

JPMorgan to close 'prop' trading division

Print

By Gregory Meyer and Francesco Guerrera in New York

Published: September 1 2010 01:05 | Last updated: September 1 2010 01:05

JPMorgan Chase is to close the commodity unit that trades with the bank's own money as Wall Street moves to comply with new US financial services rules banning **proprietary trading**.

A person familiar with the matter said that the traders in the unit were told on Friday their jobs were on the line because of the bank's decision to stop trading commodities on its own account.

The unit has fewer than 20 traders, most of them in London, with one in New York.

JPMorgan declined to comment.

The move is part of US banks' efforts to change their business models as a result of the **Dodd-Frank law**, the financial services legislation passed earlier this year.

One of the bill's most controversial provisions – dubbed the “**Volcker rule**” after the former Federal Reserve chairman who proposed it – bans proprietary trading and limits the capital that banks can put into in-house hedge funds and private equity groups.

The rule is aimed at reducing the risks banks take with their own balance sheets and forces the industry to focus on serving clients' interests rather than its own when trading.

Although financial institutions have years to comply with the law, **banks including Goldman Sachs** and **Morgan Stanley** have hinted that they will shut down their proprietary trading desks much earlier. Like its rivals, JPMorgan is believed to be looking also at closing its equity and fixed-income proprietary trading units.

The decisions could lead to hundreds of layoffs among traders at a time when choppy market conditions have significantly reduced the portion of earnings banks derive from trading.

Proprietary trading typically accounts for a small percentage of banks' earnings but can be a very profitable activity because it can yield high returns on relatively small amounts of capital.

JPMorgan's commodities group, which mainly trades on behalf of customers, earlier this summer laid off about 40 staff after the bank's **\$1.6bn acquisition of RBS Semptra Commodities'** oil, coal, metals and European power and gas businesses.

The commodities desk was responsible for a large loss on a trade on the price of coal during the second quarter. However, JPMorgan insiders said the proprietary trading unit had nothing to do with that trade, which was undertaken on behalf of a client.

Under the Volcker rule, banks will have two years to wind down proprietary trading after regulators write detailed rules on what constitutes proprietary trading, possibly this year.

But with troubled markets damping appetites for commodities' risk, and the Volcker rule looming, JPMorgan executives decided to proceed with the shutdown earlier, according to the person familiar with the matter. The traders will be able to apply for jobs elsewhere at the bank, this person said.

Copyright The Financial Times Limited 2010. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.