

JPMorgan Chase

JPMorgan to pay \$264m penalty for hiring ‘princelings’

US bank to settle probe into hiring practices in China



© Bloomberg

NOVEMBER 17, 2016 by: **David J Lynch** in Washington, **Jennifer Hughes** in [Hong Kong](#) and **Martin Arnold** in London

JPMorgan has agreed to pay \$264m to settle a US probe into its practice of hiring well-connected Chinese “princelings” to win business.

The settlement announced on Thursday is the first to arise from a 2013 Securities and Exchange Commission inquiry over whether bank hiring practices breached the US Foreign Corrupt Practices Act. The 1977 law bans companies from [paying bribes to overseas officials \(http://next.ft.com/content/799f837e-0816-11e3-badc-00144feabdco\)](#) to win business.

JPMorgan will pay \$130m to the SEC, \$72m to the Department of [Justice \(http://fr.clickintext.net/c/?t=cit&k=%3D%3DQYbpjBidALOEBAoVQPA8xAiBAUVZRVof](#)

[1YQJTDhpQTKATV4UwOGkGA3QFYRRDDvVQNCcTUANgRUpzUAplYbdzB7s1MGIzBu5wZAcUBgAgNDwGAtVVMVNUU7AlbNgjC1oQOVhUB2YAZAADVgFFMMcRBnJwZRBoA%2BQ1OTVjWutVOHgzWyYwOHgmD&ck=fr/ann/goog/1018479&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2F0%2FAU7abfb12887ac700f1012b840a9e5b0foR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Djustice&da=\)](http://www.fdic.gov/news/press/2015/150811jpm.html) and \$61.9m to the Federal

Reserve to settle the charges. The bank also reached a three -year “non-prosecution” agreement with the DoJ to avoid criminal proceedings in return for implementing an enhanced compliance programme and continuing to co-operate with government investigators.

“JPMorgan engaged in a systematic bribery scheme by hiring children of government officials and other favoured referrals who were typically unqualified for the positions ,” said Andrew Ceresney, director of the SEC’s enforcement division. “JPMorgan employees knew the firm was potentially violating the FCPA yet persisted with the improper hiring programme because the business rewards and new deals were deemed too lucrative.”

Beginning in 2006, the bank’s princelings initiative defied an internal prohibition on such hiring, according to the DoJ agreement. JPMorgan bankers even created spreadsheets to track the hiring of Chinese officials’ relatives , “which has an almost linear relationship” with new business in China, according to a 2009 email cited in the agreement.

“

The so-called Sons and Daughters Program was nothing more than bribery by another name
Leslie Caldwell, assistant attorney -general

JPMorgan executives openly discussed the financial gains from potential hires. In July 2008, one Hong Kong- based executive wrote to a colleague about offering a job to the relative of an official with a Chinese state-owned

manufacturing company . “How do you get the best quid pro quo from the relationship upon confirmation of the offer?” the executive emailed.

When first disclosed three years ago, the investigation sent shivers through the

global banking community because hiring well-connected people for financial jobs has been common in China where there is a strong emphasis on *guanxi*, or personal connections, in doing business.

Princelings describes the children of high-ranking Communist party officials, but the term is often applied more generally to the sons and daughters of China's elite.

JPMorgan (<https://www.ft.com/search?q=JPMorgan>) made several high-profile hires, including Gao Jue (<http://next.ft.com/content/56ade934-ae44-11e4-8d51-00144feab7de>), son of a Chinese [http://next.ft.com/content/7eb4677a-1055-11e3-a258-00144feabdco](http://fr.clickintext.net/c/?t=cit&k=%3DAzUhRVYQxCCQUIPcVzVZQlNAGVCWQAZQZDA%2Bs1aHYhAqZlZSdmD6UFYXV2WxYVaSNDUwIQEDsEVwwVQBU2VoI1ZTVGV0AFbIcRV8xIYXhDV4AQbJYBB7A1YAk2W4cgbCshViJlaOETVmd1ZbRkVkJ1NQFkApNAPUNDXoEQaXFjUnNFaUZDU&ck=fr/ann/goog/245925&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dcommerce&da=) minister, later employed by Goldman Sachs, and Tang Xiaoning (<a href=)), son of a former bank regulator who went on to chair Everbright Group.

“The so-called Sons and Daughters Program was nothing more than bribery by another name,” said assistant attorney-general Leslie Caldwell. “Awarding prestigious employment opportunities to unqualified individuals in order to influence government officials is corruption, plain and simple.”

Most of those offered jobs through the programme lacked the [experience](http://fr.clickintext.net/c/?t=cit&k=%3DQ2BhRFMBUXUQUlbMozXNBQZTZ1BVcwMHkzD9gVPRJkVwwgZS52BvBAYXdTC54lPFMDUhNFRWpUVh1AGYdWUzYFOHMGVlFQNRdRVswgafxGArN1YHUxBsdAbPoGWuFLOWFEDIJ1YHQGAmDVNJwkXzUgPQBxU8YVPVJWDth1bRVjVzcAaUdWA&ck=fr/ann/goog/243211&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Deducation&da=) and <a href=) (<http://fr.clickintext.net/c/?t=cit&k=%3DcGBnJ1POIiBPpwOZF2AdAIYUlFCBNFYUxmWvpgPSVUUtFVZR>

[5zVsNOYWNTDkNgMJcGB1cARWpRBtFgSKMmU3oVPEcmUt5AZGgkC5llNDwDUsRFbIEoU%2FQVOahjCtJVPRxRUhF1MXd2AnZVMNExA7kgNEQoB8YVbF4WA%2FoAbSljWwQgbShmD&ck=fr/ann/goog/431496&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dexperience&da=\) of other new hires. The son of one Chinese official who was given a JPMorgan job in New York \(\[http://fr.clickintext.net/c/?t=cit&k=4IlyDcDA2ZgSAoGU7gQTUJDUHcAHDEDAntQNX9DAPJwYWNzU6UlaRJmW3YINakjV1IwPcpRBGx1PJEkB6clPBYmUhNQYAQkBgAQZQRGCsRFNQVxBonwYakzCodFbA8kAmZ1NTFTVgFlZaRkVmBAZWfKA2wVbFMDX8kAOGQzV1EgbSV2A&ck=fr/ann/goog/72029&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dnew%2Byork&da=\\)\\) was kept on for 10 months despite sending an email that “ contained some inappropriate sexual remarks” and being seen as “immature, irresponsible and unreliable”, according to internal emails quoted in the agreement. Another 2011 hire was derided as “a photocopier”.\]\(http://fr.clickintext.net/c/?t=cit&k=4IlyDcDA2ZgSAoGU7gQTUJDUHcAHDEDAntQNX9DAPJwYWNzU6UlaRJmW3YINakjV1IwPcpRBGx1PJEkB6clPBYmUhNQYAQkBgAQZQRGCsRFNQVxBonwYakzCodFbA8kAmZ1NTFTVgFlZaRkVmBAZWfKA2wVbFMDX8kAOGQzV1EgbSV2A&ck=fr/ann/goog/72029&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dnew%2Byork&da=\)\)](http://fr.clickintext.net/c/?t=cit&k=4IlyDcDA2ZgSAoGU7gQTUJDUHcAHDEDAntQNX9DAPJwYWNzU6UlaRJmW3YINakjV1IwPcpRBGx1PJEkB6clPBYmUhNQYAQkBgAQZQRGCsRFNQVxBonwYakzCodFbA8kAmZ1NTFTVgFlZaRkVmBAZWfKA2wVbFMDX8kAOGQzV1EgbSV2A&ck=fr/ann/goog/72029&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Fficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dnew%2Byork&da=))

One internal bank email in 2009 referred to a princeling as “an intern doing nothing”; the following year, a supervisor warned a colleague about “his napping habit”.

Chinese government officials were not shy about seeking favours from JPMorgan. In 2009, an official with a state-owned Chinese energy company, which was considering investment banks to handle its upcoming initial public offering, made clear that the bank would get a bigger role if it found a job for an unrelated individual he described as his “nephew”, according to the DoJ agreement.

The official wrote letters, made repeated phone calls and sent frequent text messages to JPMorgan executives pressuring them to help. After interviewing the candidate, who lacked the necessary skills and interest, New York-based bankers concluded they could not make a job offer.

Instead, in February 2010, executives in the bank’s Hong Kong office “created a

position for the referred candidate in the New York office” funded by the bank’s Asia-Pacific subsidiary. [The one \(http://fr.clickintext.net/c/?t=cit&k=%3DcGBjZLNHUXUOtgYAUzVZQVYXNgUSAwafxmWkFwZLURA4QQMFgWArRgMFMTDlJgOBcDV7kgEAohAy4FGYxzAzU1PEsmVudQMRloCgAgYXhDVvdlNSJBAo8VOaNTAosQbBkEB1UQZBAGBoUQMNAhA3EgMUpUCqBgaCEjXthVPDYTVwQgaWF2B&ck=fr/ann/goog/699628__&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Ficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dthe%2Bone&da](http://fr.clickintext.net/c/?t=cit&k=%3DcGBjZLNHUXUOtgYAUzVZQVYXNgUSAwafxmWkFwZLURA4QQMFgWArRgMFMTDlJgOBcDV7kgEAohAy4FGYxzAzU1PEsmVudQMRloCgAgYXhDVvdlNSJBAo8VOaNTAosQbBkEB1UQZBAGBoUQMNAhA3EgMUpUCqBgaCEjXthVPDYTVwQgaWF2B&ck=fr/ann/goog/699628__&r=93b73e70b9172d03754693a517932ac4&go=http%3A%2F%2Ficit.fr%2Fj%2Fo%2FAU7abfb12887ac700f1012b840a9e5bofoR1S88294W295306I9%2Fhttp%3A%2F%2Fdemarrage.xoo.it%2F%3Fq%3Dthe%2Bone&da) -year post led a few months later to JPMorgan being selected to handle part of the IPO, which earned the bank a \$23.8m profit, says the agreement.

Related article

JPMorgan settlement marks princelings’ passing (<http://next.ft.com/content/e70c63d6-ac92-11e6-ba7d-76378e4fef24>)

Banks’ reliance on well-connected individuals was already on the wane



A spokesman for JPMorgan in Hong Kong said the bank was “pleased that our co-operation was acknowledged in resolving these investigations”.

“The conduct was unacceptable,” the spokesman said. “We stopped the hiring programme in 2013 and took action against the individuals involved. We have also made improvements to our hiring procedures, and reinforced the high standards of conduct expected of our people.”

The bank responded to the investigation by pushing out six employees who engaged in misconduct or who failed to

identify the problem and disciplining 23 more who failed to detect the prohibited practices or who acted at the direction of supervisors. JPMorgan also imposed \$18.3m in penalties on current or former employees, according to the agreement.

The probe into JPMorgan widened to include other banks, including HSBC, which said earlier this year that it was among those under investigation. Others contacted

by regulators include [Goldman Sachs \(http://next.ft.com/content/2560c12e-d782-11e3-a47c-00144feabdco\)](http://next.ft.com/content/2560c12e-d782-11e3-a47c-00144feabdco), Deutsche Bank, Citigroup and Morgan Stanley.

Churn among JPMorgan's top ranks in the wake of the SEC probe saw Fang Fang step down as China investment banking head in 2014 and Todd Marin as vice-chairman of the its Asia investment bank last year.

As a result of the SEC's investigation, the bank also stepped away from deals, including the public floats of [Tianhe Chemical \(http://next.ft.com/content/e0283bee-826a-11e3-8119-00144feab7de\)](http://next.ft.com/content/e0283bee-826a-11e3-8119-00144feab7de) and Everbright Bank, because it was connected with the children of the chairmen of both groups. Joyce Wei, daughter of Wei Qi, Tianhe chairman, worked at JPMorgan between January 2012 and August 2013, according to the Hong Kong regulator's register of authorised finance professionals.

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others. © The Financial Times Ltd.

Read latest

France's Sapin woos US banks after Brexit vote

Special Report Ireland Financial Services

UK actuarial difficulty offers opportunity on the Liffey

Common law and language are viewed as key relocation advantages

myFT

Follow the topics mentioned in this article

Banks

SEC

Companies

Financials

US & Canadian Companies

Follow the authors of this article

Jennifer Hughes

Martin Arnold

David J Lynch

[Take a tour of myFT >](#)