**Case 7 London Whale**

**Assignment**

**1. List the major mistakes made JP Morgan?**

Despite being known as one the best companies when it comes to Risk Management and also as a company with strong governance, there were the following major mistakes:

* Speculating instead of Hedging and, hence taking immense risk.
* Hiding losses and changing valuation methods as per need.
* Disregarding risk and continue to take more risk
* Lack of supervisory control and improper risk reporting
* Misinforming investors, regulators and the public

**2. In your opinion was London Whale a hedge, or not?**

A hedge is supposed to offset losses or gains elsewhere, but it can end up making money and looking like a clever proprietary trade. And vice versa. According to the case situation that in the end the so-called synthetic credit portfolio (SCP), the set of troublesome derivative trades that lost the bank at least $6.2 billion, turned out to be a bet—a very bad losing bet. But it took a while for the bank to admit it.

JP Morgan first said the purpose of this portfolio at the CIO was to make financial bets aimed at offsetting risks the bank took elsewhere, such as by loaning money to businesses or homebuyers or trading with other banks that could possibly fail. Doug Braunstein explained to the senate that they were hedging. But later they changed the tune to explain the whole thing said that there is something more than just protect the firm-wide’ s potential loss. The existence of the SCP created new and larger risks.

So, in my opinion this is not a pure hedge at all.

**3. What were shortcomings of OCC’s examination of JPM and CIO?**

* First, the OCC noticed that January report did not include the usual section of CIO, but the agency was not aware that the CIO had begun issuing its own executive management report. As a result, OCC did not receive the newest report from CIO from January through April. JPM did not provide and OCC did not request basic performance report at precisely the time SCP trading positions and losses grew rapidly.
* Second, OCC did not receive the report from CIO’s valuation control group which is responsible to mark to market and set the price of SCP from February to April and the agency did not request them until the first media story about London whale appeared. That period is just the time valuation control group mismatched the price of SCP. If OCC noticed the mistake from the report or just reminder the group about the report, the loss may not happen at all.
* Third, OCC received P/L report from CIO. But the trading of SCP did not be listed as a separate line so that the report obscured the loss of traders.

Although there are missing of reports and ignore of requesting of providing reports, the on-site examiners received contemporaneous daily notice as CIO exceeded all limits of risk at one or more points in the first quarter. They just let it happen and did nothing.