

J.P.Morgan's Chief Investment Office (CIO)

On 11-May-12, JPM reported that its CIO group lost at least \$2bn on synthetic credit positions. Extensive media coverage that ensued was followed, within hours, by the SEC opening a review of JPM's disclosures and Fitch downgrading the bank's long-term issuer default rating from A+ to AA-, pending further review.

We have been tracking JPM's CIO unit for the last two years; in this note, we provide some background, as well as revenue and VaR estimate. Our sources suggest CIO roles include:

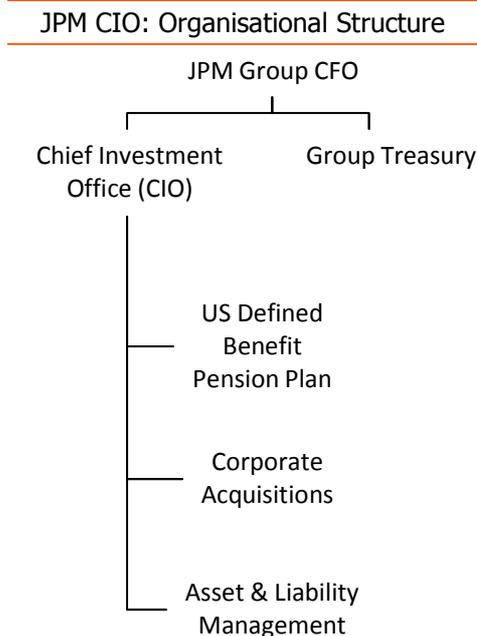
- Managing JPM's defined benefit pension scheme;
- Executing corporate acquisitions;
- Investing in securities with surplus cash that the bank holds, e.g. from cheap financing opportunities;
- Managing ALM risk under guidance from Group Treasury;
- Taking advantage of positioning opportunities.

There are other banks with similar units. HSBC have a Balance Sheet Management group within its Global Markets and Banking (GBM) which carries out ALM management, credit portfolio management, money markets trading and some positioning activities.

However, the unit most similar to JPM's CIO group is Goldman Sachs' Corporate Treasury Unit, run by Liz Beshel. This is arguably the nerve centre of the bank; it carries out strategic analysis, regulatory engagement, risk management and oversight, and some prop trading.

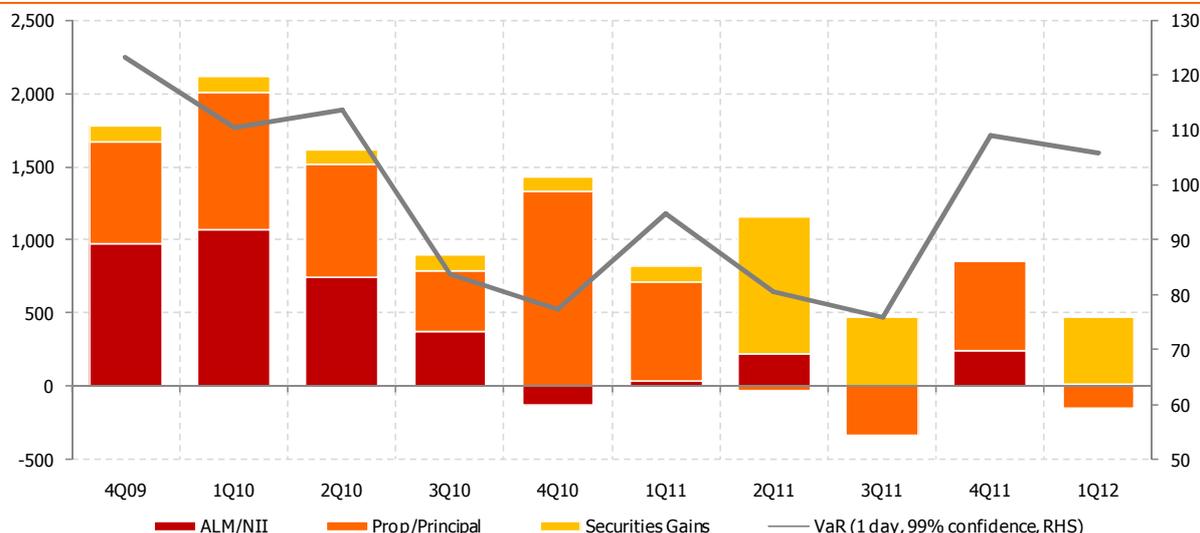
While some have seen JPM's CIO loss as evidence supporting the planned restriction of prop trading via the 'Volcker Rule'. We do not share this view. There seems little doubt that JPM can absorb the loss, and furthermore there also appears to be no risk of financial contagion. Indeed, our recent note on The Basel Committee's trading book proposals showed that proprietary trading losses accounted for less than 4% of total losses incurred during the 2007-08 Credit Crunch; the full 'Volcker Rule' would therefore not have prevented the last crisis, never mind the next one.

Over the last two years, the CIO unit has generated \$6.8bn in revenue for JPM (see chart below), so while Jamie Dimon would doubtless like to wish away this incident, we suspect he would not want to wish away the unit.



Source: Tricumen analysis

J.P.Morgan CIO unit: revenue & normalised VaR (US\$m, 4Q09 – 1Q12)



Source: JPM, Tricumen estimates

Notes & Caveats

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