

J.P. Morgan's \$4.6 Billion in Legal Reserves

Article By:

Robert M. Siegel

In a regulatory filing filed with the U.S. Securities and Exchange Commission and released on Monday, August 4, **J.P. Morgan Chase & Co.** announced that it has \$4.6 billion in legal reserves. Believe it or not, this massive number is actually an increase in reserves from last quarter, during which the banking giant had \$4.5 billion marked for legal expenses.

J.P. Morgan is currently a defendant or putative defendant in a that range from private civil litigation to regulatory/government investigations; from individual actions to class actions; and from suits in U.S. courts to those across Europe. It has received requests for information and documents related to its foreign exchange trading business and participation in setting the process for the London

Interbank Offered Rate and other European and Tokyo interbank rates. It is also enmeshed in lawsuits with three municipalities that are seeking damages for lost tax revenue and increased costs associated with foreclosed properties, based on alleged violations of the .

Thus far for 2014, the firm's legal expenses have totaled \$707 million, which is actually lower than the \$1 billion in legal expenses it spent during the same period last year. However, this number may swell, now that a settlement offer of \$4.5 billion was made to twenty-one majority institutional investors in November and is expected to be accepted by those investors in August.

This announcement is significant because investors use it as a way to gauge the accuracy of a bank's prediction of its legal costs. Typically, banks such as J.P. Morgan . Sharing the number can be risky for the firm because its adversaries know how much it has pegged for legal expenses. However, these same adversaries do not know how much the bank is willing to spend on any one particular case. Still, for those fighting J.P. Morgan, perhaps the large reserves can be viewed as a signal that the bank knows it has an uphill climb when it comes to its legal battles.

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