

Problem set 2
266: Fi. Markets and Institutions
Spring 2017
Jon Faust

Directions. You are to do this problem set alone.

Due Date/time. Your work is due by beginning of class on the date marked on the syllabus. As in *real life*, those who violate this largely arbitrary cutoff will face some penalty.

Questions. If you have questions, email me or one of the TAs, raise them in class, or come to office hours.

Grading. All parts have equal value.

Note: Be sure to note the proper units (e.g., millions, billions, etc.) in the following answers.

Please pay attention: We have divided up two of the questions below such that certain folks are assigned the even numbered parts and others are assigned the odd numbered parts. As you'll see, this allows us to cover more cheats, screw ups, and scandals in total.

1 Reading a 10-k report.

Obtain the latest 10-k report for JPMorgan Chase (covering 2015). Directions: i) go to <http://www.sec.gov/>, ii) Under 'filings' in the top bar, choose 'Company Filings Search', bbb iii) In the Fast Search box, put JPM and search; iv) in the Filing Type box put 10-k and hit search; v) Under the Format heading, select Documents; click on the Form 10-K.)

Hint: If the question has a phrase in 'single quotes,' searching for this phrase, perhaps repeatedly, in the 10-k will generally get you to the answer.

1.1 Briefly explain the regulations known as the 'U.S. LCR' and the 'Basel NSFR' and their purpose.

1.2 What are HQLAs?

1.3 How has JPM stock performed relative to the indices examined in the 'FIVE-YEAR STOCK PERFORMANCE' table and chart (we are not looking for values, just relative position)?

1.4 What does JPM report as the its 'Tier 1 capital ratio' for each of the last 5 years?

1.5 What is the 'IRM function' and what role does it play at JPM?

1.6 What does JPM report as the value of 'Return on common equity (ROE)' for each of the last 5 years?

2 Value at Risk (VaR). (Hint: read the VaR, 'value-at-risk,' discussion in the JPM 10-k.)

2.1 If a firm says that its 1-day 95 percent value at risk is \$100 million, what does this mean?

2.2 According to the JPM 10-k examined above, on how many trading days in 2016 did trading losses exceed the 95 percent one-day VaR computed by the firm?

2.3 What were the largest daily market risk-related gains and losses reported in 2016? (Report both gains and losses. Read the values off the figure provided.)

3 Screwing up. I think it is fair to say that each of the examples below involve folks in the financial industry screwing up, often in grand fashion. Of course, most forms of screwing up are not illegal nor are they even actionable in civil courts. Still these are each, I suspect, the kind of thing that it is management wishes had not happened.

Provide a brief answer to each of the following. You should be able to find these answers easily using standard web search tools.

Note: If your last name begins with A–J, do the even numbered parts. Otherwise to the odd.

3.1 What market did Overend, Gurney, and Company develop and dominate? How did they go broke?

3.2 What market did Drexel Burnham Lambert help develop and then dominate? What scandal played a large role in Drexel's downfall?

3.3 What was Barings Bank and why did it fail?

3.4 What is HSBC? How did it aid drug cartels? (hint: google HSBC drug cartels)

3.5 What is BNP Paribas? To what criminal charge did that firm recently plead guilty?

3.6 What alleged fraud led Goldman Sachs to pay a fine of over \$500 million? And who was the 'Fabulous Fab.'?

3.7 Explain the recent Wells Fargo fake accounts scandal. How did Wells Fargo create an incentive for this bad behavior?

3.8 It was recently reported that the Federal Reserve is considering legal action against the ‘London Whale.’ What did the whale do that might warrant this and what action is reportedly being contemplated?

4 Running a *fair* and *competitive* market is hard.

Note: If your last name begins with A–J, do the even numbered parts. Otherwise to the odd.

4.1 Briefly explain the Salomon Brother’s Treasury auction scandal.

4.2 Briefly explain the NASDAQ collusion case of the mid-1990s. (Hint: google NASDAQ collusion) What was the settlement? b

4.3 What is the LIBOR rate? Briefly explain the LIBOR fixing scandal. Name 3 firms involved. (Hint: google LIBOR scandal)

4.4 Explain the foreign exchange price fixing scandal? Name 3 firms involved. (Hint: google FOREX scandal)

4.5 Briefly explain what a 'dark pool' is. Why were Barclay's and Credit Suisse recently fined regarding their dark pools?

4.6 Michael Lewis wrote a book called Flash Boys. Sketch the alleged manner in which U.S. markets were exploited. (Hint: google flash boys)

5 Troubled asset relief program (TARP). TARP was enacted with the goal of stabilizing the economy at the height of the crisis. TARP has been extremely controversial with traditional liberals criticizing it as a handout to corporate fat cats and free market conservatives criticizing the government's unwillingness to let market forces punish banks. Supporters often take the position that TARP was the lesser of the evils on the table at the time—that some rapid and large government action, distasteful as it would be, was needed to reduce the risk of a Great-Depression-style collapse. Reasonable people disagree on these issues and you should form your own opinion.

This question focusses mainly on some of the facts.

5.1 What financial claims did the government receive in return for the TARP payments that were given out?

5.2 How much did the government make or lose on the TARP program on net after the claims were unwound? (That is, direct financial gains or losses. This does not count any indirect economic benefits or cost of the program. Estimates vary a bit on this. If you are concerned, just indicate your source.)