

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060059052-01**

RECEIVED

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REGISTRATION & DISCLOSURE

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: J.P. Morgan Securities Inc., Respondent
Broker-Dealer
CRD No. 79

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

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

JPMS has been a member of FINRA since December 17, 1936. The firm's registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm does not have any prior relevant disciplinary history.

SUMMARY

This matter arose out of the following reviews:

- 20060059052, a review by the staff of the Department of Market Regulation (the "staff") of the firm's compliance with short interest reporting requirements during the period December 2005 through January 2007.
- 20070090539, the 2007 Trading and Market Making Surveillance Examination of the firm conducted by the staff, wherein the staff reviewed the items set forth on Exhibit A. Unless otherwise stated, the samples were from trade dates April 25, 2007 and April 26, 2007 ("2007 TMMS review period").

FACTS AND VIOLATIVE CONDUCT

20060059052

1. During the period December 2005 through January 2007, the firm submitted to NASD its short interest position reports in Nasdaq securities. These reports included five short interest positions totaling 5,254,489 shares when the firm should have reported 30 short interest positions totaling 1,772,501 shares. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3360.
2. During the period December 2005 through November 2006, the firm submitted to the New York Stock Exchange ("NYSE" or the "Exchange") its short interest position reports in securities listed on the Exchange. These reports included five short interest positions totaling 8,638,011 shares when the firm should have reported two short interest positions totaling 17,995 shares. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 2110 and Incorporated NYSE Rule 421.10.

20070090539

3. During the 2007 TMMS review period, the firm transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data relating to 24 orders. Specifically, 15 reports contained the inaccurate time of receipt; in six instances the firm failed to submit a desk report; in connection with 10 orders, the firm failed to submit a special handling code; and in six instances, the firm improperly submitted a route

percent of the sample of orders reviewed in the TMMS examination that the firm transmitted to OATS on the trade date(s) reviewed in the 2007 TMMS examination. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

OTHER FACTORS

The firm self-reported its short interest reporting error to the staff. The sanction reflects a lower fine as a result of the firm's self-reporting.

- B. The firm also consents to the imposition of the following sanctions:

A censure and a fine of \$27,500 (composed of a \$7,500 fine for the OATS violations and a \$20,000 fine for the short interest reporting violations).

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm 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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. The firm 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. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

