

**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

**IN THE MATTER OF:** )  
 )  
 )  
 ) **Number 2014-1**  
**JPMorgan Chase Bank, N.A.** )  
**Columbus, OH** )

**ASSESSMENT OF CIVIL MONEY PENALTY**

**I. INTRODUCTION**

The Financial Crimes Enforcement Network has determined that grounds exist to assess a civil money penalty against JPMorgan Chase Bank, N.A. (“JPMorgan” or “the Bank”), pursuant to the Bank Secrecy Act and regulations issued pursuant to that Act.<sup>1</sup>

JPMorgan admits to the facts set forth below and that its conduct violated the Bank Secrecy Act.<sup>2</sup> JPMorgan consents to the assessment of a civil money penalty and enters the CONSENT TO THE ASSESSMENT OF CIVIL MONEY PENALTY (“CONSENT”) with the Financial Crimes Enforcement Network.

The CONSENT is incorporated into this ASSESSMENT OF CIVIL MONEY PENALTY (“ASSESSMENT”) by reference.

The Financial Crimes Enforcement Network has authority to investigate banks for compliance with and violation of the Bank Secrecy Act pursuant to 31 C.F.R. § 1010.810, which

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<sup>1</sup> The Bank Secrecy Act is codified at 12 U.S.C. §§ 1829b, 1951-1959 and 31 U.S.C. §§ 5311-5314, 5316-5332. Regulations implementing the Bank Secrecy Act appear at 31 C.F.R. Chapter X (formerly 31 C.F.R. Part 103).

<sup>2</sup> JPMorgan makes the admissions as stated above and elsewhere in this document solely in connection with the resolution of this civil proceeding and for purposes of the imposition of the civil penalty set forth herein.

grants the Financial Crimes Enforcement Network “overall authority for enforcement and compliance, including coordination and direction of procedures and activities of all other agencies exercising delegated authority under this chapter.” JPMorgan is a global bank and financial services company and is part of the largest bank holding company in the United States with approximately \$2.5 trillion in assets. JPMorgan is a “financial institution” and a “bank” within the meaning of the Bank Secrecy Act and its implementing regulations. 31 U.S.C. § 5312(a)(2) and 31 C.F.R. § 1010.100.

#### **Resolution with U.S. Attorney’s Office for the Southern District of New York**

The U.S. Attorney’s Office for the Southern District of New York and JPMorgan have entered into a deferred prosecution agreement and related forfeiture action based on JPMorgan’s failure to timely file a suspicious activity report (“SAR”) on transactions arising out of the Bernard Madoff fraudulent investment scheme and based on JPMorgan’s failure to maintain an effective anti-money laundering program, which is described in more detail below in Section II (Determinations). As part of the Deferred Prosecution Agreement, JPMorgan has agreed to forfeit \$1.7 billion.

#### **Resolution with Office of the Comptroller of the Currency**

The Office of the Comptroller of the Currency (“OCC”) is JPMorgan’s Federal functional regulator and is responsible for conducting examinations of JPMorgan for compliance with the Bank Secrecy Act and its implementing regulations and similar rules under Title 12 of the United States Code. The OCC is simultaneously assessing a civil money penalty against JPMorgan for violations of 31 U.S.C. § 5318(i); 12 C.F.R. § 21.21(c); 12 C.F.R. § 21.11(c) and (d); 31 C.F.R. § 1010.610(a), (b) and (c); and 12 U.S.C. § 1818(s). JPMorgan has agreed to a \$350 million civil money penalty assessed by the OCC. The deficiencies in JPMorgan’s anti-money

laundering program also resulted in a Consent Cease and Desist Order issued by the OCC on January 14, 2013 that required JPMorgan to take a number of steps to improve its Bank Secrecy Act compliance. JPMorgan is working to meet its obligations under the Consent Order, which remains in effect.

## **II. DETERMINATIONS**

The Financial Crimes Enforcement Network has determined that JPMorgan willfully violated the Bank Secrecy Act by failing to detect and adequately report suspicious transactions arising out of Bernard Madoff's fraudulent investment scheme, in violation of 31 U.S.C. § 5318(g) and 31 C.F.R. § 1020.320.

The Bank Secrecy Act and its implementing regulations require banks to report transactions that involve or aggregate to at least \$5,000, are conducted by, at, or through the bank, and that the bank "knows, suspects, or has reason to suspect" are suspicious. 31 U.S.C. § 5318(g) and 31 C.F.R. § 1020.320. A transaction is "suspicious" if the transaction:

(1) involves funds derived from illegal activities, or is conducted to disguise funds derived from illegal activities; (2) is designed to evade the reporting or recordkeeping requirements of the Bank Secrecy Act or regulations under the Act; or (3) has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and the bank knows of no reasonable explanation for the transaction after examining the available facts, including background and possible purpose of the transaction. 31 C.F.R. §§ 1020.320(a)(2)(i)-(iii).

Banks, and other financial institutions, file these suspicious activity reports with the Financial Crimes Enforcement Network, which serves as the Financial Intelligence Unit for the United States. The Financial Crimes Enforcement Network, in turn, makes these reports

available to law enforcement for criminal enforcement purposes and regulators, such as the Securities and Exchange Commission, for regulatory enforcement purposes. Most countries have a Financial Intelligence Unit that carries out similar responsibilities for collecting, analyzing, and sharing similar reports with its enforcement authorities.

Bernard Madoff committed a massive securities fraud scheme against investors from the 1970s until he was arrested in December 2008. Madoff defrauded his investors of more than \$20 billion and caused significant economic harm to thousands of victims. On March 12, 2009, Madoff pleaded guilty to eleven felony charges in the U.S. District Court for the Southern District of New York. On June 29, 2009, the Court sentenced Madoff to 150 years in prison. In addition, the U.S. Attorney's Office has previously obtained final orders of forfeiture securing approximately \$2.35 billion in fraud proceeds, which will be distributed to the victims of Madoff's scheme through a remission process established by the U.S. Attorney's Office for the Southern District of New York.

JPMorgan, and its predecessors and affiliates, had a long relationship with Bernard L. Madoff Investment Securities LLC ("BLM") beginning in the mid-1980s and spanning over 20 years. During that time, JPMorgan held the primary bank accounts that BLM used to facilitate the fraudulent investment scheme. BLM's activities raised concerns with JPMorgan personnel from time to time over the course of several years. For example, in the 1990s through 2003, employees at JPMorgan's private bank identified very large, repeated round-dollar transactions between BLM and another JPMorgan client and did not report the transactions to its anti-money laundering personnel. In addition, in 2007 and 2008, JPMorgan's computer monitoring system issued two alerts with respect to potentially suspicious account activity in the BLM accounts.

In addition to maintaining bank accounts for BLM, from 2006 to 2008, JPMorgan developed and issued investment products that were tied to the investment returns of certain Madoff “feeder funds.” JPMorgan created these investment products as an opportunity to profit from investment-banking fees. In connection with those products, JPMorgan invested its own money in Madoff feeder funds as a hedge to offset risks associated with JPMorgan’s obligations. Due to the features of the products, JPMorgan could not eliminate all risks from its exposure to Madoff feeder funds and could lose a substantial portion of its capital in the event of a significant decline in the feeder funds’ performance, which, in turn, was dependent on Madoff’s performance.

Between 2006 and 2008, JPMorgan conducted several due diligence reviews on BLM and these feeder funds and identified multiple potential fraud “red flags” associated with BLM. In 2007, a JPMorgan Executive told the Chief Risk Officer for JPMorgan’s Investment Bank, referring to a press article from 2001, that there “is a well-known cloud over the head of Madoff and that his returns are speculated to be part of a ponzi scheme.” Based upon its due diligence in 2007, JPMorgan ultimately concluded that risk of fraud at BLM “was extremely unlikely.” In 2007, JPMorgan personnel did not report any concerns regarding BLM to its anti-money laundering personnel. In the Fall of 2008, the following “red flags” identified by JPMorgan personnel raised concerns at JPMorgan that BLM could be engaged in a potential fraud:

- BLM’s investment performance was so consistently and significantly ahead of its peers, even in prevailing market conditions, as to appear too good to be true.
- BLM’s trading techniques and investment activity lacked expected transparency.
- BLM utilized a very small, unknown auditor that was not registered with the American Institute of Certified Public Accountants or peer-rated.

- BLM or BLM feeder funds repeatedly refused to provide full information to JPMorgan as part of its due diligence reviews.

During 2007, as a result of the investment products described above, JPMorgan held approximately \$250 million in risk exposure to assets related to BLM's investment strategy. However, JPMorgan elected not to approve a proposal to increase the amount of its product offerings that were related to BLM by approximately \$1 billion. Further, during the Fall of 2008, JPMorgan incrementally reduced its hedge position in Madoff feeder funds from approximately \$369 million to \$81 million. When Madoff was arrested on December 11, 2008, JPMorgan booked a loss of approximately \$40 million, substantially less than the approximately \$250 million that it would have lost but for these transactions in the Fall of 2008.

In the Fall of 2008, JPMorgan took steps to protect its own business interests based on the information it learned regarding BLM's conduct in the due diligence reviews and based on a broader business strategy to reduce JPMorgan's overall risk exposure to hedge funds. During this same time period, JPMorgan failed to notify the Financial Crimes Enforcement Network of BLM's suspicious, potentially fraudulent activities as required by the Bank Secrecy Act, thereby undermining the existing reporting mechanism to alert U.S. law enforcement.

On October 29, 2008, JPMorgan's London branch filed a SAR-equivalent report concerning the Madoff funds with the United Kingdom's Serious Organised Crime Agency ("SOCA"), which was the United Kingdom's Financial Intelligence Unit. In the SAR-equivalent report, JPMorgan's London branch identified significant concerns about the Madoff funds, including that the investment performance "appeared too good to be true," its lack of transparency regarding its trading techniques, its unwillingness to provide helpful information in the course of JPMorgan's due diligence reviews, its choice of auditor, and a threat made to a

JPMorgan employee by a foreign distributor of Madoff-linked notes regarding JPMorgan's stated intention to invoke a provision of a note agreement that would enable JPMorgan to remove the link between the notes and the performance of a Madoff Securities feeder fund.

In October 2008, JPMorgan's London branch employees also reported their concerns about BLM to several of JPMorgan's U.S. legal and investment bank compliance employees. JPMorgan's U.S. legal and investment bank compliance employees reviewed information on which the October 2008 United Kingdom SAR-equivalent report was based; learned, in November 2008, that its London branch had filed a SAR-equivalent report; and were aware of JPMorgan's decision to reduce its risk exposure to BLM for a number of reasons, including concerns regarding Madoff. Notwithstanding these facts, the U.S. employees never notified JPMorgan's U.S. Bank Secrecy Act Officer or employees in U.S. Anti-Money Laundering Operations, the individuals who would have made a decision whether to file a SAR with the Financial Crimes Enforcement Network in the United States.

On November 19, 2008, JPMorgan's London branch filed a second SAR-equivalent report with SOCA on the Madoff funds. JPMorgan's London branch did not report this additional filing to any JPMorgan employees in the United States.

JPMorgan failed to file any SARs in the United States related to the Madoff transactions until after Madoff's arrest in December 2008. In fact, even after JPMorgan's London branch filed the two SAR-equivalent reports with SOCA, JPMorgan continued to process transfers of billions of dollars through BLM's accounts until Madoff's arrest. During this time period, JPMorgan redeemed approximately \$275 million of its own hedge investments from the BLM feeder funds, which in turn drew funds out of BLM's JPMorgan accounts. Madoff also drained billions of dollars out of BLM's JPMorgan accounts. After Madoff's arrest, JPMorgan, for the

first time, filed SARs in the United States that reported billions of dollars in potential suspicious activity that occurred between approximately 2000 and December 2008 in BLM's JPMorgan accounts.

JPMorgan failed to report its concerns regarding Madoff's potential fraud to the Financial Crimes Enforcement Network, and thereby U.S. law enforcement, until after Madoff was arrested. By the time of Madoff's arrest, JPMorgan had substantially recovered its own investment funds.

### **III. CIVIL MONEY PENALTY**

FinCEN has determined that grounds exist to assess a civil money penalty for violations of the Bank Secrecy Act and its implementing regulations, as described in this CONSENT.

31 U.S.C. § 5321(a)(1) and 31 C.F.R. § 1010.820(f).

FinCEN has determined that the penalty in this matter will be \$461 million, based on the suspicious transactions that flowed through Madoff's primary account at JPMorgan during 2008.

31 U.S.C. § 5321(a)(1) and 31 C.F.R. § 1010.820(f). The U.S. Attorney's Office for the Southern District of New York will collect \$1.7 billion from JPMorgan through asset forfeiture. The U.S. Attorney's Office has stated that the funds collected through its asset forfeiture will be contributed to the recovery fund for Madoff's victims. In recognition of this arrangement, FinCEN is deeming its penalty satisfied by JPMorgan's payment to the U.S. Attorney's Office. The OCC will collect \$350 million from JPMorgan. In total, JPMorgan has agreed to a combined collection amount of \$2.05 billion.



#### **IV. CONSENT TO ASSESSMENT**

To resolve this matter, and only for that purpose, JPMorgan consents to the assessment of a civil money penalty in the sum of \$461 million and admits that it violated the Bank Secrecy Act's reporting requirements.

JPMorgan recognizes and states that it enters into the CONSENT freely and voluntarily and that no offers, promises, or inducements of any nature whatsoever have been made by the Financial Crimes Enforcement Network or any employee, agent, or representative of the Financial Crimes Enforcement Network to induce JPMorgan to enter into the CONSENT, except for those specified in the CONSENT.

JPMorgan understands and agrees that the CONSENT embodies the entire agreement between JPMorgan and the Financial Crimes Enforcement Network relating to this enforcement matter only, as described in Section II above. JPMorgan further understands and agrees that there are no express or implied promises, representations, or agreements between JPMorgan and the Financial Crimes Enforcement Network other than those expressly set forth or referred to in this document and that nothing in the CONSENT or in this ASSESSMENT is binding on any other agency of government, whether Federal, State or local.

#### **V. RELEASE**

Execution of the CONSENT, and compliance with the terms of this ASSESSMENT and the CONSENT, settles all claims that the Financial Crimes Enforcement Network may have against JPMorgan for the conduct described in Section II of this ASSESSMENT. Execution of the CONSENT, and compliance with the terms of this ASSESSMENT and the CONSENT, does not release any claim that the Financial Crimes Enforcement Network may have, or waive the Financial Crimes Enforcement Network's right to bring any enforcement action based on such

claims, for conduct by JPMorgan other than the conduct expressly described in Section II of this ASSESSMENT, or any claim that the Financial Crimes Enforcement Network may have against any party other than JPMorgan, such parties to include, without limitation, any director, officer, employee, or agent of JPMorgan. Upon request, JPMorgan shall truthfully disclose to the Financial Crimes Enforcement Network all factual information not protected by a valid claim of attorney-client privilege or work product doctrine with respect to the participation of its current or former directors, officers, employees, or agents in the conduct described in Section II of this ASSESSMENT.

By:

/S/

January 7, 2014

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Jennifer Shasky Calvery

Date

Director

FINANCIAL CRIMES ENFORCEMENT NETWORK

U.S. Department of the Treasury