

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
20050001137-01

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, 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 finding 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 January 9, 2006, an AWC became final wherein JPMS was censured, required to update its written supervisory procedures and fined \$115,000 for trade reporting, ACT reporting and supervision violations. On March 26, 2004, an AWC became final wherein JPMSI was censured and fined \$15,000 for trade reporting 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.

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 prejudgment 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"):

- MRD200448400 / 20050001137¹, a review of JPMS's compliance with trade reporting requirements to the Automated Confirmation Transaction Service ("ACT") for the period May 1, 2004 through August 31, 2004.
- 20050005054, a review of JPMS's compliance with trade reporting requirements to ACT for the period September 1, 2004 through December 31, 2004.
- 20050010945, the 2005 Trading and Market Making Surveillance Examination of JPMS, a review the following items:
 - 49 customer and proprietary sale transactions, for compliance with Regulation SHO Rules 200(g) and/or 203(b) from trade date March 24, 2005;
 - 63 sale transactions for compliance with short sale reporting requirements from trade date March 24, 2005;
 - five short sales in CQS securities, for compliance with SEC Rule 10a-1 (Tick Test) from trade date March 24, 2005;
 - 10 customer transactions in OTCBB and OTC equity securities, for compliance with NASD Rules 3110(b) and 2320 from trade date March 24, 2005;
 - 22 orders for NASDAQ securities in soft dollar accounts and 50 related executions, for compliance with trade reporting rules and the safe harbor

¹ On January 3, 2005 the NASD implemented a new matter tracking system. The new number assigned to this matter is referenced above following the original number assigned by the previous tracking system.

limitations of SEC Section 28(e) from various trade dates throughout March 2005;

- 15 limit orders executed as principal by JPMS for compliance with the limit order protection requirements, SEC Rule 11Ac1-4 (now Rule 604 under Regulation NMS), SEC Rule 11Ac1-1 (now Rule 602 under Regulation NMS), best execution requirements and NASD Marketplace Rules 6440 and 6541 from trade dates March 23 and 24, 2005;
- 10 institutional, not-held market orders reviewed for compliance with NASD Conduct Rule 2320 from trade date March 24, 2005;
- 23 limit and market orders and 50 transactions executed in a principal or riskless principal capacity for compliance with capacity reporting requirements from trade dates March 23 and 24, 2005;
- 50 orders submitted to the Order Audit Trail System ("OATS") for compliance with NASD Marketplace Rule 6955 from trade date March 24, 2005;
- registration status of 13 persons engaged in JPMS's trading and market making activities as of March 2005;
- 155 customer confirmations for compliance with SEC Rule 10b-10 from various trade dates throughout March 2005;
- 185 order memoranda for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4 from various trade dates throughout February and March 2005;
- 275 transactions for compliance with the rules applicable to trade reporting and ACT reporting from various trade dates throughout March 2005;
- 25 orders in securities for which the firm was a market center for compliance with SEC Rule 11Ac1-5 (now Rule 605 under Regulation NMS) order size/type classification requirements from trade date March 24, 2005;
- For the February and March 2005 reports, seven security/size/order data statistics, and the related underlying orders, published on JPMS's monthly order execution report for compliance with SEC Rule 11Ac1-5 (now Rule 605 under Regulation NMS);
- Data published on JPMS's quarterly order routing report for compliance with SEC Rule 11Ac1-6 (now Rule 606 under Regulation NMS) for the quarter ended March 2005;
- JPMS's establishment and implementation of regular and rigorous reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Conduct Rules 2320 and 3010; and
- JPMS's written supervisory procedures for trade reporting, market making and trading practices.

- A. JPMS hereby accepts and consents, without admitting or denying the 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:

MRD200448400 / 20050001137

1. During the period May 1, 2004 through August 31, 2004, JPMS failed, within 90 seconds after execution, to transmit through ACT 78 last sale reports of transactions in OTC Equity securities. These transactions constitute 19 percent of the transactions reviewed that JPMS was required to report to ACT in OTC Equity securities during the period May 1, 2004 through August 31, 2004.
2. The conduct described above in paragraph one constitutes a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.
3. JPMS failed, within 90 seconds after execution, to transmit through ACT 14 last sale reports of transactions in OTC Equity securities and failed to designate through ACT such last sale reports as late.
4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Marketplace Rule 6620(a).

20050005054

5. JPMS failed to report the correct time of execution through the Nasdaq Market Center in 861 last sale reports of transactions in Nasdaq National Market securities for which JPMS has recording and reporting obligations under NASD Marketplace Rules 6954 and 6955.
6. The conduct described in paragraph five constitutes separate and distinct violations of NASD Marketplace Rule 4632(c)(6).
7. JPMS failed to report the correct time of execution through the Nasdaq Market Center in eight last sale reports of transactions in Nasdaq SmallCap securities for which JPMS has recording and reporting obligations under NASD Marketplace Rules 6954 and 6955.
8. The conduct described in paragraph seven constitutes separate and distinct violations of NASD Marketplace Rule 4642(c)(6).
9. JPMS transmitted through Nasdaq Market Center or TRACS 869 last sale reports of transactions in Nasdaq securities and failed to designate

through Nasdaq Market Center or TRACS 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. JPMS incorrectly designated these transactions as ".T".

10. The conduct described in paragraph nine constitutes separate and distinct violations of NASD Marketplace Rule 5430(a)(10).
11. JPMS failed, within 90 seconds after execution, to transmit through the Nasdaq Market Center or TRACS 1,082 last sale reports of transactions in Nasdaq securities. These transactions constitute two percent of the transactions reviewed that JPMS was required to report to the Nasdaq Market Center or TRACS during the review period.
12. The conduct described above in paragraph 11 constitutes a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.

20050010945

13. For the month of March 2005, JPMS made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incorrect information as to the amount of total canceled shares.
 14. The conduct described in paragraph 13 constitutes separate and distinct violations of SEC Rule 605.
- B. JPMS also consents to the imposition, at a maximum, of the following sanctions:

A censure and a fine of \$45,000 (composed of a \$17,500 fine for the trade reporting violations in 20050001137; a \$17,500 fine for the trade reporting violations in 20050005054; and a \$10,000 for the SEC Rule 11Ac1-5 violations in 20050010495).

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 that 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.

07/06/06
Date

J.P. Morgan Securities Inc.

By: James T. Brett
Name: JAMES T. BRETT
Title: MANAGING DIRECTOR

Reviewed by:

Counsel for Respondent

Accepted by NASD:

8/10/2006
Date

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

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