which have drawn inquiries from the SEC, CFTC and Department of Justice.

The SEC's review of JPMorgan's trading loss is "ongoing" and may examine the accuracy of the bank's financial reporting, Schapiro said.

Schapiro, who said the SEC doesn't publicly discuss open investigations, laid out areas in which the agency could pursue claims against an institution "in circumstances of this nature." They include quarterly disclosures about market risks, compensation policies and accounting issues, she said.

Dimon's prepared statement was nearly identical to his remarks in front of the Senate Banking Committee last week. During that hearing, Dimon apologized for the losses and said he felt "terrible" that shareholders would lose money because of the chief investment office's trading strategy.

Hedge 'Morphed'

During more than two hours of testimony, Dimon described the loss in the bank's chief investment office as a hedge that "morphed into something I can't justify," and largely blamed subordinates for a trading strategy gone wrong. The bank is looking at clawing back some of the compensation earned by those responsible, he said.

Risk-monitoring systems and executives at the largest U.S. bank failed to adequately police threats concentrated in a derivatives portfolio at a London unit of the chief investment office, he said. The division wasn't subjected to the same scrutiny as other businesses, and managers there deviated from control procedures, even after triggers on risk limits were breached, Dimon told the Senate panel.

Still, Dimon didn't back away from his criticism of the Dodd-Frank Act and other regulations, including the so-called Volcker rule, which he called "unnecessary."

Lawmakers on the House committee, much like those on its Senate counterpart, have benefited from JPMorgan's campaign donations.

Campaign Funding

Representative Spencer Bachus of Alabama, the Republican chairman of the committee, received $11,000 from the bank's political action committees and its employees during this campaign cycle, according to the Center for Responsive Politics. Representative Barney Frank, who was chairman of the committee from 2007 through 2010 and has decided to retire at the end of this term, received $11,000 from the bank and its employees during his first campaign cycle as chairman. Frank has received $4,500 this cycle.

Since the start of the current campaign cycle in 2011, lawmakers on the committee have received $168,055 from the bank's employees and its political action committees, according to the Center for Responsive Politics. Republicans on the committee have received 73 percent of that money. Since 2005, lawmakers on the panel, which has been controlled by both parties during the period, have taken in $1.3 million.

FBR analyst Miller said it's unlikely that House lawmakers will get any new information out of Dimon, saying that he'll dodge the questions like he did in the Senate.

"There were some really good pointed questions last week, but there was no follow up," Miller said. "All he has to do is answer the questions in a technical manner and it will be hard to land a tough follow up. This is esoteric and complicated material."

--Editors: Maura Reynolds, Anthony Gnoffo