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JPMorgan's Investment Bank in Hong Kong Agrees to Pay \$72 Million Penalty for Corrupt Hiring Scheme in China

JPMorgan Securities (Asia Pacific) Limited (JPMorgan APAC), a Hong Kong-based subsidiary of multinational bank JPMorgan Chase & Co. (JPMC), agreed to pay a \$72 million penalty for its role in a scheme to corruptly gain advantages in winning banking deals by awarding prestigious jobs to relatives and friends of Chinese government officials.

Assistant Attorney General Leslie R. Caldwell of the Criminal Division, U.S. Attorney Robert L. Capers of the Eastern District of New York and Assistant Director in Charge William F. Sweeney Jr. of the FBI's New York Field Office made the announcement.

"The so-called Sons and Daughters Program was nothing more than bribery by another name," said Assistant Attorney General Caldwell. "Awarding prestigious employment opportunities to unqualified individuals in order to influence government officials is corruption, plain and simple. This case demonstrates the Criminal Division's commitment to uncovering corruption no matter the form of the scheme."

"U.S. businesses cannot lawfully seek to gain a business advantage by corruptly influencing foreign government officials," said U.S. Attorney Capers. "The common refrain that this is simply how business is done overseas is no defense. In this case, JPMorgan employees designed a program to hire otherwise unqualified candidates for prestigious investment banking jobs solely because these candidates were referred to the bank by officials in positions to award business to the bank. In certain instances, referred candidates were hired with the understanding that the hiring was linked to the award of specific business. This is no longer business as usual; it is corruption."

"Creating a barter system in which jobs are awarded to applicants in exchange for lucrative business deals is a corrupt scheme in and of itself," said Assistant Director in Charge Sweeney. "But when foreign officials are among those involved in the bribe, the international free market system and our national security are among the major threats we face. Those engaging in these illegal acts abroad may think they're out of sight and out of mind, but they're wrong. The FBI has recently established three dedicated international corruption squads to combat this type of *quid pro quo*, and we'll use all resources at our disposal to uncover and put an end to these crimes."

According to JPMorgan APAC's admissions, beginning in 2006, senior Hong Kong-based investment bankers set up and used a "client referral program," also referred to as the "Sons and Daughters Program," to hire candidates referred by clients and government officials. The Sons and Daughters Program was used as a means to influence those same officials to award investment deals to JPMorgan APAC. By late 2009, JPMorgan APAC executives and senior bankers revamped the client referral program to improve its efficacy by prioritizing those hires linked to upcoming client transactions. In order to be hired, a referred candidate had to have a "directly attributable linkage to business opportunity."

According to admissions made in connection with the resolution, these *quid pro quo* arrangements were discussed internally among JPMorgan APAC bankers. For example, in late 2009, a Chinese government official communicated to a senior JPMorgan APAC banker that hiring a referred candidate would significantly influence the role JPMorgan APAC would receive in an upcoming initial public offering (IPO) for a Chinese state-owned company. The banker communicated this message to several senior colleagues, who then spent several months trying to place the referred

candidate in an investment banking position in New York. Despite learning from personnel in New York that this referred candidate was not qualified for an investment banking position, senior JPMorgan APAC bankers created a new position for the candidate in New York, and JPMorgan APAC thereafter obtained a leading role in the IPO. Further, JPMorgan APAC employees misused compliance questionnaires to justify and paper over corrupt business arrangements. Employees also used a template with pre-filled answers, including that there was “no expected benefit” from the hire, and compliance personnel drafted and modified questionnaires that failed to state the true purpose of the hire.

JPMorgan APAC further admitted that candidates hired during the scheme were typically given the same titles and paid the same amount as entry-level investment bankers, despite the fact that many of these hires performed ancillary work such as proofreading and provided little real value to any deliverable product.

The corrupt scheme netted JPMorgan APAC at least \$35 million in profits from business mandates with Chinese state-owned companies.

JPMorgan APAC entered into a non-prosecution agreement and agreed to pay a criminal penalty of \$72 million to resolve the matter. As part of the agreement, JPMorgan APAC has agreed to continue to cooperate with the department in any ongoing investigations and prosecutions relating to the conduct, including of individuals, to enhance its compliance program, and to report to the department on the implementation of its enhanced compliance program.

The department reached this resolution based on a number of factors, including that JPMorgan APAC did not voluntarily and timely disclose the conduct at issue. However, JPMorgan APAC did receive full credit for its and JPMC’s cooperation with the criminal investigation, including conducting a thorough internal investigation, making foreign-based employees available for interviews in the United States and producing documents to the government from foreign countries in ways that did not implicate foreign data privacy laws. JPMorgan APAC also took significant employment action against six employees who participated in the misconduct resulting in their departure from the bank, and it disciplined an additional 23 employees who, although not involved in the misconduct, failed to effectively detect the misconduct or supervise those engaged in it. JPMorgan APAC imposed more than \$18.3 million in financial sanctions on former or current employees in connection with the remediation efforts. Based on these actions and other considerations, the company received a non-prosecution agreement and an aggregate discount of 25 percent off of the bottom of the U.S. Sentencing Guidelines fine range.

In related proceedings, the U.S. Securities and Exchange Commission (SEC) filed a cease and desist order against JPMC, whereby JPMC agreed to pay \$130.5 million in disgorgement to the SEC, including prejudgment interest. The Federal Reserve System’s Board of Governors also issued a consent cease-and-desist order and assessed a \$61.9 million civil penalty. Thus, the combined U.S. criminal and regulatory penalties paid by JPMC and its Hong Kong subsidiary are approximately \$264.4 million.

The FBI’s New York Field Office investigated the case. The department appreciates the significant cooperation and assistance provided by the SEC and the Federal Reserve Bank of New York in this matter. Assistant Deputy Chief Leo Tsao and Trial Attorneys James P. McDonald and Derek J. Ettinger of the Criminal Division’s Fraud Section and Assistant U.S. Attorney James P. Loonam of the Eastern District of New York’s Business and Securities Fraud Section prosecuted the case.

The Criminal Division’s Fraud Section is responsible for investigating and prosecuting all FCPA matters. Additional information about the Justice Department’s FCPA enforcement efforts can be found at www.justice.gov/criminal/fraud/fcpa.

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