

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070079718-01**

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

RE: J.P. Morgan Securities Inc., Respondent
Broker-Dealer
CRD No. 79¹

Pursuant to FINRA Rule 9216 of FINRA's 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 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

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

RELEVANT DISCIPLINARY HISTORY

On August 10, 2006, an AWC became final wherein the firm was censured and fined \$45,000 for trade reporting and SEC Rule 605, formerly SEC Rule 11Ac1-5,

¹ In 2008, J.P. Morgan Securities Inc. (operating under CRD No. 18718) merged with Bear, Stearns & Co. Inc. (operating under CRD No. 79). On September 19, 2008, Bear, Stearns & Co. Inc. filed a Form BD requesting a name change to J.P. Morgan Securities Inc. On October 8, 2008, J.P. Morgan Securities Inc. terminated the registration with FINRA under CRD No. 18718 as merged with Broker-Dealer #79. J.P. Morgan Securities Inc.'s registration remains in effect with FINRA under CRD No. 79.

violations. 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.

SUMMARY

This matter arose out of the following reviews:

- 20070079718, wherein the Market Regulation Department staff (the "staff") reviewed the firm's compliance with Order Audit Trail System ("OATS") reporting during the period April 1, 2006 through July 31, 2006 (the "2006 OATS review period").
- 20070084470, wherein the staff reviewed the firm's handling of market orders during the period October 1, 2006 through December 31, 2006 (the "2006 market order review period").
- 20070099805, wherein the staff reviewed the firm's compliance with OATS reporting during the period April 1, 2007 through June 30, 2007 (the "2007 OATS review period").
- 20080132245, wherein the staff reviewed the firm's compliance with TRACE transaction reporting during the period October 1, 2007 through December 31, 2007 (the "2007 TRACE trade reporting review period").
- 20080138269, wherein the staff reviewed the firm's compliance with trade reporting requirements during the period September 1, 2007 through December 31, 2007 (the "2007 trade reporting review period").
- 20080142552, wherein the staff reviewed the firm's trade reporting in OTC equity securities during the period January 1, 2008 through April 30, 2008 (the "2008 trade reporting review period").

FACTS AND VIOLATIVE CONDUCT

20070079718

1. During the 2006 OATS review period, the firm failed to timely report to OATS 316,955 Reportable Order Events ("ROEs"). These late ROEs represented 5.5 percent of all ROEs (5,781,004) that the firm transmitted to OATS during the 2006 OATS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

2. During the 2006 OATS review period, the firm transmitted to OATS 1,022 Route or Combined Order/Route Reports that the OATS system was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete or improperly formatted data. These unmatched Route or Combined Order/Route Reports represented 9.2 percent of all match-eligible Route or Combined Order/Route Reports (11,103) that the firm transmitted to OATS during the 2006 OATS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
3. During the 2006 OATS review period, the firm transmitted to OATS 47,369 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 47,369 Route or Combined Order/Route Reports represented 1.3 percent of all match-eligible Route or Combined Order/Route Reports (3,641,636) that the firm transmitted to OATS during the 2006 OATS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
4. During the 2006 OATS review period, the firm transmitted to OATS 5,056 Execution or Combined Order/Execution Reports that contained inaccurate, incomplete, or improperly formatted data. Because of the inaccurate, missing, or improperly formatted data, the OATS system was unable to link the execution reports to the related trade reports in an NASD trade reporting system. These inaccurate and/or incomplete Execution or Combined Order/Execution Reports represented approximately one percent of all match-eligible Execution or Combined Order/Execution Reports (534,242) that the firm transmitted to OATS during the 2006 OATS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
5. During the 2006 OATS review period, 139 Route or Combined Order/Route Reports were transmitted to the OATS system where JPMS was named as the Sent To Firm which OATS was unable to match to a related New Order Report submitted by JPMS. These 139 Route or Combined Order/Route Reports represented 95 percent of all match-eligible Route or Combined Order/Route Reports (147) submitted to OATS where JPMS was named as the Sent To Firm during the 2006 OATS review period. The conduct described in this

paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20070084770

6. During the 2006 market order review period, in 30 instances the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(a).
7. Of the 30 instances cited above, 17 were transactions for or with a customer in which the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit A which is attached. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.

20070099805

8. During the 2007 OATS review period, the firm transmitted to OATS 175,935 Reportable Order Events ("ROEs") that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 130,278 of these rejected ROEs during the 2007 OATS review period, representing 74 percent of all rejected repairable ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 130,278 ROEs to OATS during the 2007 OATS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20080132245

9. During the 2007 TRACE trade reporting review period, the firm failed to report to TRACE 172 transactions in TRACE-eligible securities within 15 minutes of the time of execution. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(a) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110.

20080138269

10. During the 2007 trade reporting review period, the firm failed to accept or decline in the FINRA/Nasdaq Trade Reporting Facility or OTC

Reporting Facility 539 transactions in Reportable Securities within 20 minutes after execution, representing approximately 28 percent of all transactions that the firm had an obligation to accept or decline as the OEID during the 2007 trade reporting review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(b) and a violation of NASD Rule 2110.

20080142552

11. During the 2008 trade reporting review period, the firm failed, within 90 seconds after execution, to transmit to the OTC Reporting Facility 19 last sale reports of transactions in OTC Equity securities and failed to designate to the OTC Reporting Facility such last sale reports as late. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6620(a).
12. During the 2008 trade reporting review period, the firm failed, within 90 seconds after execution, to transmit to the OTC Reporting Facility 443 last sale reports of transactions in OTC Equity securities. These transactions constitute 17 percent of the transactions reviewed that the firm reported to the OTC Reporting Facility during the 2008 trade reporting review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6620(a) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110.
13. During the 2008 trade reporting review period, the firm failed to report to the OTC Reporting Facility the correct time of execution for four transactions in Reportable Securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d).

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

- A censure;
- a fine of \$50,000 (composed of \$7,500 for the OATS violations in 20070079718; \$10,000 for the market order timeliness and best execution violations in 20070084470; \$7,500 for the OATS violations in 20070099805; \$5,000 for the TRACE trade reporting violations in 20080132245; \$15,000 for the trade reporting violations in 20080138269; and \$5,000 for the trade reporting violations in 20080142552); and

- restitution by Respondent to the investors listed on Exhibit A which is attached, in the total amount of \$1,326.74, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council. A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer is known to have last resided.

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:

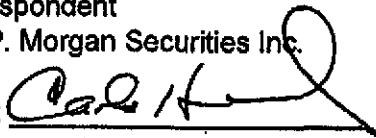
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

January 29, 2010
Date

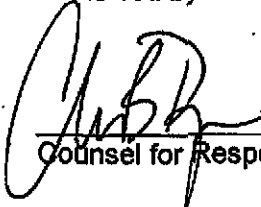
Respondent
J.P. Morgan Securities Inc.

By: 

Name: Carlos Hernandez

Title: Managing Director

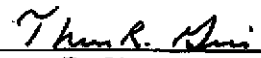
Reviewed by:


Counsel for Respondent

Accepted by FINRA:

2/23/10
Date

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


Thomas R. Gira
Executive Vice President
Department of Market Regulation

**J.P. Morgan Securities Inc.
Matter No. 20070084470**

Exhibit A

Item No.	Date	Issue	Quantity	Trade Time	Trade Price	Restitution
1	10/16/2006	AMZN	600	10:48:34	\$32.81	\$48.00
2	10/16/2006	CWTR	1000	9:47:44	\$19.94	\$20.00
3	10/16/2006	INTC	400	10:51:37	\$21.68	\$16.00
			600	10:54:20	\$21.69	
4	10/19/2006	UEPS	271	11:00:00	\$25.73	\$8.13
5	10/27/2006	UEPS	200	11:16:06	\$25.62	\$30.00
6	11/7/2006	INFY	145	12:44:21	\$52.82	\$352.70
			2000	12:44:35	\$52.65	
			350	12:44:44	\$52.68	
			100	12:44:44	\$52.67	
			394	12:44:44	\$52.69	
7	11/14/2006	MEDX	200	9:42:50	\$13.38	\$88.00
			800	9:42:54	\$13.39	
			1500	9:42:56	\$13.40	
8	11/14/2006	PLLL	500	10:18:38	\$20.46	\$5.00
9	11/14/2006	PLLL	35	10:19:50	\$20.40	\$2.45
10	11/14/2006	RYAAY	1754	9:41:59	\$75.75	\$615.50
			1646	9:59:42	\$72.50	
11	11/21/2006	INFY	823	9:41:20	\$53.44	\$16.46
12	11/28/2006	INFY	500	9:59:16	51.57	\$28.00
			600		51.56	
13	12/4/2006	INFY	800	3:57:47	54.31	\$64.00
			100		54.28	
			100		54.30	
14	12/6/2006	ASML	250	10:56:00	\$25.09	\$7.50
15	12/6/2006	ASML	250	10:59:25	\$25.12	\$2.50
16	12/6/2006	ASML	250	11:07:42	\$25.12	\$2.50
17	12/27/2006	INFY	1000	9:44:50	\$54.80	\$20.00
				Total:		\$1,326.74