

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009019359201**

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

RE: J.P. Morgan Securities LLC, Respondent
Member Firm
BD No. 79

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent J.P. Morgan Securities LLC, ("JP Morgan" 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

J.P. Morgan is a full-service broker dealer headquartered in New York, New York. It employs 8,158 registered persons who operate from 217 branch offices.

RELEVANT DISCIPLINARY HISTORY

JP Morgan has no prior relevant disciplinary history.

OVERVIEW

On August 11, 2009, JP Morgan published a research report downgrading MBIA Inc. ("MBIA") from "neutral" to "underweight." The downgrade report discussed lawsuits against MBIA without disclosing that JP Morgan's affiliate was a plaintiff in one of the lawsuits. By not

disclosing the role of its affiliate in a lawsuit adverse to the covered company, the research report was not fair and balanced and did not provide a sound basis for readers to evaluate all relevant facts. As a result, JP Morgan violated NASD Rules 2210(d)(1)(A) and 2711(h)(9), and FINRA Rule 2010. JP Morgan also did not have a member of its US Equity Research Management properly registered as a Research Principal ("RP") from June 20, 2006 to March 19, 2007, thereby violating NASD Rules 1021, 1022(a)(5) and 2110. In addition, the Firm failed to adequately supervise its registration obligations and failed to revise its research policies and procedure manual in a timely fashion to reflect the RP requirement, thereby violating NASD Rules 3010, 2110, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

The Research Report

NASD Rule 2210(d)(1)(A) requires communications with the public, inter alia, to be "fair and balanced" and to "provide a sound basis for evaluating the facts in regard to any particular security...." NASD Rule 2711(h)(9) requires members to disclose in research reports all disclosures that are required by applicable law or regulation, including NASD Rule 2210.

On August 11, 2009, JP Morgan published a research report downgrading MBIA. One of the principal, stated reasons for the downgrade was that MBIA had released into income \$1.1 billion in reserves based on the expectation that it would win certain lawsuits in which MBIA was the plaintiff. JP Morgan's analyst criticized that decision, pointing out that any potential recovery was uncertain and at least three years in the future. To illustrate the concerns with MBIA's accounting, the analyst contrasted MBIA's approach to these lawsuits with its approach to other lawsuits in which it was the defendant:

We also find it contradictory the company expects to win this law suit [sic] that claims reps and warranties were broken, and also win the suits it is a defendant in where the plaintiffs are essentially pleading a similar case. Purchasers of credit protection and insured bond holders are suing [MBIA] due to its good bank/bad bank split, which left structured and international obligations with significantly less capital to cover future claims. The plaintiffs argue they purchased protection based on consolidated capital levels, and the transfer must be reversed, as that would no longer be the case. We believe the outcome of this suit is also highly uncertain, and could have serious negative impacts on [MBIA] if it were to lose.

The report did not disclose that the Firm's banking affiliate was one of the plaintiffs in one of the lawsuits against MBIA referenced in the analyst's illustration.

After publication of the report, MBIA complained to the Firm about the research report, including the Firm's failure to disclose its affiliate's role in one of the pending lawsuits. In response to this complaint, the Firm agreed "[i]n the spirit of cooperation, and to address [MBIA's] concerns," to voluntarily "re-post" a revised report containing an additional disclosure. Thus, three days after the original report, on August 14, 2009, the Firm issued a revised report that added in relevant part: "Pending Litigation: In May 2009, numerous financial institutions,

including [the Firm's affiliate] filed a civil suit ... against [MBIA] This lawsuit is referenced in the above report."

The Firm did not remove the original report, which continued to be available on JP Morgan's website for over a year, and did not redistribute the revised report to the approximately 900 people who received the original report.

Based on the circumstances described above, the original research report was not fair and balanced and did not provide a sound basis for a reader to properly evaluate all the relevant facts. By reason of the foregoing, JP Morgan violated NASD Rules 2210(d)(1)(A), 2711(h)(9), and FINRA Rule 2010.

JPM was Required to Register a Member of US Equity Research Management as a Research Principal

Rule 1021 requires all persons engaged in the investment banking or securities business of a member who are to function as principals to be registered as such. Rule 1022(a)(1) requires all persons who fit within the definition of a "principal" in Rule 1021 to register as a GP and to pass a qualifying examination. Rule 1021(b) defines a "principal" in pertinent part to be an associated person who is "actively engaged in the management of the member's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member" Rule 1022 was amended effective August 2, 2005 to impose additional licensing requirements on principals who supervise research analysts. The amendment, codified at 1022(a)(5), requires general securities principals to pass a qualification examination in order to supervise the conduct of a research analyst as defined in Rule 1050.

One of the Firm's registered representatives (the "Manager") was promoted to a management position in US Equity Research effective June 20, 2006. At that time, although the Manager held a Series 24, the Manager also needed to be licensed as a Research Principal ("RP") by passing either the Series 16 or 87. From June 20, 2006 to March 19, 2007, the Firm permitted the Manager to supervise approximately 55 to 70 equity research analysts without being properly licensed as a RP; during that time, the Manager had not passed the Series 87 and never sought to be registered as a Series 16. The Manager ceased supervising these research analysts on March 19, 2007, when the Firm transferred all supervisory responsibilities away from the Manager. Because the Firm permitted the Manager to supervise research analysts for nine months without being properly qualified, it violated NASD Rules 1021 and 1022(a)(5), and NASD Rule 2110.

Failure to Supervise and Inadequate Written Supervisory Procedures in Connection with RP Registration

The Firm knew that the Manager needed to obtain a Series 87 around the time the Manager was promoted, but failed to ensure compliance with the registration rules. Among other things, the Manager's Series 87 test window was not opened until February 9, 2007, eight months after the promotion, and the Manager was permitted to supervise analysts until March 2007.

In addition, JP Morgan's written supervisory policies were not timely amended to reflect the RP requirement. The RP licensing requirement was announced in Notice to Members 04-82 in

November 2004 and became effective on August 2, 2005. Nonetheless, the Firm's Equity Research Policies and Procedures Manual dated March 28, 2005 did not requiring research management to have either the Series 16 or 87 and was not revised to reflect the Series 16 or 87 license until October 27, 2006, more than a year after the RP licensing requirement became effective. For these reasons, the Firm violated NASD Rules 3010 and 2110.

B. Respondent also consents to the imposition of the following sanctions:

1. a censure; and
2. a fine of \$150,000.

Respondent agrees to pay the monetary sanction 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 propose to pay the fine imposed.

Respondent 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

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

- A. To have a Complaint issued specifying the allegations against it;
- 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, Respondent 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.

Respondent 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

Respondent understands that:

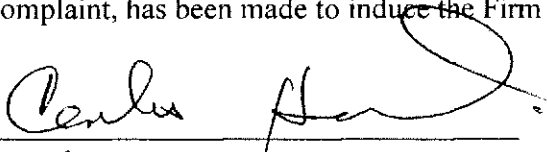
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will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

positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 have been given a full opportunity to ask questions about it; that Respondent has agreed to its 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.

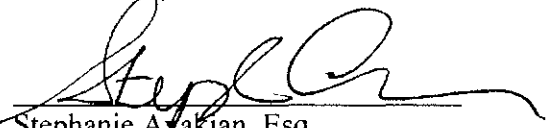
12/12/2011
Date (mm/dd/yyyy)


Respondent

J. P. Morgan Securities LLC

By: Carlos M. Hernandez
Name: Managing Director
Title: J.P. Morgan Securities LLC

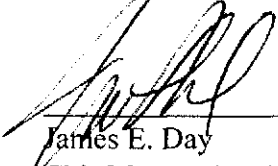
Reviewed by:


Stephanie Avakian, Esq.
Counsel for Respondent
Wilmer Cutler Pickering Hale and Dorr LLP
399 Park Avenue
New York, NY 10022
(212) 230-8800

Accepted by FINRA:

12/13/11
Date

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


James E. Day
Chief Counsel and Associate V.P.
FINRA Department of Enforcement
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