

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20042000159-01

TO: Department of Market Regulation
NASD

RE: J.P. Morgan Securities Inc., Respondent
Broker-Dealer
CRD No. 18718

Pursuant to Rule 9216 of NASD Code of Procedure, J.P. Morgan Securities Inc. ("JPMS" or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against JPMS alleging violations based on the same factual findings.

JPMS understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against JPMS; and
3. If accepted:
 - a. this AWC will become part of JPMS's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against JPMS;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about JPMS's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and

- d. JPMS may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects JPMS's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

JPMS also understands that its experience in the securities industry and disciplinary history may be factors which will be considered in deciding whether to accept this AWC. That experience and relevant history are as follows:

JPMS has been a member of NASD since April 23, 1987. In February 2000, Chase Securities Inc., CRD No. 10793, a member of NASD from November 18, 1982 through April 9, 1996, merged with Hambrecht & Quist, LLC ("HMQT"), CRD No. 940, a member of NASD from May 13, 1968 through March 20, 2000, to form Chase H&Q, CRD No. 18718. On December 31, 2000, Chase H&Q merged with JPMSI ("JPMSI"), CRD 15733, a member of NASD from May 1, 1986 through July 6, 2001, to form J.P. Morgan Securities Inc. ("JPMS"). On April 18, 2005, an AWC became final wherein JPMS was censured and fined \$150,000 for supervision violations as well as violations of NASD Conduct Rule 2710. On February 14, 2005, an AWC became final wherein JPMS was censured and fined \$700,000 for record keeping and supervision violations. On March 26, 2004, an AWC became final wherein JPMSI was censured and fined \$15,000 for trade reporting violations. On October 14, 2002, an AWC became final wherein JPMSI was censured and fined \$7,500 for short interest reporting and supervision violations. On June 14, 2001, an AWC became final wherein Chase H&Q was censured and fined \$9,500 for best execution, limit order display and trade reporting violations. On May 12, 2001, an AWC became final wherein JPMSI was censured and fined \$40,000 for OATS, FIPS and supervision violations.

I.

WAIVER OF PROCEDURAL RIGHTS

JPMS specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against JPMS;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a

hearing panel, to have a written record of the hearing made and to have a written decision issued; and

- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, JPMS specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

JPMS further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

This matter arose out of the following reviews conducted by the staff of NASD's Department of Market Regulation (the "staff"):

- MRD200343681 / 20042000159, a review of JPMS's compliance with trade reporting requirements to the Automated Confirmation Transaction Service ("ACT") for the period October 1, 2002 through December 31, 2002.
- MRD200342679 / 20050000417, a review of JPMS's compliance with trade reporting requirements to ACT for the period May 1, 2003 through August 31, 2003.
- MRD200233060 / 20050002520, an investigation of cross transactions executed at JPMS during the period September 1, 2001 through March 31, 2002. The staff also reviewed JPMS's written supervisory procedures regarding trade reporting that were in effect from September 2001 through March 2002.

- A. JPMS hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

MRD200343681 / 20042000159:

1. During the period October 1, 2002 through December 31, 2002, JPMS transmitted through ACT 55 last sale reports of transactions in Nasdaq National Market ("NNM") securities and failed to designate through ACT such last sale reports as reflecting a price different from the current market when the execution was based on a prior reference point in time.
2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Marketplace Rule 4632(a)(9).
3. During the period October 1, 2002 through December 31, 2002, JPMS failed to report through ACT the correct symbol indicating whether the transaction was a buy, sell or cross in 11 last sale reports of transactions in eligible securities.
4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Marketplace Rule 6420(c)(4).

MRD200342679 / 20050000417:

5. JPMS failed, within 90 seconds after execution, to transmit through ACT 32 last sale reports of transactions in eligible securities and failed to designate through ACT such last sale reports as late.
6. The conduct described in paragraph five constitutes separate and distinct violations of NASD Marketplace Rule 6420(a).
7. JPMS failed, within 90 seconds after execution, to transmit through ACT 298 last sale reports of transactions in eligible securities. These transactions constitute 2 percent of the transactions reviewed that JPHQ was required to report to ACT in eligible securities during the period May 1, 2003 through August 31, 2003.
8. The conduct described above in paragraph seven constitutes a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.

MRD200233060 / 20050002520:

9. JPMS failed to report to ACT the correct symbol indicating whether JPMS executed 1,664 transactions in eligible securities in a principal or agency capacity.
10. The conduct described in paragraph nine constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).
11. JPMS reported through ACT 226 last sale reports of transactions in Nasdaq National Market securities it was not required to report.
12. The conduct described in paragraph 11 constitutes separate and distinct violations of NASD Marketplace Rule 4632.
13. JPMS reported through ACT 175 last sale reports of transactions in eligible securities it was not required to report.
14. The conduct described in paragraph 13 constitutes separate and distinct violations of NASD Marketplace Rule 6420.
15. JPMS reported through ACT two last sale reports of transactions in OTC Equity securities it was not required to report.
16. The conduct described in paragraph 15 constitutes separate and distinct violations of NASD Marketplace Rule 6620.
17. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning ACT reporting and trade reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.
18. The conduct described in paragraph 17 constitutes a violation of NASD Conduct Rules 2110 and 3010.

- B. JPMS also consents to the imposition, at a maximum, of the following sanctions:

A censure, a fine of \$115,000 (composed of a \$5,000 fine for the trade reporting violations in 20042000159; a \$15,000 fine for the trade reporting violations in 20050000417; a \$70,000 fine for the ACT reporting and trade reporting violations in 20050002520; and a \$25,000 fine for the supervision violation in 20050002520) and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph 17. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph 17; and, (3) the date the revised procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

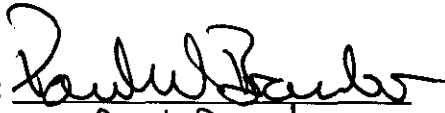
OTHER MATTERS

- A. JPMS understands that it may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. JPMS understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.
- B. JPMS agrees to pay any monetary sanctions imposed on JPMS upon notice that this AWC has been accepted and that such payments are due and payable, and has attached the Election of Payment form showing the method by which JPMS proposes to pay any fine imposed.
- C. JPMS specifically and voluntarily waives any right to claim that JPMS is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

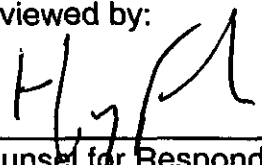
J.P. Morgan Securities Inc. certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce JPMS to submit it.

10/26/05
Date

J.P. Morgan Securities Inc.

By: 
Name: Paul Brandon
Title: President

Reviewed by:


Counsel for Respondent

Accepted by NASD:

1/9/06
Date


Thomas R. Gira,
Executive Vice President & Deputy
Department of Market Regulation

Signed on behalf of the Director of ODA,
by delegated authority