JPMorgan Gave Risk Oversight to Museum Head

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The three directors who oversee risk at JPMorgan Chase & Co. (JPM) include a museum head who sat on American International Group Inc.'s governance committee in 2008, the grandson of a billionaire and the chief executive officer of a company that makes flight controls and work boots.

What the risk committee of the biggest U.S. lender lacks, and what the five next largest competitors have, are directors who worked at a bank or as financial risk managers. The only member with any Wall Street experience, James Crown, hasn't been employed in the industry for more than 25 years.

"It seems hard to believe that this is good enough," said Anat Admati, a professor of finance at Stanford University who studies corporate governance. "It's a massive task to watch the risk of JPMorgan."

The bank has been under siege since CEO Jamie Dimon said May 10 that the firm's chief investment office suffered a $2 billion loss trading credit derivatives. He later called it "a Risk 101 mistake." Shares of the New York-based company have fallen 17 percent since, and at least half a dozen agencies, including the U.S. Department of Justice and the Securities and Exchange Commission, are investigating.

The probes began after traders in the London office, which manages the bank's excess cash, made wrong-way bets on illiquid credit derivatives, some of them so large they distorted market prices. Dimon transformed the division under Ina Drew, who resigned over the losses, from a sleepy haven for traders of U.S. Treasuries into a profit center with an increasing appetite for exotic wagers.

Futter, Cote

Crown, 58, who is president of Chicago-based Henry Crown & Co. and lead director of defense contractor General Dynamics Corp. (GD) (GD), sits on the risk committee with Ellen Futter and David Cote. Futter, 62, is president of the American Museum of Natural History in New York, and Cote, 59, is CEO of Honeywell International Inc. (HON)

The committee, which met seven times last year and hasn't changed its composition since 2008, approves the bank's risk- appetite policy and oversees the chief risk officer, according to the company's April 4 proxy statement.

JPMorgan, with $1.13 trillion of deposits, is the only one of the six largest U.S. lenders that doesn't have a former banker, regulator or finance professor on its risk committee.

Banking Experience

Susan Bies, who served as a Federal Reserve governor for six years and risk manager at First Horizon National Corp., sits on Bank of America Corp.'s panel. Morgan Stanley's includes Masaaki Tanaka, CEO for the Americas at Bank of Tokyo-Mitsubishi UFJ Ltd., while Robert Joss, a former U.S. Treasury Department official who ran Westpac Banking Corp., is on Citigroup Inc.'s. Nicholas Moore, a former PricewaterhouseCoopers LLP chairman and CEO of its U.S. unit, is one of six directors on Wells Fargo & Co. (WFC)'s risk committee.

Only Bank of America's risk committee is as small as JPMorgan's. Goldman Sachs's has eight members, including Stephen Friedman, a former chairman of the firm who advised President George W. Bush on economic policy, and James Schiro, a former CEO of Zurich Financial Services AG.

Futter, a former president of Barnard College in New York, joined the JPMorgan board in 1997. Her re-election this year was opposed by Washington-based investor group Change to Win and shareholder advocate Glass Lewis & Co. over her previous experience on the boards of AIG and Bristol-Myers Squibb Co.

Accounting Scandal

Futter headed the audit committee of Bristol-Myers, a New York-based drugmaker, during an accounting scandal that began in 1999 and that the company settled for $300 million to avoid criminal prosecution. She also served on AIG's compliance and governance committees, resigning in July 2008 before the insurer took a $182.3 billion bailout from the U.S. government.

"Given Ms. Futter's inability to effectively monitor credit risk during her tenure at AIG, and the company's similar level of involvement in the same markets, we do not believe her continued service on the company's board is in shareholders' interest," Jack Ferdon and Courteney Keatinge, analysts at Glass Lewis, wrote in an April 24 report recommending that JPMorgan stockholders vote against her.

JPMorgan cited Futter's experience as a director of the Federal Reserve Bank of New York from 1988 to 1993, a non- supervisory position, in supporting her nomination. She won 86 percent of the votes, the lowest of any board member.

Museum Donations

Futter was criticized in newspapers and industry publications after she joined AIG's board for accepting a $36.5 million donation for the museum from a charity run by then-CEO Maurice "Hank" Greenberg.

JPMorgan is a corporate sponsor of the museum and gave $1.5 million for an exhibit about water, according to the organization's 2008 annual report. Dimon's family foundation donated $25,000 in 2009, according to tax filings.

Kristin Lemkau, a spokeswoman for the bank, wouldn't say how much JPMorgan or Dimon has donated to the museum, except that the gifts are less than 2 percent of the organization's annual revenue, the limit set by the New York Stock Exchange for donations to charities that directors help manage.

The board reviewed the bank's charitable donations and determined that "none of them create a material relationship" that would impede the independence or judgment of its directors, according to company disclosures.

Futter has received personal loans from JPMorgan, according to the company's proxy statement, and was awarded $245,000 in cash and stock for her work on the board last year. The bank didn't disclose the amount of the loans. Futter didn't return phone and e-mail messages seeking comment.

Family Fortune

Crown, who heads the risk committee, helps manage his family's privately owned Chicago-based investment firm. His grandfather, Henry Crown, amassed a fortune in hotels, railroads and meatpacking and once owned a stake in the Empire State Building. The family owns about 3.7 percent of Falls Church, Virginia-based General Dynamics, the maker of Abrams tanks and Gulfstream jets, according to March filings.

The younger Crown, who worked at bond-trading firm Salomon Brothers Inc. for five years until 1985, was a member of the search committee that chose Dimon to head Bank One Corp., acquired by JPMorgan in 2004. Dimon and Crown's father, Lester, are overseers of the Harvard Business School Club of Chicago.

"I really value the risk attitude when you're looking at a huge fortune that you're responsible for," said John H. Biggs, who served on JPMorgan's board from 2003 to 2007. "You tend to be shareholder-oriented, very risk-averse."

Crown's risk-management experience comes from his directorships at General Dynamics and sausage maker Sara Lee Corp. and his position at his family's investment firm, according to bank filings. Crown, who was awarded $300,000 for his board work last year, didn't return calls to his office and home in Chicago.

Honeywell Loans

Cote, who joined JPMorgan's board in 2007, has been chairman and CEO of Morris Township, New Jersey-based Honeywell since 2002. Shares of the company, which sells products from thermostats for homes to cockpit controls for airplanes, have gained 75 percent since Cote became CEO.

Honeywell has received loans and financial advisory services from JPMorgan, according to securities filings. The bank said it purchased building safety, security equipment and maintenance services from Honeywell, all of which were considered immaterial.

Rob Ferris, a spokesman for Cote at Honeywell, referred calls for comment to JPMorgan. Lemkau, the bank spokeswoman, said all of the company's directors have "extensive experience in managing or overseeing large organizations with complex financial needs and regulation."

JPMorgan elected former KPMG International Chairman Timothy Flynn to the board on May 15. He hasn't been appointed to a committee yet.

'Critical Mandate'

Richard Clayton III, research director at Washington-based investor group Change to Win, which advises union pension funds that control about 6 million JPMorgan shares, said the risk committee doesn't have the depth of experience necessary for such a complex company.

"There's nothing about their professional track record, nothing about their personal experience that suggests that they would have known the right questions to ask the chief risk officer that would have eliminated any of the potential dangers involved in this trading strategy," said Clayton, whose group opposed Futter for re-election to the board this year.

Crown and Cote "at best appear to be of limited utility in fulfilling the committee's critical mandate," the group wrote in an April 2011 letter to David Novak, who headed the bank's corporate governance and nominating committee at the time and has since stepped down.

'Very Naive'

JPMorgan should have "put together a risk committee with more expertise in financial institutions and the risks produced by their decisions," said Lucian Bebchuk, director of Harvard Law School's program on corporate governance.

Biggs, the former director, said the role of the risk committee is to oversee the bank, not to watch specific trades.

"Most people have a very naive view of what the role of the board is," said Biggs. "Even if the governance is absolutely right, it is a complex world out there."

Biggs, 76, is a former chairman and CEO of TIAA-CREF, which manages retirement accounts for teachers. "Blame the auditors," he said. "Why didn't the auditors catch this? Why didn't the regulators?"

Another former director, John Kessler, chairman of real estate developer New Albany Co., who left the board in 2006, said he was glad he avoided being on the risk committee, whose work he described as time-consuming.

"Thank God," Kessler said.