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We need to talk about Jamie Dimon

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The authors are Reuters Breakingviews columnists. The opinions expressed are their own.

JPMorgan has shelled out some \$20 billion in legal costs since 2010. Billions more are possibly coming to settle a raft of outstanding U.S. government charges. Chief Executive Jamie Dimon is part of the problem, but also presides over one of the best-performing firms in the industry. Breakingviews imagines how Lee Raymond, JPMorgan's lead independent director and former chief executive of Exxon Mobil, might lay out the dilemma for the bank's two new board members.

To: Linda Bammann, Michael Neal

From: Lee Raymond

First, thank you again for agreeing to join JPMorgan's board. Linda, we're glad we now have the benefit of your considerable regulatory and risk-management skills. And Michael, we look forward to your insights from your role as boss of GE Capital starting early next year.

Right now, though, we need to talk about Jamie Dimon. The independent directors have periodically discussed whether our chairman and chief executive, effective as he has been over the years, is in danger of becoming a liability. Let me bring you up to date with my thinking, starting with the bad news.

If, as the New York Times is reporting, we end up settling for as much as \$7 billion with various U.S. government entities on mortgage matters, we will have allocated around \$27 billion to legal costs in the past four years. That would be almost double Bank of America's tally.

Some of this relates to business conducted by Bear Stearns and Washington Mutual before we bought them. But the number is still much too high. Add back what we had to set aside between 2010 and 2012, and our earnings would have been 20 percent higher. (That's according to Breakingviews.)

Jamie has also annoyed regulators and lawmakers since the crisis by criticizing poorly thought-out rules. He had a point, but it didn't go over well. Then he put his foot in it with last year's \$6.2 billion trading loss, which we all know as the London Whale. That undermined both his and the bank's standing while also making our overseers look even more hapless.

All of this could add up to grounds for replacing our chairman and CEO. Barclays' Bob Diamond went after a \$450 million fine for manipulating Libor. If we're counting, Barclays was censured on only three fronts by the UK's Financial Services Authority, whereas we received four black marks last week for the Whale affair from its successor, the Financial Conduct Authority.

If asking Jamie to leave seems too much, I can also see why some people think he should at least lose his chairman title. He has failed to manage our government masters in a statesmanlike way, and rather than carefully grooming one or more possible successors as chief executive, he had regular culls. There is arguably no-one inside our bank seasoned enough to take over.

On the other hand, the big picture suggests Jamie has done a far better job than his U.S. bank CEO peers. Unlike Bank of America's Ken Lewis, he didn't fritter cash away on deals that soon backfired. He has never lost the support of his lieutenants, as Phil Purcell did at Morgan Stanley eight years ago.

Crucially, he got us out of risky businesses before the 2008 crisis and bulked up the balance sheet. JPMorgan never posted a quarterly loss and has delivered some of the best results in the industry. Even after our legal hits, we still surpassed a 10 percent return on equity in each of the last three years.

Diamond over at Barclays wasn't as successful on that score, although he was only in charge for two years. His company's shares fell 47 percent during his tenure, whereas ours under Jamie are now near

multi-year highs. A 4.5 billion pound profit at Barclays turned into a 236 million pound loss in 2012. Even on an adjusted basis, returns were below the bank's cost of equity – unlike ours.

These management skills of Jamie's explain why I supported him remaining as both CEO and chairman earlier this year. I felt we could not afford to lose him. For now, I remain of the same opinion, although if our government masters were to suggest that the price for avoiding even more litigation and increasingly large penalties is his head, it might change my view.

If we ultimately have to take that course – or if you and the rest of the board already feel we should – I do think there are a few people outside our bank who have the wherewithal to run it successfully. Two of them are Bill Winters and Jes Staley, former senior executives pushed out by Jamie. They might not quite fill his shoes – and perhaps it would make a positive governance statement for us to split the roles of chairman and CEO anyway – but they could certainly step into them. I look forward to hearing your views.

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