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CFTC Orders JPMorgan Chase Bank, N.A. to Pay a $20 Million Civil Monetary Penalty to Settle CFTC Charges of Unlawfully Handling Customer Segregated Funds

CFTC charges relate to JPMorgan's handling of Lehman Brothers, Inc.'s customer segregated funds

Washington, DC – The U.S. Commodity Futures Trading Commission (CFTC) today filed and simultaneously settled charges against **JPMorgan Chase Bank, N.A.** (JPMorgan) for its unlawful handling of Lehman Brothers, Inc.'s (LBI) customer segregated funds. The CFTC order imposes a $20 million civil monetary penalty against JPMorgan. The order also requires JPMorgan to implement undertakings to ensure the proper handling of customer segregated funds in the future and to release customer funds upon notice and instruction from the CFTC.

The CFTC order finds that from at least November 2006 to September 2008, JPMorgan was a depository institution serving LBI, a futures commission merchant (FCM) registered with the CFTC. During this time, LBI deposited its customers' segregated funds with JPMorgan in large amounts that varied in size, but almost always more than $250 million at any one time. According to the order, during the same time period, JPMorgan extended intra-day credit to LBI on a daily basis to facilitate LBI's proprietary transactions, including repurchase agreements, or "repos." JPMorgan would extend intra-day credit to LBI to the extent that LBI's "net free equity" at JPMorgan was positive. As of November 17, 2006, JPMorgan included LBI's customer segregated funds in its calculation of LBI's net free equity, even though these funds belonged to LBI's customers, not to LBI, the order also finds.

The Commodity Exchange Act (CEA) and CFTC regulations prohibit depository institutions, like JPMorgan, from using or holding segregated funds that belong to an FCM's customer as though they belong to anyone other than that customer, and also prohibit the extension of credit based on such funds to anyone other than that customer.

According to the order, JPMorgan violated these prohibitions in two ways. First, as stated in the order, JPMorgan extended intra-day credit to LBI for approximately 22 months based in part on LBI customers' segregated funds because those funds were included in JPMorgan's determination of LBI's net free equity. Second, on September 15, 2008, Lehman Brothers Holding, Inc. filed for bankruptcy. Two days later, LBI requested that JPMorgan release LBI's customers' segregated funds. JPMorgan improperly declined the request based on JPMorgan's determination that LBI no longer had positive net free equity held at JPMorgan. JPMorgan continued to refuse to release these funds for approximately two weeks thereafter, only to release the funds after being instructed by CFTC officials. The CFTC order does not find that there were any customer losses.

"The laws applying to customer segregated accounts impose critical restrictions on how financial institutions can treat customer funds, and prohibit these institutions from standing in the way of immediate withdrawal," said David Meister, the Director of the CFTC's Division

of Enforcement. “As should be crystal clear, these laws must be strictly observed at all times, whether the markets are calm or in crisis."

CFTC Division of Enforcement staff members responsible for this matter are Joan M. Manley, A. Daniel Ullman II, and Alison B. Wilson. Ananda K. Radhakrishnan and Robert B. Wasserman, of the CFTC’s Division of Clearing and Risk, also contributed to this matter.

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