

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080150848-01**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, J.P. Morgan Securities LLC ("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 is a full-service registered broker-dealer, with its principal offices located in New York, NY. The firm has been a member of FINRA since December 17, 1936, and its registration remains in effect. The firm formerly did business under the name J.P. Morgan Securities, Inc. The firm has no relevant disciplinary history.

OVERVIEW

In Review No. 20080150848, the Short Sales Group of FINRA's Department of Market Regulation ("Short Sales Group") conducted a regulatory investigation regarding compliance by the firm with SEC and FINRA rules and regulations regarding short sale transactions, during the review period January 3, 2005 through December 22, 2009 ("the review period"). The Short Sales Group's investigation disclosed that during the review period, as described in detail below, the firm included as part of its aggregation of net positions in securities within aggregation units ("AGUs") the securities positions of a

non-broker-dealer affiliate,¹ in violation of Rule 200(f) of Regulation SHO. In addition, during the time period February 1, 2006 through the present date, the firm's written plan of organization regarding AGUs was deficient, in violation of SEC Rule 200(f), and the firm's written supervisory procedures regarding AGUs were deficient, in violation of NASD Rules 2110 and 3010 (for conduct prior to December 15, 2008), and FINRA Rule 2010 and NASD Rule 3010 (for conduct on or after December 15, 2008).

FACTS AND VIOLATIVE CONDUCT

1. The Firm Improperly Included the Securities Positions of a non-Broker-Dealer Affiliate in Determining the Net Positions of its AGUs

Rule 200(f) of Regulation SHO provides that:

In order to determine its net position, a broker or dealer shall aggregate all of its positions in a security unless it qualifies for independent trading unit aggregation, in which case each independent trading unit shall aggregate all of its positions in a security to determine its net position. Independent trading unit aggregation is available only if: (1) the broker-dealer has a written plan of organization that identifies each aggregation unit, specifies its trading objectives, and supports its independent identity; (2) each aggregation unit within the firm determines, at the time of each sale, its net position for every security that it trades; (3) all traders in an aggregation unit pursue only the particular trading objective(s) or strategy(s) of that aggregation unit and do not coordinate that strategy with any other aggregation unit; and (4) individual traders are assigned to only one aggregation unit at any time.

Rule 200(f) of Regulation SHO does not permit the inclusion of the securities positions of a broker-dealer's non-broker-dealer affiliates in calculating the net securities positions of the independent trading units of a broker-dealer.

During the review period, the firm's trading desks were organized into separate AGUs, for purposes of compliance with SEC Rule 200(f) and pre-existing guidance concerning the proper use of AGUs. Each of the separate AGUs contained numerous trading books, for which securities positions were netted together to determine the total net position of that AGU and, accordingly, whether the AGU's orders should be marked long or short. In addition to the firm's proprietary positions, the AGUs also improperly included the trading positions of the non-broker-dealer affiliate in determining the AGUs' net positions.² As a result, the firm's AGUs failed to accurately reflect the correct positions within the appropriate trading books, in violation of SEC Rule 200(f).

¹ The non-broker-dealer affiliate maintains securities accounts at the firm, primarily for the purpose of hedging risks in connection with derivative products such as over-the-counter swaps. The non-broker-dealer affiliate has traded millions of shares through the firm during the review period.

² The non-broker-dealer affiliate's trading positions were incorporated into seven separate AGUs maintained by the firm during the review period.

2. The Firm Failed to Maintain an Adequate and Accurate Written Plan of Organization Regarding AGUs

During the time period February 1, 2006 through the present date, the firm's written plan of organization for its aggregation units has failed to accurately provide for the overall net position of the securities that were traded and maintained by the firm's AGUs. More specifically, the firm's written plan of organization for its AGUs improperly permitted the inclusion of securities positions of a non-broker-dealer affiliate in determining the net position of the firm's AGUs, in violation of SEC Rule 200(f).

3. The Firm Failed to Maintain Adequate Written Supervisory Procedures Regarding AGUs

During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with the applicable securities laws and regulations, including SEC and FINRA Rules, regarding aggregation of positions in a security to determine the net positions of the firm's AGUs. Specifically, the firm's written supervisory procedures regarding aggregation of positions in a security improperly permitted the inclusion of the non-broker-dealer affiliate's trading positions in determining the net positions of the firm's AGUs. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010 (for conduct prior to December 15, 2008), and FINRA Rule 2010 and NASD Rule 3010 (for conduct on or after December 15, 2008).

4. The Firm's Aggregation Unit Violations Affected the Accuracy of its Short Sales, Trade Reporting, and Books and Records

During the review period, the firm's failure to comply with the aggregation unit requirements described above affected the accuracy of the firm's calculation of its net positions in securities, and the firm's ability to ensure the accuracy of its short sales, trade reports and books and records, which in turn may have resulted in violations of various SEC and FINRA rules regarding short sales, trade reporting, and books and records.

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

- A censure;
- A total fine of \$375,000 (\$275,000 for the SEC Rule 200(f) violations and \$100,000 for the supervision violations); and
- An undertaking to revise the firm's written supervisory procedures, as warranted, with respect to the areas described in Section I.A.3 above. Within 120 days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the firm shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a

signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has addressed and corrected the deficiencies described in Section I.A.3 above; and (3) the date the deficient procedures were addressed and corrected by the firm. For good cause shown and upon receipt of a timely application from the firm, FINRA staff may extend the deadlines set forth in this undertaking.

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is 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 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 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: (i) testimonial obligations; and (ii) 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 the firm 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.

September 19, 2013 (2)
Date

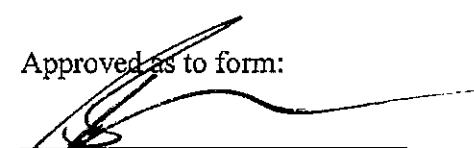
Respondent
J.P. Morgan Securities LLC

By: 

Name: JASON SIPPEL

Title: MANAGING DIRECTOR,
EQUITIES

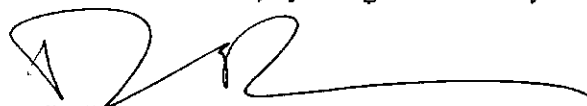
Approved as to form:


Kevin J. Campion, Esq.
Barry W. Rashkover, Esq.
Sidley Austin LLP
1501 K Street, N.W.
Washington, D.C. 20005
Counsel for Respondent

Accepted by FINRA:

10-15-13
Date

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


David E. Rosenstein
Senior Vice President
FINRA Department of Market Regulation