

# Bye Bye Blythe: JPM Shutting Down Their Proprietary Commodity Trading Operation

Jesse's Café Américain

Breaking news from Bloomberg...

J. P. Morgan said today that they will be shutting down their proprietary commodity trading operations in response to the Volcker Rule in the Financial Reform legislation.

The JPM proprietary commodity trading group is headquartered in London with a few traders located in New York.

Within the past month trading head **Blythe Masters had reassured her traders** that things in the unit would continue on as they had been despite losses and layoffs.

Employees are being told that they may apply for other positions now.

Speculation is that this is also in response to position limits and other reforms in the Commodity Markets spearheaded by Commissioner Bart Chilton which will make it more difficult for large players to dominate the short term markets through sheer position size.

It is not clear if JPM will be exiting all markets at the same time including gold and silver in addition to other commodities.

We will look for **clarification from their official statement which has not yet been issued.**

According to a person who has been briefed, JPM will eventually be shutting down ALL proprietary trading in all markets in response to financial reform. This will include fixed income and equities which are much larger departments at the bank.

JPM recently suffered heavy losses in their proprietary commodity trading provoking a high level review by top executives.

JPM may continue to deal in these markets for commercial and private customers. They will cease trading for their own book.

It will be interesting to see what JPM does with RBS Sempra, a commodities company which they acquired earlier this year.

**JPMorgan Said to End Proprietary Trading to Meet Volcker Rule**

*By Dawn Kopecki and Chanyaporn Chanjaroen*

*JPMorgan Chase & Co., the second-largest U.S. lender by assets, told traders who*

**bet on commodities for the firm's account that their unit will be closed as the company begins to shut down all of its proprietary trading, according to a person briefed on the matter.**

**The bank eventually will end all proprietary trading to comply with new U.S. curbs on investment banks, said the person, who asked not to be identified because JPMorgan's decision isn't public. The New York-based bank will shut proprietary trading in fixed-income and equities later, the person said.**

*Closing the proprietary trading desk for commodities affects fewer than 20 traders, including one in the U.S. and the rest in the U.K., the person said. The unit is based in London, and traders there were given notice on Aug. 27 that their jobs may be in jeopardy as required by U.K. law, according to the person.*

*Congress passed restrictions on financial firms this year designed to prevent a recurrence of the 2008 credit crisis, which almost caused the banking system to collapse. Proprietary trading involves transactions made on behalf of the bank rather than its customers. The curbs are known as the Volcker rule, named after former Federal Reserve Chairman Paul Volcker, who campaigned for limits on risk-taking by lenders.*

**JPMorgan's "principal activities," which include trading and private equity investing for its own book, generated about \$2 billion in revenue in the second quarter, said Christopher Whalen, a Federal Reserve Bank of New York analyst in the 1980s and co-founder of Institutional Risk Analytics in Torrance, California. He said principal activities have generated as much as \$10 billion on an annual basis in profits and losses in recent years.**

## **Revenue Goes Away**

The limits on proprietary trading contained in the Dodd- Frank Act that was signed into law in July by President Barack Obama will cost the company about 10 percent in quarterly revenue, Whalen said.

"This revenue and the risk it carries with it now goes away," he said. "This will put more pressure on JPM to look for growth outside the U.S. market."

JP Morgan traders will be given a chance to apply for jobs elsewhere in the company, according to the person. JPMorgan spokeswoman Kimberly Weinrick declined to comment.

Banks are exploring ways to comply with the new trading rules. Citigroup Inc. was looking at three options to meet the new rule, including moving a team of proprietary traders into its hedge-fund unit, people briefed on the matter said in July.

Traders in the Citi Principal Strategies unit, led by Sutesh Sharma, would be reassigned

to Citi Capital Advisors, which mostly oversees money for outside investors, said the people, speaking anonymously because the talks were preliminary. The bank would set up the traders as hedge-fund managers and seed their funds, then raise money from outside investors to redeem its stakes, the people said.