Johnson Statement on JPMorgan Hearing

WASHINGTON – Today, Senate Banking Committee Chairman Tim Johnson (D-SD) held a hearing entitled "A Breakdown in Risk Management: What Went Wrong at JPMorgan Chase?"

Below is Chairman Johnson's statement as prepared for delivery:

"I call this hearing to order. This hearing is part of the Banking Committee's ongoing oversight of the massive trading loss announced by J.P. Morgan Chase and the implications for risk management, bank supervision, and the Wall Street Reform Act. Since the announcement of the loss in early May, this Committee has heard from the OCC. and the Fed, which are the primary regulators for J.P. Morgan, as well as the SEC, CFTC and other relevant officials to review and learn from these events. Several Members of the Committee have asked to hear from Mr. Dimon, and after due diligence conducted together by my staff and Ranking Member Shelby's staff, I decided to invite Mr. Dimon.

"Last week, the regulators informed the Committee that there was a breakdown in the risk management involved with these trades, despite the fact that the trades were reportedly designed to reduce the bank's risk. As they continue to look into the matter, officials have assured our Committee that the firm's solvency and the stability of our financial system are not in jeopardy this time around. While this is welcome news, questions remain that must be answered if we want our largest banks to better manage their risks to maintain financial stability, as I believe we do.

"Today marks the two-month anniversary of Mr. Dimon's 'tempest in a teapot' comments where he downplayed concerns from initial media reports of the company's Chief Investment Office trades. We later learned, however, it was an out-of-control trading strategy with little to no risk controls that cost the company billions of dollars.

"I have said before, no financial institution is immune from bad judgment. In Mr. Dimon's own words, he later explained, 'We made a terrible egregious mistake. There's almost no excuse for it…. We know we were sloppy. We know we were stupid. We know there was bad judgment…. [I]n hindsight, we took far too much risk. The strategy we had was badly vetted. It was badly monitored. It should never have happened.'

"So what went wrong? For a bank renowned for its risk management, where were the risk controls? How can a bank take on 'far too much risk' if the point of the trades was to reduce risk in the first place? Or was the goal really to make money? Should any hedge result in billions of dollars of net gains or losses, or should it be focused solely on reducing a bank's risks? As the saying goes, you can't have your cake and eat it too.

"As for the policy implications, some of my colleagues complain that Wall Street Reform micromanages the operation of large banks, and that regulators cannot keep up with bank innovation. I disagree that less supervision and less regulation will magically make the system less risky. While risk cannot be eliminated from our economy, we can, and must, demand that banks take risk management seriously and maintain strong controls. We must also demand that regulators do their job well.   After all, banking is an important, but risk-filled business that needs careful scrutiny and oversight so that mismanagement or unsafe and unsound practices do not threaten the stability of our economy.

“Some also suggest that capital is the silver bullet in financial regulation. While capital does and must play an important role as a backstop, we should not rely only on capital. Any well-capitalized bank can fail and threaten financial stability if it is not well-managed or well-regulated. Our financial system will be safer and stronger with multiple and well-calibrated lines of defense, which Wall Street Reform requires in addition to higher capital standards. We need our regulators to finalize these Wall Street Reform rules, and Congress should fund them with sufficient resources so they can effectively monitor the financial system.

“Again, it has been two months since he first publicly acknowledged the trades, so I expect Mr. Dimon to be able to answer tough, but fair questions today. A full accounting of these events will help this Committee better understand the policy implications for a safer and stronger financial system going forward.”

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