

- I would first like to thank His Highness Shaikh Salman bin Hamad Al-Khalifa, Crown Prince and Chairman of the Economic Development Board for hosting this event. Thank you also to His Excellency, Rasheed bin Mohammed Al-Maraj, Governor of the Central Bank of Bahrain, Mr. Mayank Malik, Chairman of the Bahraini Association of Banks and Mr. Robert Ainey, its CEO, for inviting me to be here with you this evening.
- I would also like to welcome all of our distinguished guests, including [names TBD]
- It is an honor to be here tonight.
- Over the past eighteen months, we have experienced the most profound global economic shock of our lifetimes. One year ago, we were in the midst of a crisis of immeasurable proportions, with markets, prices and demand in free fall and liquidity all but non-existent.
- Today, following aggressive actions by worldwide authorities, the U.S. Federal Reserve, and the U.S. Treasury ~~with other authorities worldwide, principal~~ equity ~~exchanges prices have risen~~ are up, spreads and volatility have declined, and credit is once again starting to ~~flow~~ ing again.
- If ~~indeed, as some say~~, we are a quarter or two away from an economic recovery, it is right to now time to begin to focus on ~~lesser things that we may have~~ learned and what we ~~should do~~ may need to do differently ~~next time in the future~~.
- In this context, I would like to share with you some of my thoughts on topics that are central to how at least, we intend ~~need~~ to approach the ~~enormous~~ challenges that lie ahead.
- These issues can be broken into three categories. ~~are~~ Systemic Risk, Regulation, and Reward.
- ~~Unfortunately m~~ Most any of the world's citizens have learned ~~of~~ "Systemic Risk" the hard way. They have experienced first hand the financial devastation that Systemic Risk can sow/real consequences of personal financial loss that can happen quickly when confidence in the world financial markets falters.
- ~~—~~ The near failure of our Fannie Mae and Freddie Mac, followed by the shocking bankruptcy of Lehman Brothers and the required intervention in AIG, obliged most many governments around the world to support their own bank deposits and money funds. Markets reacted with a devastating contraction in credit, ~~and a dramatic reduction in the appetite for risk.~~
- ~~—~~ We were on the verge of a systemic breakdown. And just along with it being close to the possibility of the financial markets failing resulted in the worse recession in our lifetimes, and for some, we came all too close to a 1930's depression.

- The economic impact of a possible systemic failure has been so profound. ~~So much so~~, that many politicians, regulators, and pundits have now concluded that the concept “Systemic Risk” needs to be eliminated altogether. While this may be ~~is~~ an admirable goal, it is both impractical and illusory. ~~In my view~~ Though others may disagree I do not believe that one, ~~you cannot~~ can eliminate systemic risk.

- Systemic risk is ~~an unavoidable n ever present threat consequence of to~~ a financial system that provides ~~our the world~~ economy with the capital and liquidity necessary for its development. A healthy financial market supports decisions on credit and duration risk that generate broad economic growth. These risks can only be taken safely if all of us have confidence. If confidence leaves us, then exposure to credit and funding risks, even if prudently managed, will inevitably lead to a systemic failure.
- ~~I believe tThe truth is,~~ the only way to avoid a systemic failure is to have ~~a~~ public institutions that can step in when a failure ~~is coming seems imminent~~, and provide a stabilizing amount of liquidity. As a historical point, the United States had chronic systemic failures until it created the Federal Reserve and FDIC in the 1930's, and we were late to the game. The UK figured this out in 1694, the French in 1800 and Japan in 1822. So while we all hope to avoid systemic failure, we should recognize that ~~finaeial failures happenit always looms close by,~~ and we need the financial support ~~all of ouref~~ central banks to provide the ultimate ~~back stop security~~
- Another ~~unfortunate seary~~ reality is that in all likelihood, ~~with the speed of computers and the interconnectedness of the system,~~ the ~~inherent~~ nature of systemic risk is going to get more complicated, not less. ~~In my career,~~ I have ~~bsurvivedeen through~~ three periods when the solvency of the U.S. banking system was in question: The Latin American debt crises of 1982, the U.S. commercial real estate crises of 1990 and last year's events. What was unique about 2008 was not that it happened, but its complexity and globality.
- It's ~~abundantly crystal~~ clear that future crises are likely to require more elaborate and robust treatment as the world financial markets continue the trend towards near instantaneous connection of companies, citizens and nations with ~~their own very~~ diverse economic ~~and political~~ regimes.
- The global marketplace needs global banks that operate in extraordinary markets 24 hours a day. We need to address regulatory reform prospectively and not by attempting to conform our industry and it's institutions to outdated regulations. ~~"I firmly believe tha~~ ~~Nn~~ ew regulations must conform to global finance as practiced in the 21st century.
- ~~Evolution in complexity and connectivity is a reality of our global economy akin to the trends towards ever advancing speeds in computer processing.~~
- ~~The answer is not to suppress what banks can do. For if we do, all that will happen is that new other less regulated financial vehicles will develop to support the evolving needs of financial markets.~~
- ~~move in to fill the void.~~
- The investment banks of 20 years ago ~~did not seem~~ed to pose ~~little~~ systemic risk. But then the world embraced global capital markets and ~~the~~ Fed ~~highly~~ regulated banks became handicapped in ~~this the~~ new environment. In short order, investment banks, exploiting the ~~loosely regulated~~ capital markets ~~and loosely regulated~~, themselves became players with systemic risk. ~~Merely attempted to~~ Limiting the creativity of regulated banks will not change the reality of evolving global markets.

- The One answer to avoiding a systemic failure is perhaps found in the extraordinary measures taken by the U.S. Treasury and Federal Reserve last year.
- Although many have questioned the appropriateness of actions taken by the Fed, the FDIC and other agencies, in hindsight their activities greatly reduced the ultimate economic pain of this crisis. And what the Fed and other central banks did was to extend their reach beyond commercial banks.
- The next time
- If there is a next time . that a potential systemic breach of the global financial system appears, it is more likely that the appropriate countermeasures will need policy backing and the collective balance sheets of the world's leading economies in order to respond with a force commensurate to the magnitude of Systemic-Risk in this new century.
- While I believe that the world banks showed an admirable level of cooperation in facing this recent crisis, the next time will require an even more efficient/greater collective global response. JPMorgan fully supports the G20's efforts to reform financial regulation so that governments have broader and more coordinated authority.
- We have suggested that regulation be delineated by product (derivatives, for example) and not necessarily by legal entity. We support the increased use of clearing houses and the proposals regarding lending disclosures. Hedge funds, private equity firms, and off balance sheet vehicles should be within the reach of regulators, but, care should be taken not to without eliminating/eliminate their unique freedoms and positive attributes.
- Systemic regulators should have the freedom to seek out risk everywhere anywhere and be able to do something about it/act. . In addition, procedures need to be put into place to deal with problems that may develop in the large st of global institutions that have previously been are considered by at least some some to be in the large "Too Big to Fail." A institutions. Failure is fine/acceptable so long as it's both orderly, controlled, and leads to a more stable result resolution. What we need is a resolution process that allows failure without causing cascading damage. to the whole system.
- Leading up to last years' events, some markets, like parts of the mortgage business, were unregulated; others were over-regulated or improperly regulated. Reinsurance companies like AIG, AMBAC and MBIA guaranteed trillions in bonds and securitized loans with less than 15% of the capital ratios that applied to the regulated banking sector. Broker-dealers like Lehman were freed/exempt from the capital and regulatory framework applied to commercial banks. Leverage ratios were in general too lax and virtually all policies were pro-cyclical.
- Many adopted a view that AAA securities were virtually riskless and immediately liquid. This terrible mistake was made by the best and the brightest in both governments cabinets and financial board rooms. This notion that AAA securities was/were equal to cash led to false assumptions in quantitative models.

- These false assumptions became conflicted with the market's reality, and the rest is history.
- As you are aware Regulation and policy can both have profound and unintended consequences. It's no surprise that two of the most highly regulated US agencies, Fannie Mae and Freddie Mac, were at the epicenter of ~~our~~ the most recent crisis. In order to satisfy political agendas, these entities were exempt from existing bank accounting disclosure, and were even encouraged to make high Loan-to-Value loans to scores of non-qualified buyers.
 - ~~The I realize the meta-~~ message is ~~that~~ better and broader regulation is needed. But we ~~need to do this with~~ must proceed with great caution. Because poor regulation may very well plant the seed of a distortion in the financial markets that will might itself cause grow into our next crisis.
 - This brings me to t my third topic Reward . The always sensitive topic of compensation--that is, how to measure, motivate and deliver rewards prudently in the financial sector. In my experience – particularly over the last year – this topic has become increasingly more critical, complex and fraught with misunderstanding.
 - Mismanaging compensation can eventually destroy an otherwise thriving company. Improperly regulating compensation can destroy an industry. We strive to hire, train and retain the best talent--smart, ethical, hardworking entrepreneurial individuals--and getting their compensation right is critical to our success. .
 - Why? We cannot ask our people to earn be satisfied with significantly less than what their talents can freely generate in a freea competitive market. We need to ensure that we pay-compensate people in accordance with the growing complexities of the global market and in alignment with the growing parameters of systemic risk.
 - Simply put, we need talent.
 - Talent to manage risk. Talent to make complex investments, talent and security. If not, we will be forced to rely on less talented-experienced people to operate in a far more complex environment than we had in the past...just as the Navy places nuclear engineers in our nuclear submarines...we need the best and most qualified employees in our most complex businesses.
 - At JPMorgan, our Asset Management division made some \$2 billion for the firm at a time , when other parts of the firm were stugglingthat we were in the midst of the financial crises. We provided a counter balance to some of our less fortunate businesses in Morgan, for example those tied tied to directly credit. This was a good thing.
 - But we openly compete with many diverse and sophisticated players in the financial world, from mutual fund companies like Fidelity, to private equity firms like KKR. So when we think about compensation we have to think about fairness for our people in the context of the market place. We need to pay portfolio managers competitively—or we will not be able to retain the necessary talent.

Moreover, ~~to think that it should be apparent that~~ a trader managing the complex balance sheet of a global bank requires ~~anything nothing~~ less than the financial skill, market insight, and understanding of ~~risks that~~ the best hedge fund manager. ~~needs, is nothing short of dangerous.~~

- Wall Street and similar markets are their best and most productive when allowed to function as meritocracies. We operate in a harsh and difficult industry and true success should be rewarded.

• That said, let me ~~share with~~ tell you ~~a little about an inside story of~~ some prudent and important compensation practices we adopted early on at JPMorgan. ~~Here's an overview:~~

- - 1) First, we pay our people based on an assessment of their multiyear performance and how they have helped to build long-term sustainable results. Because of this approach, our compensation was not excessively exuberant in the best of times, during which the rising tide frequently lifted all boats.

- 2) Also I want to make the point that performance for us is not a simple financial measure. It includes a review of broader factors and contributions a person brings to the company, other factors such as integrity, a strong work ethic, and compliance to policies and practices, the commitment to recruiting, training, and develop a diversity team, as well as the ability to show creativity and innovation.~~awareness, innovation and creativity.~~

3) We have a bonus recoupment policy beyond that goes beyond that s required by law Sarbanes-Oxley.

4) We ~~do not have not~~ provided executives with change-of-control agreements, golden parachutes, special retirement plans, severance packages or merger bonuses.

5) For quite some time, we have paid a significant portion of incentive compensation in stock that vests over multiple years; roughly 50% for our senior management compensation is paid in stock.

6) Lastly, the most senior managers must retain 75% of all stock that they have received from the Company.

- In our Asset Management division we have a policy that specifically prohibits the granting of compensation guarantees. In my view, guaranteeing a bonus violates the principle of pay for performance and puts one employee on a different risk return scale than another employee. But compensation needs to be fair.
- Let me close by saying ~~that we have a lot to reflect on here. And~~, as business and government leaders start to draw conclusions from events that unfolded during the past year, it is my hope that they can respond constructively to put in place appropriate safeguards and regulations for our increasingly complex financial market.
- For me, the silver lining in last year's crises was how much the world has learned about its interconnectedness. The impact of each of our actions ~~is not isolated, is felt almost instantaneously by others.~~ We now have evidence that we are all in this together, and we will need to stand together to face the ~~next~~ financial challenges that are likely to be ahead of us as one market. To do so, we must understand the ever more nuanced operating environment in which markets function.
- My colleagues and I at JPMorgan would like to encourage all who are present today to participate actively in the dialogue with their respective governments, agencies, and businesses about the realities of Systemic Risk, the need for a more global policy framework to be able to more readily respond to future crises, and the importance of fair and just rewards for performance in our industry.
- But let's have that dialogue with the past lessons as prologue, h a clear understanding that we can't go back to the steam engine after learning how to harness nuclear power. I truly believe -Athat as the world financial system grows and evolves in complexity, ~~let's ensure that we keep pace- both technologically and philosophically- to ensure that we can., our solutions will also become more complex, but it is my hope that we will attempt to meet these challenges together, continue to meet the challenges presented by the changing spectrum of systemic risk and regulation.~~

Thank you.