

NEWS RELEASE

# Luther Strange

Alabama Attorney General



FOR IMMEDIATE RELEASE

July 8, 2011

For More Information, contact:

Joy Patterson (334) 242-7491

Suzanne Webb (334) 242-7351

Page 1 of 2

## AG ANNOUNCES \$92 MILLION MULTI-STATE SETTLEMENT WITH JPMC OVER ANTICOMPETITIVE MUNICIPAL BOND DERIVATIVES SCHEME

(MONTGOMERY)--Attorney General Luther Strange announced a \$92 million multi-state settlement with JP Morgan Chase & Co. ("JPMC") as part of an ongoing nationwide investigation of alleged anticompetitive and fraudulent conduct in the municipal bond derivatives industry.

As part of the multistate settlement, JPMC has agreed to pay \$65.5 million in restitution to affected state agencies, municipalities, school districts and not-for-profit entities nationwide that entered into municipal derivative contracts with JPMC between 2001 and 2005. In addition, JPMC agreed to pay a \$3.5 million civil penalty and \$6 million in fees and costs of the investigation to the settling states.

This settlement creates a fund that will be operated by a claims administrator, as with previous settlements reached with Bank of America and UBS AG, a multinational Swiss bank. The claims administrator will notify harmed entities that are eligible to opt-in to the settlement. Participation in the settlement is not mandatory or binding upon any party that chooses not to join. The states' recoveries will not be known with accuracy until eligibility criteria are verified and eligible entities choose to participate in the restitution fund.

This settlement is not related and has no impact on current negotiations involving the Jefferson County sewer system crisis.

The settlement also provides that JPMC will pay \$17 million in restitution directly to certain other government and not-for-profit entities as part of separate agreements it entered into today with the U.S. Securities and Exchange Commission and the Office of the Comptroller of the Currency.

The states, SEC and OCC settlements are distinct components of a coordinated global \$228 million settlement that JPMC entered into today. JPMC also reached agreement with the U.S. Department of Justice's Antitrust Division, the Internal Revenue Service and the Federal Reserve Board. JPMC is the third financial institution to settle with a multistate working group in the ongoing municipal bond derivatives investigation following Bank of America and UBS AG. To date, the state working group has obtained settlements worth close to \$250 million.



501 Washington Avenue • Montgomery, AL 36104 • (334) 242-7300  
[www.ago.alabama.gov](http://www.ago.alabama.gov)

“I am pleased that this settlement will make compensation available to Alabama entities that were harmed,” said Attorney General Strange. “I appreciate the leadership and diligent work of those involved and commend our Antitrust Chief James Steinwinder for leading Alabama’s four -year investigation and negotiation of the settlement on behalf of the State of Alabama. This settlement was reached with the cooperation of JPMC in our ongoing investigation of bid rigging in municipal bond derivatives.”

Municipal bond derivatives are contracts that tax-exempt issuers use to reinvest proceeds of bond sales until the funds are needed, or to hedge interest-rate risk. In April 2008, the states began investigating allegations that certain large financial institutions, including national banks and insurance companies, and certain brokers and swap advisors, engaged in various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the municipal bond derivatives market.

The investigation, which is still ongoing, revealed collusive and deceptive conduct involving individuals at JPMC and other financial institutions, and certain brokers with whom they had working relationships. The wrongful conduct took the form of bid-rigging, submission of non-competitive courtesy bids and submission of fraudulent certifications of compliance to government agencies, among others, in contravention of U.S. Treasury regulations.

Regardless of the means used to carry out the various schemes, the objective was to enrich the financial institution and/or the broker at the expense of the issuer - - and ultimately taxpayers - - depriving the issuer of a competitive, transparent marketplace. As a result of such wrongful conduct, state, city, local, and not-for-profit entities entered into municipal derivatives contracts on less advantageous terms than they would have otherwise.

Similar settlements were reached previously with Bank of America in December of 2010 and with UBS-AG in March of 2011.