A.G. SCHNEIDERMAN ANNOUNCES $92 MILLION SETTLEMENT WITH J.P. MORGAN CHASE

Multistate Investigation Finds National Abuses In Municipal Bond Derivatives Market

Defrauded Governments & Nonprofits In NY & Nationally Entitled To Millions In Restitution

Schneiderman: Zero Tolerance For Financial Misconduct

NEW YORK – Attorney General Eric T. Schneiderman today announced a multimillion dollar settlement between J.P. Morgan Chase (JPMC), New York and 24 additional states. Investigations uncovered fraudulent and anticompetitive conduct in the bank’s municipal bond derivative transactions with governments and nonprofits across the country. As a result, JPMC will pay $92 million as part of a coordinated federal and state enforcement agency settlement. Of that amount, $65.5 million will go to a multistate restitution fund for affected governments and nonprofits that entered into municipal derivatives contracts with JPMC between 2001 and 2005.

“This fraudulent conduct completely manipulated the playing field and left public entities like governments and nonprofits at a serious disadvantage,” Attorney General Schneiderman said. “My office has zero tolerance for such financial misconduct and will continue to work to hold those at fault responsible, and also ensure that those participating in the marketplace do so honestly and fairly.”

The settlement follows an investigation led by the Attorneys General of New York, Connecticut, Texas and Illinois, parallel with the U.S. Department of Justice and other enforcement agencies. Starting in 2008, the state authorities undertook a review of the municipal bond derivatives market, where tax exempt entities like governments and nonprofit organizations issue bonds and reinvest the proceeds until the funds are needed or enter into contracts to hedge interest rate risk on bonds.

The investigation revealed conspiratorial and fraudulent conduct involving individuals at JPMC, other financial institutions, and certain brokers with whom they had working relationships. Rather than establishing honest and fair terms of contract for the municipal derivative sales, certain JPMC employees and their counterparts at other institutions rigged bids, submitted noncompetitive courtesy bids and fraudulent certificates of arms-length bidding to government agencies. The misconduct led state and local entities, such as municipalities, counties, school districts and other government agencies, as well as nonprofits, to enter into municipal derivatives contracts on less advantageous terms than they would have otherwise.

The multistate settlement is the single largest component of coordinated settlements between JPMC and the U.S. Department of Justice’s Antitrust Division, the Securities and Exchange Commission (SEC), the Internal Revenue Service, the Office of the Comptroller of the Currency (OCC), as well as the states. JPMC is the third of several financial institutions involved in the ongoing municipal bond derivatives investigation to resolve the claims against it. Bank of America entered into a settlement in December 2010, and UBS entered into a settlement in May 2011. To date, the state working group has obtained settlements totaling close to $250 million.

Pursuant to the state agreement, JPMC will pay a total of $92 million. Governmental and nonprofit entities nationwide that entered into municipal derivative agreements with JPMC between 2001 and 2005 will be entitled to more than $65.5 million in restitution from the state settlement. The agreement also provides that JPMC will pay the states $3.5 million in penalties and $6 million in fees and costs of the investigation. JPMC will pay another $17 million directly to other governments and nonprofits as part of its resolutions with the SEC and OCC.


This municipal bond derivatives investigation is being handled by Assistant Attorneys General Elinor Hoffmann and Sarah Hubbard, Attorney Matthew Perez and Legal Assistant Arlene Leventhal of the Antitrust Bureau, with oversight by Executive Deputy Attorney General Karla Sanchez.

Attachment:

JPMC Settlement Agreement

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