

**STATEMENT**  
**OF**  
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**COMPTROLLER OF THE CURRENCY**  
**Before the**  
**FINANCIAL SERVICES COMMITTEE**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**June 19, 2012**

Chairman Bachus, Ranking Member Frank, and Committee members, I appreciate the opportunity to discuss the OCC's perspectives on JPMorgan Chase's losses reported in May.

My written testimony also includes background on our approach to supervising large banks and our efforts to raise supervisory expectations of these institutions. This material provides important context for understanding how we are increasing our awareness of risks facing banks and the banking system, ensuring these risks are understood and well managed, and raising our expectations for governance and oversight, capital, reserves, and liquidity. It will take time to achieve these objectives, and we must be vigilant in maintaining our course. That course leads toward strong, effective supervision and toward improved soundness of our banking system so that it can fairly and effectively serve its customers and communities.

The OCC is the primary regulator of JPMC's national bank, where the transactions leading to its losses occurred, and we are responsible for the prudential supervision of the bank.

In early April, information became available indicating risks in certain activities conducted within its Chief Investment Office. In response, OCC examiners met with bank management to discuss the bank's transactions and the current state of the position. OCC

examiners directed the bank to provide additional details regarding the transactions, their scope, and risk. Our examiners were in the process of evaluating the bank's current position and strategy for risk reduction when, at the end of April and during the first days of May, the value of the position deteriorated rapidly. As the positions deteriorated, discussions turned to corrective actions and steps necessary to mitigate and reduce the risk of the bank's positions.

In response to these events, we have undertaken a two-pronged review of our supervisory activities. The first component focuses on evaluating the adequacy of current risk controls at the bank, informed by their application to the positions at issue. We are actively assessing the quality of management and risk management; board oversight; the types and reasonableness of risk measurement metrics and limits; the model governance review process; and the quality of work by the independent risk management team and internal auditors. We are also assessing the adequacy of the information and reporting provided to bank management and to the OCC. Quality supervision is dependent on the quality of information available to examiners.

The second component evaluates the lessons learned from this episode that could enhance risk management processes at this and other banks. Consistent with our supervisory policy of heightened expectations for large banks, we are demanding that the bank adhere to the highest risk management standards. We are not limiting our inquiry to the particular transactions at issue. We are assessing the adequacy of risk management throughout the bank. We are using these events to broadly evaluate the effectiveness of the bank's risk management within its CIO function, and to identify ways to improve our supervision. If corrective action is warranted, we will pursue appropriate informal or formal remedial measures.

While the losses raise serious questions and may affect the bank's earnings, these losses do not present a solvency issue. JPMC's national bank has approximately \$1.8 trillion in assets

and \$101 billion in Tier 1 common capital. It has improved its capital, reserves, and liquidity since the financial crisis, and those levels are sufficient to absorb this loss. It is also worth noting this loss does not threaten the broader financial system.

There has been much discussion about whether these JPMC activities would be permissible under the proposed Volcker Rule. While it is premature to reach any conclusion before our review is complete, this episode will certainly help focus our thinking on these issues and help regulators ask fresh questions.

Before closing, I want to stress my commitment to strong supervision and to taking every opportunity to improve how we accomplish our mission. This commitment will be a theme that runs throughout my tenure as Comptroller. I look forward to answering your questions.