When position defence overwhelmed legitimate market formation

JPMorgan Chase Bank, N.A. | United States | United Kingdom trading desk | Portfolio and trading 2011-2012 | CFTC order 2013

NET NOTIONAL VALUE	ONE-DAY NET SALES	MARKET VOLUME	CFTC PENALTY
More than $51bn	**More than $7bn**	**>90% that day**	**$100m**
S01	S01	S01	S02

DOCUMENTED EVENT

The CFTC's order concerned a Synthetic Credit Portfolio with a net notional value of more than $51 billion at the end of 2011. As the portfolio deteriorated, CIO traders sold more than $7 billion net of the IG9 10-year index on 29 February 2012, including $4.6 billion during three hours and more than 90% of that day's net market volume. The CFTC found that the concentrated selling recklessly disregarded the danger to legitimate market pricing forces and imposed a $100 million civil monetary penalty. [S01 | S02]

NFRISK SCENARIO ADAPTATION - NOT AN EXTERNAL FINDING

A large position deteriorates and a trading desk uses exceptional market volume to defend it, while independent control functions cannot stop position management becoming market-conduct risk.

STRESS-TEST QUESTIONS

01 Who can constrain a desk when position concentration becomes market conduct risk?

02 Are marks, limits and price testing independently challenged?

03 Do escalation thresholds respond to market share as well as P&L?

04 Can control functions evidence when position defence crosses into unacceptable market conduct?

CONNECTED RISK

Conduct & Governance Risk (primary)
Data & Control Integrity (contributing)
Financial Risk & Control (contributing)

FRAMEWORK RELEVANCE

Basel event-type lens: Clients, Products & Business Practices
NFRisk maps reckless concentrated swaps trading to the Basel event type covering clients, products and business practices. This is an analytical mapping, not a CFTC classification. [S03]

NFRISK PRACTITIONER INTERPRETATION

Valuation challenge, limit governance, concentration monitoring and conduct escalation must remain independent of the desk whose position they constrain.

PRIMARY-SOURCE REGISTER

S01 US Commodity Futures Trading Commission (2013)
Order Instituting Proceedings: JPMorgan Chase Bank, N.A.
S02 US Commodity Futures Trading Commission (2013)
CFTC order concerning JPMorgan London Whale swaps trading
S03 COSO / Basel Committee / NIST (2017)
Authoritative risk-management framework referenced in the...

EVIDENCE BOUNDARY Official findings are separated from the institutional scenario, framework interpretation and NFRisk practitioner view.