Attorney General Schmidt announces settlement with JPMorgan Chase

TOPEKA – (July 7, 2011) – Kansas Attorney General Derek Schmidt today announced a settlement with JPMorgan Chase & Co. that is expected to return more than $100,000 to Kansas municipalities and nonprofit organizations.

The settlement resulted from an investigation by several states and federal agencies. The ongoing nationwide investigation is looking into allegations of anticompetitive and fraudulent conduct in the municipal bond derivative industry.

"Today’s settlement will return funds to Kansas municipalities and nonprofit organizations harmed by this alleged fraudulent conduct," Schmidt said. "The investigation is ongoing as to other companies that may have engaged in similar practices."

As part of the multistate agreement, JPMorgan Chase has agreed to pay $65.5 million in restitution to affected state agencies, municipalities, school districts and not-for-profit entities nationwide that entered into municipal derivative contracts with JPMorgan Chase between 2001 and 2005. It is anticipated that more than $100,000 of that amount will be returned to Kansas entities harmed by the company's practices.

Once all eligible entities have been identified, those affected should be notified by the settlement administrator in the coming months.

Municipal bond derivatives are contracts used by tax-exempt issuers to reinvest bond proceeds until the funds are needed, or to hedge interest-rate risk. In April 2008, the states began investigating allegations that some financial institutions engaged in various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the bond derivatives market.

The investigation revealed improper conduct involving individuals at JPMorgan Chase and other financial institutions, and certain brokers with whom they had working relationships. The wrongful conduct deprived bond issuers of a competitive, transparent marketplace. As a result, states, local governments and not-for-profit entities entered into municipal derivatives contracts on less advantageous terms than they would have otherwise, thereby adding costs to taxpayers.