

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110262791**

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

RE: Chase Investment Services Corp.
~~Member Firm~~
CRD No. 25574

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, J.P. Morgan Securities LLC, as successor in interest to Chase Investment Services Corp., hereinafter referred to as "CISC" or "Respondent", 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

CISC became a FINRA regulated broker-dealer on March 30, 1990. On October 1, 2012, CISC merged with JPMS and no longer operates as a separate entity. Prior to the merger CISC operated as part of a global company providing investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management and private equity. CISC was the retail broker-dealer that JPMorgan Chase Bank, N.A. ("JPMCB") primarily used to offer investment products and provide investment advice to retail customers. CISC had 5,771 branch offices and 23,966 registered representatives.

RELEVANT DISCIPLINARY HISTORY

CISC has no relevant disciplinary history.

OVERVIEW

During the period May 2008 through October 2010 (the "Relevant Period"), CISC violated NASD Rule 2110 and FINRA Rule 2010¹ by failing to deliver approximately 1,101,271 prospectuses to its customers for certain mutual fund and exchange traded fund transactions in contravention of Section 5(b)(2) of the Securities Act of 1933 (the "Securities Act"). CISC also violated NASD Rules 3010 and 2110 and FINRA Rule 2010 by failing to establish and implement an adequate supervisory system and written procedures to ensure the delivery of mutual fund and exchange traded fund prospectuses to customers and failing to adequately monitor prospectus delivery functions delegated to a third-party vendor.

FACTS AND VIOLATIVE CONDUCT

1. CISC Failed to Deliver Prospectuses

Under Section 5(b)(2) of the Securities Act, delivery of mutual funds and exchange traded funds is prohibited unless such delivery is accompanied by or preceded by a copy of a prospectus, or a written description for exchange traded funds, if certain conditions are met. FINRA Rule 2010 and NASD Rule 2110 require that a member, in the conduct of its business, observe high standards of commercial honor and just and equitable principles of trade.

During the Relevant Period, CISC failed to deliver prospectuses to certain customers who purchased mutual funds and exchange traded funds. CISC also did not have an adequate supervisory system and written procedures for the delivery of prospectuses or to review delivery functions delegated to a third-party vendor.

Beginning in September 2004 and throughout the Relevant Period, CISC satisfied its mutual fund and exchange traded fund prospectus delivery obligation by contracting with a third-party service provider (the "service provider"). The service provider also provided clearing and execution services to CISC for its retail brokerage business and its fee-based managed accounts. The service provider made available prospectus delivery reports as well as a separate function that permitted the Firm to determine to whom a prospectus had been delivered on a particular trade. Although CISC relied on the service provider to deliver its mutual fund and exchange traded fund prospectuses to customers, it remained CISC's responsibility to review transactions and verify that a prospectus was properly delivered when required.

In 2008, CISC launched Chase Strategic Portfolio ("CSP"), a fee-based, discretionary, unified managed account through which clients may hold, among other investments, mutual funds, exchange traded funds and money market funds. In consultation with a

¹ On December 15, 2008 FINRA Rule 2010 superseded NASD Rule 2110 but the text of the rule remained the same. NASD Rule 2110 applies to all conduct on or before December 14, 2008 and FINRA Rule 2010 applies to all conduct on or after December 15, 2008.

CISC registered representative, a customer selected from a wide selection of distinct investment portfolios designed for investors of varying risk tolerance and investment time horizon.

Due to a configuration error in the automated systems utilized by CISC for prospectus delivery for CSP accounts, CISC directed its service provider to deliver prospectuses for mutual fund and exchange traded fund transactions to the investment advisor, a CISC affiliate, instead of customers. As a result, during the Relevant Period, CISC failed to deliver approximately 1,101,271 prospectuses to CSP customers for whose accounts mutual funds and exchange traded funds had been purchased. Because of CISC's failure to deliver prospectuses to many of its customers who purchased mutual funds and exchange traded funds, these customers were not provided with important disclosure information about these products. By failing to deliver prospectuses to many customers who purchased mutual funds and exchange traded funds, CISC acted in contravention of Section 5(b)(2) of the Securities Act and thereby violated NASD Rule 2110 and FINRA Rule 2010.

2. Inadequate Supervision

NASD Conduct Rule 3010 requires member firms to establish, maintain and enforce a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations.

During the Relevant Period, CISC failed to establish and maintain a supervisory system reasonably designed to achieve compliance with federal rules regarding prospectus delivery requirements. The Firm did not have a formal procedure for reviewing the service provider's prospectus delivery reports for CSP accounts and did not assign anyone to review the service provider's prospectus delivery reports or the service provider's system for these accounts during the Relevant Period. The Firm had access to the service provider's system which identified to whom a prospectus had been delivered, but failed follow-up and review the information to ensure that the service provider was sending prospectuses to customers as required. In fact, CISC did not provide the CISC groups that monitored prospectus delivery compliance access to the service provider system. Thus, CISC did not detect that it failed to send prospectuses to its CSP customers for mutual fund and exchange traded fund transactions until the end of the Relevant Period.

By failing to establish and maintain a supervisory system reasonably designed to achieve compliance with federal rules regarding prospectus delivery requirements, CISC violated NASD Rules 3010 and 2110 and FINRA Rule 2010.

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

1. A censure and
2. a fine in the amount of \$825,000.

Respondent, agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an

Election of Payment form showing the method by which it proposes to pay the fines imposed.

Respondent, specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions 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 Respondent;
- 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 records 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 records;
 - 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: (i) testimonial obligations; or (ii) 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 Respondent, certifies that he is duly authorized to act on Respondent's 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 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 Respondent, to submit it.

Date: 12/6/13

J.P. Morgan Securities LLC,
as Successor in Interest to CISC

By: [Signature]
Title: SVP

ALAN J. CHABOT
SENIOR VICE PRESIDENT

Reviewed by:

[Signature]
James Windels
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Accepted by FINRA:

12.18.13
Date

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

[Signature]
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