

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20120322744 - 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 ("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 became a member of FINRA in 1936, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

In connection with matter 20120322744, the Short Sales Team of the Department of Market Regulation (the "Short Sales staff") reviewed the firm's compliance with Regulation SHO, including Rules 200(g) and 203(b), from October 19, 2011 through January 27, 2012, and from July 2008 to February 2012. As detailed below, the firm violated Rules 200(g) and 203(b) and also had related supervisory violations.

OVERVIEW

The review for this matter was prompted by a report submitted by the firm to Market Regulation staff on April 12, 2012. In the self-report, the firm advised the staff that it had discovered two system issues which resulted in material failures regarding the firm's compliance with Rules 200(g) and 203(b)(1) of Regulation SHO. The system issues related to the firm's Auto Market Maker tool ("AMM tool"), which could be used to assist traders in the maintenance of a two-sided market in a security. The firm reported that a coding error resulted in certain principal short sales incorrectly marked long ("Issue 1") and other principal short sales incorrectly marked short exempt ("Issue 2"). The firm reported that Issue 1 and Issue 2 were caused by coding changes in the AMM tool that were implemented as of October 19, 2011. The firm indicated that use of the AMM tool was suspended on January 27, 2012, immediately upon discovery that it was the source of a mismarked order identified during a routine supervisory review.

While investigating the AMM tool system issues, the firm discovered an order marking issue with the firm's Risk Arbitrage Sector ("Issue 3"). The Risk Arbitrage Sector is a part of the Block Desk that primarily receives and handles domestic equity orders in securities subject to arbitrage situations. The Risk Arbitrage Sector sometimes uses a "pairs strategy" in which two securities whose values correlate are simultaneously bought and sold. The firm reported to Market Regulation staff that the Risk Arbitrage Sector traders marked all sell orders associated with the pair as short because they believed the orders would be subjected to greater regulatory requirements by being marked short. The firm stated that Issue 3 was in effect from July 2008 until the issue was corrected in February 2012. To address the issue, JPMS stated that Risk Arbitrage Sector traders were notified that they must mark orders after referencing position data in real time using the primary order management system for the desk. Additionally, JPMS stated that a manual review was implemented by Regulatory Managers in March 2012 to review marking specifically for the Risk Arbitrage Sector.

SUMMARY OF FINDINGS

As a result of the review, FINRA's Department of Market Regulation found that from October 19, 2011 to January 27, 2012, the firm failed to properly mark 19,318,195 sell orders as short. Consequently, the firm, on 21,217 occasions, also effected a short sale in an equity security for its own account, without obtaining a locate. During January 2012, the firm also incorrectly marked 46 long sell orders as short. In addition, as discussed further below, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of FINRA, concerning Rule 200(g) of Regulation SHO.

FACTS AND VIOLATIVE CONDUCT

1. From October 19, 2011 to January 27, 2012, a coding error in the firm's AMM tool resulted in miscalculations concerning the firm's short positions. As a result of the coding error, the firm's position following sell orders was increased rather than decreased, and the firm failed to properly mark 19,318,195 sell orders as short. Additionally, because of another coding error which translated a trader's entry of a manual locate code as an

indicator to mark the side of that order as short sale exempt, the firm improperly marked approximately 200,000 short sale orders as short exempt. Thus, from October 19, 2011 to January 27, 2012, in total, the firm failed to properly mark 19,518,195 sell orders as short. The conduct described in this paragraph constitutes separate and distinct violations of Rule 200(g) of Regulation SHO.

2. From October 19, 2011 to January 27, 2012, as a result of the coding error related to miscalculations concerning the firm's short positions described in Paragraph A.1, the firm, on 21,217 occasions, effected a short sale in an equity security for its own account, without (1) borrowing the security, or entering into a bona-fide arrangement to borrow the security; or (2) having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due; and (3) documenting compliance with Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of Rule 203(b)(1) of Regulation SHO.
3. During January 2012, the firm's Risk Arbitrage Sector manually marked all sell orders as short without referencing the aggregation unit's position data in real time using the firm's order management system. As a result, the firm incorrectly marked 46 sell long orders as short. The conduct described in this paragraph constitutes separate and distinct violations of Rule 200(g) of Regulation SHO.
4. From July 2008 to February 2012, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to Rule 200(g) and of Regulation SHO. Specifically, the firm's written supervisory procedures did not provide for a statement of the supervisory step(s) to be taken by the person(s) responsible for supervision with respect to Rule 200(g). As a result, the firm failed to detect that its Risk Arbitrage Sector was marking all orders short without referencing position data in real time using the desk's primary order management system. The conduct described in this paragraph constitutes violations of NASD Rule 3010 and FINRA Rule 2010.

OTHER FACTORS

As described above, the firm self-reported to Market Regulation staff in April 2012 that it had discovered significant failures regarding the firm's compliance with Rules 200(g) and 203(b)(1) of Regulation SHO. Additionally, as described above, the firm also took immediate corrective action to remediate the Regulation SHO issues it discovered. The sanctions set forth below significantly take into consideration the firm's self-reporting to Market Regulation staff and the remedial measures taken by the firm to address the Regulation SHO compliance issues.

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

A censure, a fine of \$350,000 (\$250,000 for the violations of Rule 200(g); \$50,000 for the violations of Rule 203(b)(1); and \$50,000 for the supervisory violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.4. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent 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 revised its written supervisory procedures to address the deficiencies described in paragraph I.A.4; and (3) the date the revised procedures were implemented.

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 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 accordance with FINRA Rule 8313;
 - 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; or (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.

10/9/2015
Date

By: frank g. [signature]
Name: LUIS DE SALVO
Title: M.D.

Counsel for Respondent

November 11, 2015
Date

David E. Rosenstein
David E. Rosenstein
Senior Vice President, Legal Section
Department of Market Regulation

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.

Date

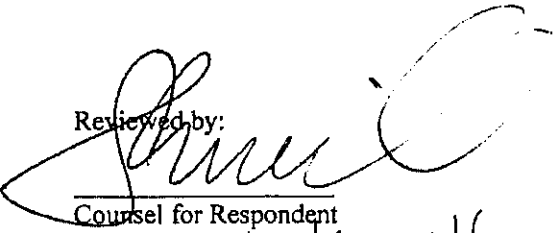
Respondent
J.P. Morgan Securities LLC

By: _____

Name: _____

Title: _____

Reviewed by:



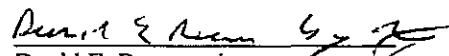
Counsel for Respondent

Susan L. Merrill
Sidley Austin, LLP

Accepted by FINRA:

November 11, 2015
Date

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



David E. Rosenstein
Senior Vice President, Legal Section
Department of Market Regulation