
FINAL NOTICE

To: **Achilles Othon Macris**

Individual
Reference
Number: **AOM01001**

D.O.B: **15/08/1961**

Date: **9 February 2016**

1. ACTION

- 1.1 For the reasons given in this notice, the Authority hereby imposes on Achilles Macris a financial penalty of £792,900, pursuant to section 66 of the Financial Services and Markets Act 2000 (the 'Act'), on the grounds that during the period 28 March 2012 to 29 April 2012 he failed to comply with Statement of Principle 4 of the Authority's Statements of Principle for Approved Persons.
- 1.2 Mr Macris agreed to settle at an early stage of the Authority's investigation. Mr Macris qualified for a 30% discount at Stage 2 (see further paragraph 6.17 below) under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £1,132,747 on Mr Macris.

2. SUMMARY OF REASONS

- 2.1 During the period 28 March 2012 to 29 April 2012 (the 'Relevant Period'), Achilles Macris was the Head of CIO International for JPMorgan Chase Bank, N.A. (the 'Firm'). In that role, Mr Macris was responsible for a number of portfolios, including the Synthetic Credit Portfolio ('SCP').
- 2.2 As an approved person, Mr Macris was required to deal with the Authority in an open and cooperative way and to disclose appropriately any information regarding CIO International of which the Authority would reasonably expect notice (Statement of Principle 4).
- 2.3 During the Relevant Period Mr Macris was the main contact for substantive information about CIO International. Further, Mr Macris (who was the most senior approved person in CIO International) was aware that, from 1 October 2010, the Firm was the subject of a 'close and continuous' supervisory relationship. This meant that the Firm had been identified by the Authority as carrying a high probability of risk and a high impact to the Authority's statutory objectives, therefore requiring close and continuous monitoring.
- 2.4 The SCP began to suffer losses from January 2012 onwards, which increased substantially over the Relevant Period. On 23 March 2012 the front office was instructed that no further trades should be executed on the SCP until discussions had taken place concerning the SCP (although a small amount of continued trading to refine the SCP's long risk positions was permitted). Mr Macris subsequently instructed CIO Risk to begin producing daily risk reports for the SCP and in the following days took other measures, such as requesting assistance from outside CIO and arranging daily progress meetings with CIO Risk and the front office. By the end of March 2012, the SCP had breached two internal risk limits.

The Meeting

- 2.5 On 28 March 2012, Mr Macris attended a 'close and continuous' supervision meeting with the Authority at which CIO International, and the SCP specifically, were discussed (the 'Meeting'). During the meeting it was discussed that the book was being resized and that it was expensive in terms of risk capital and RWA, and CIO were in the process of deciding what to do with it. The Authority were updated on both positive and negative developments relating to the SCP, including that it had made a loss of \$200m, and that it had experienced rebalancing problems but was now balanced and did not require additional trading.

- 2.6 However, Mr Macris did not use the Meeting to provide the Authority with an update covering the full extent of the difficulties that the SCP was then facing. Even a high level and generalised indication from Mr Macris (as the SIF and senior Firm representative at the Meeting) that there were causes for concern with the SCP would have provided the Authority with the opportunity to follow up with questions about the nature of the concerns. This would also have provided leadership to other Firm staff participating in the Meeting to be open and cooperative in providing information in relation to their specific areas of expertise.
- 2.7 Some of the specific matters that Mr Macris could have drawn to the Authority's attention included that the SCP had breached its CSW10 risk limit during the first quarter of 2012, that no further trades were to be executed in respect of the SCP until a discussion had taken place and that Mr Macris was putting in place heightened measures to resolve the difficulties with respect to the SCP.
- 2.8 By this stage the size of the SCP's positions was capturing the attention of other market participants. After an article published in the Wall Street Journal on 6 April 2012, entitled "'London Whale' Rattles Debt Markets', drew attention to the size of those positions, the SCP recorded mark to market losses of \$412 million in a single day.
- 2.9 In addition to his knowledge of matters as at the time of the Meeting, prior to the Call (see below) Mr Macris was aware that the position of the SCP had worsened, its losses had increased and it had breached a further limit (its mark to market stress loss limit).

The Call

- 2.10 On 10 April 2012, Mr Macris attended a telephone call with the Authority which was set up at the Firm's request following the publication of articles about the 'London Whale' (the 'Call').
- 2.11 The Call provided a further opportunity for Mr Macris to inform the Authority of the causes for concern with the SCP and the heightened response being adopted to address them. Even a high level and generalised indication from Mr Macris that there were causes for concern with the SCP would have ensured that any reassurance provided to the Authority was done in a way which was balanced, measured and open (though the reassurance was primarily being given in relation to the issues in the article, this should not have been allowed to give the impression that there were not wider causes for concern with the SCP, beyond the difficulties of which the Authority was aware). It would have provided the Authority with the opportunity to follow up with questions about the nature of the concerns (and therefore form its own assessment of the

heightened measures that were being put in place to resolve the difficulties with respect to the SCP). It would have provided leadership to other Firm staff participating in the Call to be open and cooperative in providing information in relation to their specific areas of expertise.

- 2.12 Some of the specific matters that Mr Macris could have drawn to the Authority's attention, in addition to the matters of which he was aware at the time of the Meeting, included that the SCP had breached several limits, had suffered year-to-date reported losses of approximately \$610m, and was very likely to have suffered significant further losses by the end of the day of the Call itself, potentially pushing year-to-date losses to more than \$1 billion. Further, Mr Macris allowed the Authority to be told (inaccurately and without contradiction) that the SCP's VaR had been reduced from \$115 million in the first quarter of 2009 to \$58 million in April 2012, in part as a result of the IG9 positions in the SCP being used as a hedge, and that there had been no material change to the SCP since the Meeting. This was despite his knowledge of the significant further losses since that time, and that the reduction in VaR was due largely to a change in the VaR model.
- 2.13 Mr Macris remained responsible for managing the SCP until 29 April 2012. However, Mr Macris did not (before that date or afterwards) inform the Authority of the matters referred to above or correct the Authority's mistaken understanding of the SCP's position.
- 2.14 Mr Macris should have appreciated that, by failing to inform the Authority during the Meeting and the Call of the causes for concern with the SCP, the message delivered to the Authority was not an accurate reflection of the state of the SCP. Consequently, Mr Macris failed to deal with the Authority in an open and cooperative manner, thereby breaching Statement of Principle 4.

By the end of the Relevant Period, the SCP had a recorded year-to-date loss of over \$2 billion.

Conclusion

- 2.15 In light of the above, the Authority considers that Mr Macris' conduct fell below the standard expected of an approved person in his position. The Authority therefore imposes a financial penalty on Mr Macris in the amount of £792,900 pursuant to section 66 of the Act.
- 2.16 This action supports the Authority's strategic objective of ensuring that the relevant markets function well and its operational objective of protecting and enhancing the

integrity of the UK financial system (including its soundness and stability). Further, it is consistent with the importance placed by the Authority on the accountability of those in senior positions at authorised firms.

3. DEFINITIONS

3.1 In this Notice

“the Act” means the Financial Services and Markets Act 2000;

“the Authority” means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

“Basel III” means international banking standards on capital requirements issued by the Basel Committee on Banking Supervision in 2010;

“the Call” means the telephone call of 10 April 2012 between the Firm and the Authority;

“CIO” means the Chief Investment Office of JPMorgan Chase Bank, N.A.;

“CIO International” is a division of CIO headquartered in London;

“CIO Risk” means the market risk division within the Chief Investment Office;

“CRM” means comprehensive risk measure;

“CS01” is a risk metric measuring the effect, on a portfolio, of credit spreads widening (i.e. the cost of credit default protection rising) by one basis point;

“CSW10” is a risk metric measuring the effect, on a portfolio, of credit spreads widening by 10 per cent;

“DEPP” means the section of the Authority’s Handbook entitled ‘Decision Procedure and Penalties Manual’;

“EG” means the Authority’s ‘Enforcement Guide’;

“EMEA” means Europe, the Middle East and Africa;

“Finance” means the finance division within the Chief Investment Office;

“Firm” means JPMorgan Chase Bank, N.A.;

"Group" means J.P. Morgan Chase & Co;

"IG9" means the CDX.NA.IG.9 10 year index, created in 2007 and with a maturity of 10 years;

"jump-to-default" refers to the risk that a reference entity in a credit default swap, a credit default swap index, or a credit default swap tranche may default and create an obligation for the protection seller to compensate the protection buyer;

"mark to market" refers to accounting for the 'fair value' of an asset or liability based on the current market price, the price of similar assets or liabilities, or another objectively assessed 'fair value' as defined in the Financial Accounting Standards Board Statement of Financial Accounting Standards No.157 (to which the Firm was subject in the first quarter of 2012 and the Relevant Period);

"the Meeting" means the 'close and continuous' supervision meeting between the Firm and the Authority on 28 March 2012;

"P&L" means profit and loss;

"QR" means the Firm's Quantitative Research department;

"Relevant Period" means the period beginning with 28 March 2012 and ending with 29 April 2012;

"RWA" means risk weighted assets. In simple terms, RWA assesses the relative risk of a firm's assets. The RWA calculation weighs each asset according to the asset's risk in order to determine a firm's exposure to potential losses and, amongst other things, determines the minimum amount of capital a firm is required to hold under the relevant capital adequacy rules. The riskier a firm's assets, the more capital the firm will be required to hold to offset the potential loss;

"SAA" means the Strategic Asset Allocation group, a formal management forum within CIO which met weekly and of which Mr Macris was a member during the first quarter of 2012 and the Relevant Period;

"SCP" means the Synthetic Credit Portfolio, one of the portfolios within the remit of CIO International;

"SIF" means an individual approved by the Authority to hold a significant influence function;

“Statements of Principle” means the section of the Authority’s Handbook entitled ‘Statements of Principle and Code of Practice for Approved Persons’, and “Statement of Principle” is to be construed accordingly;

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber);

“VaR” means Value at Risk, a statistical measure used to estimate profit and loss movement ranges on a portfolio of assets. It represents an estimate of the maximum mark to market loss over a fixed time period, assuming historical market conditions and stated to a degree of confidence.

4. FACTS AND MATTERS

Relevant background

Achilles Macris

4.1 Mr Macris commenced employment with the Firm in January 2006 as Head of CIO International and held various controlled functions during the course of that employment. From 1 November 2007, and throughout the Relevant Period, Mr Macris was approved to perform CF29 (Significant Management) and CF30 (Customer) functions for various Group entities, including the Firm.

CIO

4.2 CIO was the division within the Firm responsible for managing the Firm’s excess deposits. It comprised CIO North America (headquartered in New York) and CIO International (headquartered in London). As Head of CIO International, Mr Macris was responsible for CIO’s activities outside of North America. The heads of each of those regions reported directly to him.

4.3 CIO managed 12 portfolios, six of which were within the remit of CIO International. Mr Macris was the portfolio manager for CIO’s Foreign Exchange Capital portfolio and had a strategic oversight role in relation to CIO International’s other five portfolios. The SCP was one of those five portfolios and traded synthetic credit instruments, in particular credit default swap indices and tranches. One of the indices the SCP traded significantly in 2012 was the IG9. Mr Macris did not have responsibility for the day to day oversight of the SCP.

4.4 The SCP was established in 2006 in order to counter CIO’s cyclical exposure to credit, which was identified as the single largest risk concentration from the operating businesses within CIO. In relation to the SCP, Mr Macris’ strategic oversight role included ensuring that CIO International’s objectives were implemented, that it adhered

to key risk metrics, and that any problems or potential solutions were highlighted during the weekly SAA meetings or to the Firm's senior management.

The Firm's/CIO International's reporting obligations

- 4.5 In addition to the Firm's regulatory obligation to maintain an open and cooperative relationship with the Authority, from 1 October 2010 CIO in London had been the subject of a more detailed supervisory relationship with the Authority (referred to by the Authority as a 'close and continuous' supervision regime). Mr Macris understood close and continuous supervision to mean that the Authority had identified the CIO function as an important function within the Firm and that the disclosure required from the Firm about CIO's activity would be more detailed and more frequent.
- 4.6 On 9 November 2010 the Authority advised the Firm in writing of particular matters relating to CIO about which it wished to be kept informed. Although not addressed to him, Mr Macris received a copy of the Authority's letter. The matters in relation to which the Authority said it wished to be kept informed included:
- (1) *'Any significant growth in assets or change in [CIO's] EMEA portfolios...'*
 - (2) *'[A]ny significant change in levels of risk appetite, or material change to portfolio mandates or risk limits allocated to CIO EMEA.'*
 - (3) *'[M]aterial changes to the portfolio or EMEA strategy.'*

The SCP's trading in the first quarter of 2012

- 4.7 In 2011, the Firm began preparing for changes to its capital requirements that would be brought about by the implementation of Basel III. The decision was taken that this would necessitate a reduction in RWA and that the bulk of that reduction should come from the SCP which, under Basel III, was a very capital intensive portfolio.
- 4.8 At about the same time, the Firm's senior management, Mr Macris and others within CIO were becoming more optimistic about the general direction of the global economy and formed a view that macroeconomic credit protection was becoming less necessary. As a result, in late 2011 CIO focused on both reducing the SCP's size and moving it to a more credit neutral position.
- 4.9 A decision was taken at that time that CIO would resume implementation of a strategy Mr Macris termed 'landing the plane', which had previously been employed by the SCP in the first half of 2011. This involved very gradually neutralising the SCP's risk profile, so that it would not make either great gains in adverse scenarios or great losses in recovery scenarios, with a view to unwinding it over a period of 18 to 24 months.

Accordingly, the SCP's 'profit target' for 2012 was set at \$30 million, i.e. a nominally (bearing in mind the size of the SCP) positive sum, but the SCP's focus was not on creating profit.

- 4.10 The SCP began to incur mark to market losses from the start of 2012. By 9 January 2012, its year-to-date losses were approximately \$31 million. The front office attributed the loss to certain of the SCP's positions being unwound opportunistically and, as a result, were instructed by the Firm's senior management to review their RWA reduction plan in order to ensure that the SCP's losses were minimised.
- 4.11 Notwithstanding that instruction, by 17 January 2012 the SCP's losses had reached approximately \$42 million. As a result, Mr Macris asked the front office to prepare a complete presentation about the SCP and an action plan.
- 4.12 On 18 January 2012, Mr Macris and other CIO staff participated in a meeting to discuss strategies for reducing the SCP's RWA. Of the various strategies discussed, the Firm's senior management indicated that the preferred strategy was one which involved the front office placing trades with a beneficial RWA marginal impact. This required the front office to have information about the marginal RWA effect of their trading. While the front office had their own models for calculating this effect, which they used in order to trade with a view to reducing RWA, these were different models to those used by QR in calculating the RWA of the firm as a whole (including CIO and the SCP). The front office could therefore not be certain that their trades would reduce RWA as ultimately determined by QR.
- 4.13 On 19 January 2012, the SCP suffered a loss of \$37 million as a result of a default event for which it did not have adequate protection, as some of its short risk positions had expired in December 2011 and had not been replaced in the expectation that the SCP would be unwound. The front office was directed to ensure that the SCP had jump-to-default protection (in respect of companies referenced in the SCP's synthetic credit positions).
- 4.14 Market conditions caused the SCP to continue to lose money and, by 26 January 2012, the SCP had lost approximately \$100 million and faced further potential losses.

Events leading up to the approval of the SCP's strategy

- 4.15 In a meeting on 26 January 2012 the front office presented to Mr Macris a proposed strategy for the SCP which involved—
- (1) ensuring the SCP was protected from defaults in the credit market by buying credit default protection (this involved adding short risk positions to the SCP);

- (2) adding positions which would better balance the SCP from a risk perspective, with a view to reducing its use of RWA; and
- (3) maintaining P&L neutrality (and credit risk balance) by selling credit default protection in different indices and tranches (this involved adding long risk positions to the SCP) to fund the costs associated with (1) and (2) above.

4.16 Each limb of the proposed strategy involved adding positions to the SCP. It involved selling protection on Investment Grade indices, particularly the IG9. Selling protection yielded upfront payments and earned periodic premiums, which helped offset the cost of buying protection on High Yield indices. There was a belief that this would also assist in balancing the SCP's risk within an RWA reduction plan. However, Mr Macris considered the strategy to be untested and complex.

4.17 Alongside details of the proposed strategy, the front office's presentation set out, amongst other things, that the SCP:

- (1) had suffered a year-to-date loss of approximately \$100 million; and
- (2) faced further potential losses of \$400 million.

Approval of the strategy

4.18 Upon seeing the presentation, Mr Macris realised that the front office had not been 'landing the plane' in respect of the SCP (as Mr Macris thought had been agreed) and had instead been (in his words) 'overtrading' in order to meet RWA objectives. Consequently, Mr Macris openly chastised members of the front office and said that he was not able to approve the proposed strategy on the basis that the foreshadowed losses were beyond his authority to approve. He instructed a senior member of the front office to discuss the proposed strategy with CIO Risk and to seek approval from the Firm's senior management.

4.19 On 3 February 2012, Mr Macris and other CIO staff participated in a meeting to discuss the SCP and the proposed strategy. Mr Macris expressed his opinion that, irrespective of its merits, the Firm did not need to pursue these proposals and that it would be appropriate to continue 'landing the plane'. However, Mr Macris considered that it was not a call for him to make as he did not have a sense of how important RWA reduction was for the Firm, and he therefore escalated the matter.

4.20 Notwithstanding Mr Macris' opinion, the Firm's senior management decided in the meeting to proceed with the strategy outlined in paragraph 4.15.

Implementation of the strategy

- 4.21 The trading strategy involved adding positions to the SCP and a consequential increase in the SCP's notional size. The SCP's notional size reflected the size of its positions, in that it represented the nominal value of CDS index and tranche contracts the SCP entered into with its counterparties. (By way of example, by April 2012 the SCP held approximately \$7.3 trillion of long risk positions and \$7.1 trillion of short risk positions - its overall notional size was therefore approximately \$14.4 trillion.) As a result of implementing the trading strategy, the monetary imbalance between the long risk and short risk positions in the SCP increased substantially during the first quarter of 2012. Some of the individual positions within the SCP were also increasing substantially at this time. As Mr Macris knew, during 2010 and 2011 the number of participants in the synthetic credit market had been shrinking and investment banks that had provided liquidity had started to cease or reduce their activity.
- 4.22 In order to implement the strategy, and balance its various aims, the SCP traders needed to buy a significant amount of High Yield protection. In order to balance this protection they calculated that they needed to sell substantially more (approximately five times as much) Investment Grade protection. This was intended to leave the SCP credit risk balanced (i.e. P&L neutral) although, due to the ratio involved, the book would be somewhat long in the sense of absolute amounts - there would be more funds invested in long risk positions than in short risk positions. This was intended to ensure that movements in credit spreads (i.e. mark to market prices) for the SCP's positions would not result in large gains or losses for the SCP (i.e. if the plan worked, the profit and loss on either side of the book would offset each other).
- 4.23 At the beginning of 2012, the SCP held credit index and tranche positions with an overall imbalance between long and short positions of approximately \$51 billion (long). By the end of January 2012, this had increased to \$67 billion (long).
- 4.24 Mr Macris received a number of indications during the first quarter of 2012, and the Relevant Period, that the SCP was not performing as intended. Those included the SCP suffering a number of losses in January 2012 (as set out above). Those signals continued after the trading strategy's implementation; for example by 22 February 2012, the SCP's reported year-to-date losses had reached \$164 million. The front office continued to add positions during February 2012.
- 4.25 Despite the increasing losses, and though CIO had not received any information from the Firm's QR division to indicate or confirm that the SCP's RWA had decreased, on 22 February 2012 Mr Macris was informed by the front office that the SCP's jump-to-default profile had improved and that the front office was in the process of reducing the

SCP's VaR and RWA. The Firm's senior management, who had also been informed of this by front office, considered this 'very good news', and Mr Macris concluded that the SCP's performance was improving.

- 4.26 By 1 March 2012, Mr Macris had identified that, if CIO had to liquidate rapidly (which it was not planning to do), it could result in large losses for the SCP. By 1 March 2012, the imbalance in the SCP had nearly doubled to \$94 billion (long).
- 4.27 On 8 March 2012, Mr Macris was informed by the Firm's QR division that a particular component of the SCP's RWA, CRM, had approximately doubled from \$3.1 billion to \$6.3 billion as a result of a \$33 billion increase in the SCP's long risk between 18 January and 22 February 2012. This might have indicated that the trading strategy aim of reducing RWA was not proving successful, though the increase was disputed by others in the Firm, so the position was unclear. By this time, the SCP's long risk had almost doubled in size since the beginning of 2012 and the SCP had incurred reported year-to-date losses of approximately \$175 million.
- 4.28 On 21 March 2012, Mr Macris attended a meeting with the Firm's senior management to discuss the increase in the SCP's RWA. Neither the Firm's senior management nor Mr Macris were informed during the meeting that, since 7 March 2012, the SCP's long risk had increased by more than \$40 billion, which would cause a further increase in the SCP's overall RWA of approximately \$6-7 billion. Mr Macris' understanding at the time was that the SCP's long risk would be slightly increasing as a result of activity around what was known as 'the roll' (the week during which certain index series would roll into a new contract).
- 4.29 On 22 March 2012, the SCP breached its CSW10 limit of \$200 million (having reached \$263 million). This meant that if credit spreads widened by 10%, the SCP stood to lose \$263 million (because the SCP was positioned net long risk).
- 4.30 Upon discovering the increase referred to in paragraph 4.28 on 23 March 2012, the Firm's senior management became concerned. Their instruction was that no further trades should be executed on the SCP until discussions had taken place concerning the RWA reduction plan, although a small amount of continued trading to refine the SCP's long risk positions was permitted. The traders understood the instruction to relate primarily to the IG9 in which most of the recent trading had taken place. In any event, such trading had at that time concluded, as sufficient amounts of IG9 protection had been sold to balance the book's risk from the traders' perspective. By that point in time, the SCP was \$148.2 billion net long (almost tripling the size of its net long position

since the beginning of the year) and had also suffered reported year-to-date losses of \$234 million.

Developments prior to the Meeting

- 4.31 Though the SCP had largely stopped trading since 23 March 2012, the SCP's condition continued to deteriorate due to market movements.
- 4.32 By the time of the Meeting on 28 March 2012, Mr Macris was aware that the SCP:
- (1) had incurred year-to-date losses of approximately \$289.9 million, even though it was intended to be P&L neutral;
 - (2) had a net long position of at least \$131 billion (compared to the \$51 billion it had been at the start of the year), even though its deteriorating P&L (brought about by underperforming long positions) suggested it had a short risk bias, despite the intention to for it to be P&L neutral;
 - (3) had contributed significantly to multiple VaR breaches in January 2012 (although the breaches had ceased upon the introduction of a new model which substantially reduced the SCP's VaR);
 - (4) had been in breach of its CS01 limit since 6 January 2012 (although CS01 was not seen as a reliable metric within the Firm);
 - (5) had been in breach of its CSW10 limit by approximately \$42 million to \$72 million since 22 March 2012;
 - (6) had, despite its RWA reduction objective, increased its use of RWA over the course of the first quarter of 2012 and that, as at 21 March 2012, there had been a net increase of \$11 billion since RWA figures were last reported; and
 - (7) was, since 23 March 2012, to execute no further trades until discussions had taken place concerning the RWA reduction plan.
- 4.33 Further, Mr Macris had discussed the SCP by telephone with the Firm's senior management on 27 March 2012, informing them that he had put in place additional measures with respect to the management of the SCP, such as having daily meetings and was *'putting [the SCP] into a kind of crisis mode with specific objectives'*.
- 4.34 As discussed further in paragraph 4.40 below, Mr Macris subsequently instructed CIO Risk to begin producing daily risk reports for the SCP and in the following days took

other measures, such as requesting assistance from outside CIO and arranging daily progress meetings with CIO Risk and the front office.

The Meeting

- 4.35 The Meeting (which was a scheduled 'close and continuous' supervision meeting attended by the Authority, Mr Macris and other CIO personnel) took place on 28 March 2012. Mr Macris was the Firm's most senior representative at the Meeting (and a SIF). During the Meeting, the SCP was discussed briefly as part of a dialogue regarding CIO's London business as a whole.
- 4.36 During the meeting it was discussed that the book was being resized and that it was expensive in terms of risk capital and RWA, and CIO were in the process of deciding what to do with it. The Authority was updated on both positive and negative developments relating to the SCP, including that it had made a loss of \$200m, and that it had experienced rebalancing problems but was now balanced and did not require additional trading.
- 4.37 However, Mr Macris did not use the Meeting to provide the Authority with an update covering the full extent of the difficulties that the SCP was then facing. Even a high level and generalised indication from Mr Macris (as the SIF and senior Firm representative at the Meeting) that there were causes for concern with the SCP would have provided the Authority with the opportunity to follow up with questions about the nature of the concerns. This would have provided leadership to other Firm staff participating in the Meeting to be open and cooperative in providing information in relation to their specific areas of expertise.
- 4.38 Some of the specific matters that Mr Macris could have drawn to the Authority's attention included that the SCP had breached its CSW10 risk limit during the first quarter of 2012, that no further trades were to be executed in respect of the SCP until the RWA reduction plan had been discussed and that Mr Macris was putting in place heightened measures to resolve the difficulties with respect to the SCP.
- 4.39 Notwithstanding his knowledge of the SCP's difficulties and the specific matters set out in paragraph 4.32 above, Mr Macris did not take steps to ensure that the Authority understood that there were causes for concern with the SCP.

Developments after the Meeting

- 4.40 On 30 March 2012, Mr Macris noted, in an email copied to the Firm's senior management, the failure 'in targeting RWA' and requested urgent help. He described the background to his request by noting that the SCP was not performing in accordance

with the Firm's aims and noting that due to the size of the book, the Firm's market manoeuvrability was limited. He continued to implement a heightened response to resolving the issues with the SCP. To address the position, Mr Macris sought assistance from those he considered to be experts within the Firm, and required additional detailed reporting and scenario analysis, and daily crisis team meetings. Mr Macris also shared with CIO Risk several ideas connected with unwinding the SCP's positions.

- 4.41 On 6 April 2012 (Good Friday), an article published in the Wall Street Journal ("*London Whale*" *Rattles Debt Market*) drew attention to the size of the SCP's positions in the IG9. On 10 April 2012, the first trading day in London after the article appeared, the Firm instigated a call with the Authority due to the article and related press reports stating that CIO was holding a substantial net long position of around \$100 billion in the IG9.
- 4.42 That day, 10 April 2012, was marked by significant activity across the Firm and it was a demanding day for all those involved with the SCP, including Mr Macris. In particular, front office and CIO Risk staff carried out substantial work to understand and manage the market impact of the press reports with the expectation that it would be a difficult day.
- 4.43 Recognising the need to explain the press reports to external stakeholders (including regulators), there were also various discussions within the Firm about what information the Firm should share and the need to ensure a consistent message. Those discussions, in which Mr Macris and other senior managers were involved, resulted in a set of speaking points being developed and shared within CIO, Corporate Communications and Compliance. The speaking points were intended to reassure recipients that the 'London Whale' press reports were inaccurate.
- 4.44 Those speaking points represented, in tone and content, the Firm's co-ordinated public position and were the foundation for the discussion that took place during the Call. In particular, the speaking points were incorporated into an email sent to the Authority explaining the background to the Call.
- 4.45 By the time of the Call, Mr Macris knew each of the matters at paragraph 4.32 above. Additionally, he knew that the SCP:
- (1) held a substantial long position in the IG9 (one estimate Mr Macris had been given indicated the SCP's positions could amount to around 20% of the total IG9 market), and the SCP's market manoeuvrability was limited;

- (2) had a net long position of \$153 billion (compared to the \$51 billion it had been at the start of the year), even though its deteriorating P&L (brought about by underperforming long positions) suggested it had a short risk bias, despite the intention to for it to be P&L neutral;
- (3) had breached its mark to market stress loss limit (i.e. the amount it was permitted to lose under adverse market conditions) by \$358 million (72%). Mr Macris was notified of this breach by email on 4 April 2012 (though he was also told that a new limit would take effect shortly and that a request would be made for a one-off limit increase, and therefore it was not believed that immediate action was required);
- (4) had lost nearly \$538 million in March 2012, and as at 9 April 2012 had suffered year-to-date reported losses of approximately \$610 million, even though it was intended to be P&L neutral. Mr Macris received an email on 10 April 2012 providing him with the updated loss figure and, prior to the call, had forwarded P&L figures to the front office asking *'When do you expect that we will stop loosing [sic] money every day?'*;
- (5) would suffer significant losses on 10 April. Mr Macris expected the SCP to incur a loss of at least \$100 million and possibly as high as \$700 million that day which, together with the information he already knew, could potentially push year-to-date losses to more than \$1 billion; and
- (6) was not performing in accordance with the Firm's aims and had necessitated a heightened response to address its difficulties, including daily team meetings and drawing in additional expertise from across the Firm.

The Call

- 4.46 The Call with the Authority took place on 10 April 2012 at around 5 p.m. and lasted for approximately 20 minutes. It was led by Mr Macris, who was joined by representatives from Finance, CIO Risk and Compliance. The Call was set up at the Firm's instigation to try to correct any inaccurate impression that may have been given by the 'London Whale' articles as regards the SCP's IG9 long positions.
- 4.47 The Call provided a further opportunity for Mr Macris to inform the Authority of the causes for concern with the SCP and the heightened response being adopted to address them. Even a high level and generalised indication from Mr Macris that there were causes for concern with the SCP would have ensured that any reassurance provided to the Authority was done in a way which was balanced, measured and open (though the

reassurance was primarily being given in relation to the issues in the article, this should not have been allowed to give the impression that there were not wider causes for concern with the SCP, beyond the difficulties of which the Authority was aware). It would have provided the Authority with the opportunity to follow up with questions about the nature of the concerns (and therefore form its own assessment of the heightened measures that were being put in place to resolve the difficulties with respect to the SCP). It would have provided leadership to other Firm staff participating in the Call to be open and cooperative in providing information in relation to their specific areas of expertise.

4.48 Some of the specific matters that Mr Macris could have drawn to the Authority's attention, in addition to the matters of which he was aware at the time of the Meeting, included that the SCP had breached several limits, had suffered year-to-date reported losses of approximately \$610m, and would suffer significant further losses on the day of the Call itself, potentially pushing year-to-date losses to more than \$1 billion. Further, Mr Macris allowed the Authority to be told (inaccurately and without contradiction) that the SCP's VaR had been reduced from \$115 million in the first quarter of 2009 to \$58 million in April 2012, in part as a result of the IG9 positions in the SCP being used as a hedge, and that there had been no material change to the SCP since the Meeting. This was despite his knowledge of the significant further losses since that time, and that the reduction in VaR was due largely to a change in the VaR model.

4.49 Further, the Authority was told that:

- (1) the SCP's VaR had been reduced from \$115 million in the first quarter of 2009 to \$58 million in April 2012, in part as a result of the IG9 positions in the SCP being used as a hedge.

In fact, Mr Macris knew, but did not tell the Authority, that the reduction in VaR was due largely to the VaR model change (thereby giving the reassuring impression that the SCP's risk had reduced);

- (2) there had been no material change to the SCP since the Meeting (on 28 March 2012).

In fact, Mr Macris knew, but did not tell the Authority, that the loss estimate provided in the Meeting (of approximately \$221 million) was materially inaccurate and that the SCP's actual year-to-date loss, as at the end of March 2012, was at least \$600m. Mr Macris also understood that the SCP was expected to lose a significant amount of money that day (which could have the

effect of pushing its year-to-date loss to over \$1 billion), but did not tell the Authority this.

Duration of Mr Macris' responsibility for the SCP

- 4.50 Mr Macris remained responsible for managing the SCP until 29 April 2012. However, Mr Macris did not (before that date or afterwards) inform the Authority of the matters referred to above or correct the Authority's mistaken understanding of the SCP's position.
- 4.51 On 12 July 2012, Mr Macris' employment was terminated by the Firm.

5. FAILINGS

- 5.1 The regulatory provisions relevant to this Final Notice are referred to in Annex A.
- 5.2 Statement of Principle 4 states that an approved person must deal with the Authority in an open and cooperative way and must disclose appropriately any information of which the Authority would reasonably expect notice.
- 5.3 In not informing the Authority (whether himself or by ensuring others did so), either at the Meeting (or afterwards), or during the Call (or afterwards), about the causes for concern with the SCP, Mr Macris failed to be open and cooperative with the Authority, by omitting to provide it with information of which it would reasonably expect notice. As a result, he failed to meet the standard expected of an approved person (and a responsible SIF) under Statement of Principle 4.
- 5.4 During the Meeting, Mr Macris should have provided the Authority with a clear and open indication of the causes for concern with the SCP (notwithstanding that this 'close and continuous' supervision meeting was to consider CIO International's business as a whole). At the very least, this should have been through a high level and generalised indication. The Authority would reasonably have expected to receive such an indication, either: (1) together with details of some of the specific difficulties faced by the SCP (which could have been provided by referring to a number of specific matters or issues, including some or all of the following: the fact that the SCP had breached its CSW10 risk limit as of late March 2012; that no further trades were to be executed in respect of the SCP until the RWA reduction plan had been discussed; that Mr Macris was putting in place heightened measures to resolve the difficulties with respect to the SCP), or (2) sufficiently emphasised that the Authority could have appreciated the seriousness of the situation and elicited such details itself.

- 5.5 In respect of the Call, the Authority recognises that it was arranged for a specific purpose, took place on a difficult day for all concerned with the SCP at the Firm and was of short duration. However, the Call related only to the SCP, was instigated by the Firm and provided Mr Macris with a further opportunity to provide a clear and open indication of the causes for concern with the SCP. At the very least, a high level and generalised indication should have been provided. Instead Mr Macris allowed the Authority to be reassured concerning the position of the SCP. When firms contact the Authority on their own initiative to raise difficulties and provide reassurance, the Authority reasonably expects concerns with significant areas of firms' businesses to be explained in a balanced and open way, so as to enable the Authority to form its own assessment of the position.
- 5.6 Timely and proactive communication with the Authority is of fundamental importance to the proper functioning of the regulatory system. Only when communications are open, and reassurance is balanced, is the Authority able to form its own assessment of difficulties faced by firms. Mr Macris' failings in this regard were serious, particularly in view of (a) his seniority within the Firm (including as SIF with strategic oversight of the SCP) and (b) his involvement in and awareness of the Authority's close and continuous supervisory relationship with CIO International.

6. SANCTION

- 6.1 The Authority's policy for imposing a financial penalty is set out in Chapter 6 of the Authority's Decision Procedure and Penalties Manual. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five step framework to determine the appropriate level of financial penalty. DEPP 6.5B sets out the details of the five step framework that applies in respect of financial penalties imposed on individuals in non-market abuse cases.
- 6.2 The Authority has applied the five-step framework for financial penalties set out above to Mr Macris' breach of Statement of Principle 4.

Step 1: Disgorgement

- 6.3 The Authority has not identified any financial benefit that Mr Macris derived directly from the breach.
- 6.4 Step 1 is therefore £0.

Step 2: Seriousness of the breach

- 6.5 Pursuant to DEPP 6.5B.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. That figure is based on a percentage of the individual's relevant income. The individual's relevant income is the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred, and for the period of the breach.
- 6.6 The period of Mr Macris' breach of Statement of Principle 4 was from 28 March 2012 to 29 April 2012. As the breach lasted less than a year, Mr Macris' relevant income will be the gross amount received during the 12 months preceding the end of the breach; that is, during the period 30 April 2011 to 29 April 2012 (DEPP 6.5B.2G(2)). The Authority considers Mr Macris' relevant income to be £6,293,041.
- 6.7 DEPP 6.5B.2G(13) lists factors likely to be considered 'level 1 factors', 'level 2 factors' or 'level 3 factors'. Of these, the Authority considers it relevant that:
- (1) Mr Macris' breach was committed negligently (DEPP 6.5B.2G(13)(d)). Mr Macris' failings were serious in not providing the Authority with, at the very least, a high level and generalised indication of causes for concern pertaining to the SCP, whether during the Meeting, during the Call or at any other point during the Relevant Period.
- 6.8 The Authority has also taken into consideration the following factors which are relevant to the impact and nature of the breach:
- (1) *The nature of the rules, requirements or provisions breached* (DEPP 6.5B.2G(9)(a)): Failure to be open with the Authority and to disclose properly matters of which the Authority would expect notice undermines the Authority's ability to effectively supervise the markets and to meet its objectives.
 - (2) *The frequency of the breach* (DEPP 6.5B.2G(9)(b)): Mr Macris failed to inform the Authority of the SCP's difficulties, whether during the Meeting, during the Call or at any other point during the Relevant Period.
 - (3) Mr Macris was an experienced industry professional (DEPP 6.5B.2G(9)(j)) and held a senior position within the Firm (DEPP 6.5B.2G(9)(k)).
- 6.9 Taking all of these factors into account the Authority considers the seriousness of the breach to be level 3 and so the Step 2 figure is 20% of £6,293,041.
- 6.10 Step 2 is therefore £1,258,608.

Step 3: Mitigating and aggravating factors

- 6.11 The Authority has not identified any factors that aggravated the breach.
- 6.12 The Authority has also taken into account the Firm's clawback of Mr Macris' benefits upon termination of his employment, which he did not contest (DEPP 6.5B.3G(d)), and considers this as a mitigating factor in this case.
- 6.13 Having taking into account the factor above, the Authority considers that the Step 2 figure should be decreased by 10%.
- 6.14 Step 3 is therefore £1,132,747.

Step 4: Adjustment for deterrence

- 6.15 The Authority considers the Step 3 figure of £1,132,747 to be a sufficient deterrent to Mr Macris and others and does not propose to increase the penalty at Step 4.
- 6.16 Step 4 is therefore £ 1,132,747.

Step 5: Settlement discount

- 6.17 Pursuant to DEPP 6.5B.5G, if the Authority and the individual on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the individual reached agreement. Although settlement in this case was reached during Stage 2 which would usually lead to a 20% discount (see DEPP 6.7.3G), DEPP 6.7.4(4)G provides that in exceptional cases the Authority may accept that there has been a substantial change in the nature or seriousness of the action being taken and that an agreement would have been possible at an earlier stage if the action had commenced on a different footing. The Authority and Mr Macris therefore agreed that an additional 10% discount is appropriate.
- 6.18 Thus the Authority and Mr Macris agreed that in total a 30% discount applies to the Step 4 figure.
- 6.19 Step 5 is therefore £792,900.

Penalty

- 6.20 The Authority therefore imposes a total financial penalty of £792,900 on Mr Macris for his breach of Statement of Principle 4.

7. PROCEDURAL MATTERS

Decision maker

7.1 The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

7.2 This Final Notice is given under, and in accordance with section 390 of the Act.

Manner of and time for Payment

7.3 The financial penalty must be paid in full by Mr Macris to the Authority by no later than 23 February 2016, 14 days from the date of this Final Notice.

If the financial penalty is not paid

7.4 If all or any of the financial penalty is outstanding on 24 February 2016, the Authority may recover the outstanding amount as a debt owed by Mr Macris and due to the Authority.

Publicity

7.5 Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.6 The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.7 For more information concerning this matter generally, contact Laura Dawes (direct line: 020 7066 1994) of the Enforcement and Market Oversight Division of the Authority.

Guy Wilkes

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

1. RELEVANT STATUTORY PROVISIONS

- 1.1 The Authority's operational objectives established in section 1B of the Act include the strategic objective to ensure that the relevant markets function well and the operational objective to protect and enhance the integrity of the UK financial system.
- 1.2 Section 66 of the Act provides that the Authority may take action against a person if it appears to the Authority that he is guilty of misconduct and the Authority is satisfied that it is appropriate in all the circumstances to take action against him. A person is guilty of misconduct if, while an approved person, he has failed to comply with a Statement of Principle issued under section 64 of the Act, or has been knowingly concerned in a contravention by a relevant authorised person of a relevant requirement imposed on that authorised person.

2. RELEVANT REGULATORY PROVISIONS

- 2.1 The Authority's Statements of Principle and Code of Practice for Approved Persons have been issued under section 64 of the Act.
- 2.2 During the Relevant Period, Statement of Principle 4 stated:

'An approved person must deal with the [Authority] and with other regulators in an open and cooperative way and must disclose appropriately any information of which the [Authority] would reasonably expect notice.'
- 2.3 The Code of Practice for Approved Persons sets out descriptions of conduct which, in the opinion of the Authority, does not comply with a Statement of Principle. It also sets out factors which, in the Authority's opinion, are to be taken into account in determining whether an approved person's conduct complies with a Statement of Principle.

Relevant Handbook Provisions

Decision Procedure and Penalties Manual ('DEPP')

- 2.4 In exercising its power to issue a financial penalty, the Authority must have regard to the relevant provisions in the Handbook of rules and guidance (the 'Handbook').
- 2.5 Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.