**Statement of John Anderson**
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**JPMorgan Chase & Co.**

**U.S. Senate**
**Permanent Subcommittee on Investigations**
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I am John Anderson, and I serve as Co-Head of the Global Commodities Group ("GCG") within JPMorgan Chase & Co. ("J.P. Morgan" or the "Firm"). I am here to discuss the history of J.P. Morgan's involvement in physical commodities and the status of our ongoing divestiture of much of that business. While some of the topics identified by the Subcommittee may not be in my particular area of responsibility or expertise, and while for many of these I may not have any firsthand knowledge, I have attempted to gather the relevant information from others at the Firm in an effort to be as responsive and helpful to the Subcommittee as possible; accordingly, at times, my testimony and answers will reflect not my personal knowledge, but rather what I understand from speaking with others working for J.P. Morgan.

It is important to state at the outset that today, much of J.P. Morgan's physical commodities assets and business have been sold. Last month, we closed on the sale of a large portion of the business to Mercuria Energy Group. In addition, the Firm has sold and continues to sell other portions of the business to different buyers. Going forward, J.P. Morgan's commodities business will remain focused on its financial derivatives business. Its associated physical activities will be limited to an exchange warrants business in base metals, traditional bank activities involving precious metals, and a commodities finance business that may involve taking title to physical commodities as the underlying collateral to the financing.

*History of the Physical Commodities Business*

First, I think it would be helpful to explain how physical commodities fit into J.P. Morgan's overall customer business. GCG manages a customer-driven commodity derivatives and commodities financial intermediation business, providing our clients with risk management and financing solutions for their commodity exposures. Our customers include governments, producers, end-users (such as airlines and auto manufacturers), intermediaries, refiners, and investors.

J.P. Morgan's physical commodity inventory—which has included base metals, precious metals, and energy-related commodities—is related to these customer businesses; J.P. Morgan is not a user of or speculative investor in physical commodities. Rather, J.P. Morgan enters into physical commodity transactions in connection with its customer-driven commodities derivatives business or in connection with other customer driven transactions.

J.P. Morgan's role as market-maker, liquidity provider, and financial intermediary benefits its customers. For example, an airline that needs to obtain jet fuel on a regular basis may want to hedge its exposure to fluctuations in the price of the fuel. By offering a financial derivative to the airline, J.P. Morgan's commodities business delivers not only a hedge against future price fluctuations, but also a predictability that allows the airline to focus on the safe operation of its business. The Firm then hedges the exposure incurred by entering into an offsetting trade with another customer or by buying the physical commodity.

Every day there are people who are looking to enter into a contract to purchase, in either the immediate or longer term, a specific amount of a commodity at a specific price. They may want that commodity to use it for their business or to hold it as an investment. At the same time, there are people who want to enter into a contract to sell, at a specific price, a specific amount of a commodity, either now or in the future. These people may have obtained the commodity as an earlier investment or they may have been the company that extracted the commodity from the ground. What we, and other market makers do, is to serve as a readily available counter-party for those who want to buy or sell. When we buy a commodity it is not for ourselves, but to satisfy the needs of our clients. We strive to maintain a balance between our contracts to buy and our contracts to sell, so that at all times our actual net position for a commodity is fairly modest and our risk exposure is fairly limited. This is different from those investors who, speculating that the price of a particular commodity will either rise or fall, build up a position—either long or short—in that commodity.

J.P. Morgan's physical commodities business involving energy-related commodities expanded substantially when, at the height of the Financial Crisis, the Firm, at the behest of the government, acquired a varied collection of assets from Bear Stearns. With the sudden acquisition of Bear Stearns—and, with it, Bear Energy—J.P. Morgan received ownership interests in nine power plants and a number of tolling agreements, among other assets. Several years later, J.P. Morgan separately acquired the commodities business of RBS Sempra, which

included two additional tolling agreements and a base metals warehousing business, among other assets.

As a result of these acquisitions, J.P. Morgan has, at times, held equity interests in a small number of power plants over the past six years. Today, J.P. Morgan has divested or re-tolled all but three of the power assets acquired from Bear Stearns and RBS Sempra. All three of the remaining power plants are passive investments and are being managed by third parties, and all three are either currently in the process of being sold, or marketed for sale.

*Regulatory Compliance*

At J.P. Morgan, we operate our commodities business in conformity with the applicable rules. We are in regular and ongoing dialogue with our regulators about our physical commodities business. The business is supervised by two different regulating entities: the Office of the Comptroller of the Currency ("the OCC") and the Federal Reserve. First, the OCC—as the lead regulator of JP Morgan Chase Bank, N.A. (the "Bank), a national bank—oversees the physical commodities activities done within the Bank. The OCC has restricted the Bank's physical commodities activities to hedging customer related derivatives business and has imposed an activity limit, requiring that physical activities be only a nominal percentage (5%) of the Bank's overall commodities activity. These restrictions are designed to ensure that the Bank only engages in physical commodities activity to support its financially settled customer business and that only a small amount of overall activity in the Bank is in the physical markets.

The Federal Reserve regulates J.P. Morgan's physical commodities activities in bank holding company subsidiaries (outside the Bank) and requires that the market value of physical commodities held by J.P. Morgan's holding company (and its subsidiaries) as complementary activities not exceed 5% of its consolidated Tier 1 capital. This 5% limit applies to all complementary physical commodity activities approved by the Federal Reserve.

The Federal Reserve's 5% limit does not include commodities positions held in the Bank pursuant to the authority granted by the OCC and it also does not include precious metals for which the Bank has express statutory authority. Even if the Bank's risk position, outside of gold and silver, was to be factored into the Federal Reserve's calculation, there would be little to no impact upon its risk profile. Further, the Federal Reserve requires that it be notified if the market value of such commodities exceeds 4% of Tier 1 capital. Whereas the OCC's limit is an activity

limit, the Federal Reserve's limit is a prudential limit aimed at limiting the overall market risk of the holding company's physical commodities inventory.

J.P. Morgan's compliance with the Federal Reserve's limit is reported monthly, and the OCC, per its request, receives reports from J.P. Morgan on a quarterly basis (though the relevant activity is calculated daily). In addition, J.P. Morgan meets quarterly with both regulating entities, providing the regulators with a broader picture of the status of its overall commodities business, including its activities in physical commodities.

J.P. Morgan has never reached the Federal Reserve's limit, and its holdings have only reached the 4% reporting threshold on a few occasions. With regard to the OCC's 5% limit, and as a result of a large client-initiated trade, J.P. Morgan exceeded this limit in December 2011. This was and is the only time that J.P. Morgan has exceeded the OCC limit in the roughly 20 years it has been in place. J.P. Morgan immediately took steps to get back under the limit, and was in regular communication about this matter with both the OCC and the Federal Reserve during this time. Today, J.P. Morgan has an enhanced escalation process in place in the event that the Bank's activity would approach the OCC's limit.

J.P. Morgan is and has always been committed to candor and transparency with its regulators. At no time has it been J.P. Morgan's intent to misrepresent the relevant facts or circumstances, or to circumvent the applicable Federal Reserve or OCC limits.

*Risk Management*

J.P. Morgan has a robust risk management program that, within GCG, has been tailored to its activities—or, in many cases, prior activities—involving physical commodities. Before describing this comprehensive program, it is important to note that, going forward, the topic of operating risk management will become simplified because of the Firm's decision to divest much of its physical commodities business.

The overall risk framework first consists of pre-operating controls, which include, among other things, hiring skilled personnel who have had specific prior operational experience regarding the relevant physical commodities and maintaining a comprehensive Operating Risk Committee approval process for proposed new business initiatives.

Second, GCG employs strenuous operating controls for ongoing activities, which include policies imposing strict standards that must be used by third party vendors retained by GCG to

work with physical commodities. For instance, if GCG had chartered a ship to transport oil (an activity in which J.P. Morgan is no longer involved), that ship would have been operated by a vetted and qualified third party vendor, not by J.P. Morgan. Further, the actual owners and/or operators—and not J.P. Morgan—would have carried the primary liability for any incidents. Third, GCG also maintains, as part of its risk management program, comprehensive post-operating controls regarding incident management, including a customized, stand-alone emergency response procedure.

By these steps, GCG has sought to mitigate any unintended event related to its physical commodities business, and also any potential exposure for J.P. Morgan that could arise following such an event. In addition, GCG carries a significant level of insurance as an additional layer of protection. This insurance coverage includes (as of July): $1.45 billion in coverage for offshore marine and cargo owner liability; $500 million in coverage for onshore marine liability; and another combined $650 million in coverage for all-risks cargo, terrorism, and pollution/legal liability.

Even if—notwithstanding the risk management program described above—an event occurred and liability was ascribed in excess of GCG's robust insurance coverage, J.P. Morgan maintains a sufficient amount of operational risk capital across the Firm, as determined by the Federal Reserve, to address such a contingency.

*Copper*

Finally, the Subcommittee has asked about J.P. Morgan's involvement with copper, including the Firm's prior plans to launch an exchange traded fund ("ETF") backed by physical copper. Contrary to some erroneous media speculation several years ago, the consideration of issuing a copper ETF was separate and apart from J.P. Morgan's customer-driven physical commodities business. J.P. Morgan did not amass a copper inventory in anticipation of the previously-proposed ETF, nor did it ever attempt to do so. In no uncertain terms, all of J.P. Morgan's copper trading is related to its customer-driven physical commodities business, and it does not engage in proprietary trading in copper (or any other physical commodity). While J.P. Morgan considered, but never launched, a copper ETF, there are no current plans to move forward with this product. In any event, I understand that even if we were ever to do so, further

regulatory approvals would be necessary, and would only be undertaken in consultation with the appropriate regulators.

I am happy to respond to any questions you may have. Thank you.