For Immediate Release:
July 7, 2011

Office of The Attorney General
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Attorney General’s Office Announces $92 Million National Settlement with JP Morgan Chase & Co. Over Municipal Bond Scheme

Municipal Bond Issuers in NJ to Receive More Than $1 Million Restitution

View Settlement Agreement

TRENTON – The Attorney General’s Office announced today that JP Morgan Chase & Co. will pay municipal bond issuers in New Jersey approximately $1.3 million in restitution as part of a $92 million, national settlement related to alleged anti-competitive and fraudulent conduct in the municipal bond derivatives industry.

As part of the multi-state settlement, JP Morgan will pay a total of $65.5 million in restitution to state agencies, non-profits, municipalities and school districts that entered into municipal derivative contracts with the company between 2001 and 2005 in New Jersey and across the nation.

In addition, JP Morgan has agreed to pay a $3.5 million civil penalty and $6 million in fees and costs of the investigation to the 25 settling states.

The settlement also provides that JP Morgan will pay $17 million in restitution directly to certain other government and not-for-profit entities as part of separate agreements it entered into today with the U.S. Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC).

The multi-state settlement, the SEC settlement and the OCC agreement are three distinct components of a coordinated, global $228 million settlement that JP Morgan entered into today. The company also reached agreement with the U.S. Department of Justice’s Antitrust Division, the Internal Revenue Service and the Federal Reserve Board.

JP Morgan is the third financial institution to settle with the multi-state working group in the ongoing municipal bond derivatives investigation. Previously, Bank of America and UBS AG entered into separate settlements with New Jersey and the other states. Together, the three agreements comprise dollar settlements totaling nearly $250 million, and eligible municipal bond issuers in New Jersey are expected to receive a total of approximately $7.5 million in restitution.

Municipal bond derivatives are contracts that tax-exempt issuers use to reinvest proceeds of bond sales until the funds are needed, or to hedge interest-rate risk.
In April 2008, the states began investigating allegations that certain large financial institutions, including national banks and insurance companies, as well as certain brokers and swap advisors, had engaged in various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the municipal bond derivatives market.

The investigation, which is continuing, revealed collusive and deceptive conduct involving individuals at JP Morgan and other financial institutions, and certain brokers with whom they had working relationships. The wrongful conduct took the form of bid-rigging, submission of non-competitive courtesy bids and submission of fraudulent certifications of compliance to government agencies, among others, in contravention of U.S. Treasury regulations.

Regardless of the means used to carry out the various schemes, the objective was to enrich the financial institution and/or the broker at the expense of the issuer – and ultimately taxpayers – depriving the issuer of a competitive, transparent marketplace. As a result of such wrongful conduct, state, city, local and not-for-profit agencies entered into municipal derivatives contracts on less advantageous terms than they would have otherwise.

Deputy Attorney General Joshua T. Rabinowitz, Deputy Attorney General Isabella T. Stempler, Deputy Attorney General Toral M. Joshi, Assistant Attorney General Brian F. McDonough, and Assistant Attorney General Carol Jacobson handled the matter on behalf of the state.

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