

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 20130383310-01**

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" 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**

The firm has been a member of FINRA since December 17, 1936, and its registration remains in effect. The firm has no relevant disciplinary history.

**SUMMARY**

In Review No. 20130383310, the Trade Reporting and Compliance Engine ("TRACE") Agency/Securitized Products Team (the "staff") reviewed the firm's compliance with fixed income reporting in TRACE and the Municipal Securities Rulemaking Board's ("MSRB") Real-time Transaction Reporting System ("RTRS") during the period March 1, 2008 through June 30, 2013 (the "review period").

Based on the foregoing review, the staff found that the firm violated the FINRA and MSRB rules set forth below.

## FACTS AND VIOLATIVE CONDUCT

On September 17, 2013, in a FINRA Rule 4530 filing, the firm disclosed to FINRA the late trade reporting of client-side executions to TRACE and the RTRS. The late reporting involved essentially “riskless” principal transactions, where certain trading desks facilitated client transactions by buying or selling with the street and then effected corresponding, offsetting transactions with the clients. While the street-side transactions were reported to TRACE or the RTRS within the 15-minute reporting window, the client-side transactions were not. In addition to the firm’s significant internal investigation, the staff conducted a thorough review and determined that the conduct resulted from the firm’s misunderstanding of the requirement to report customer executions in fixed income securities within the times set forth in NASD Rule 6230/FINRA Rule 6730 and MSRB Rule G-14. The firm’s misunderstanding of TRACE and MSRB reporting requirements occurred for a significant period of time and resulted in the following violative conduct:

1. During the review period, the firm failed to report to TRACE 147,456 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) (for conduct that occurred prior to December 15, 2008) and FINRA Rule 6730(a) (for conduct that occurred on or after December 15, 2008) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110 (for conduct that occurred prior to December 15, 2008) and FINRA Rule 2010 (for conduct that occurred on or after December 15, 2008).
2. During the review period, the firm failed to report to TRACE the correct time of trade execution for 147,456 transactions in TRACE-eligible securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(c)(8) (for conduct that occurred prior to December 15, 2008) and FINRA Rule 6730(c)(8) (for conduct that occurred on or after December 15, 2008).
3. During the review period, the firm failed to report information regarding 132,839 purchase and sale transactions effected in municipal securities to the RTRS in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS Users’ Manual. Specifically, the firm failed to report information about such transactions within 15 minutes of Time of Trade to an RTRS Portal, and, when reported, the firm failed to report to the RTRS Portal the correct time of trade execution. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rule G-14.
4. During the review period, 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 FINRA rules relating to TRACE reporting. Specifically, the firm’s written supervisory procedures relating to the TRACE reporting of the customer legs of “riskless” principal transactions executed by certain

trading desks did not include: (a) the identification of the individual(s) responsible for supervision with respect to these rules; (b) a statement of the supervisory step(s) to be taken by the identified person(s); (c) a statement as to how often such person(s) should take such step(s); and (d) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 (for conduct that occurred prior to December 15, 2008) and 3010 and FINRA Rule 2010 (for conduct that occurred on or after December 15, 2008).

5. During the review period, 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 MSRB rules relating to RTRS reporting. Specifically, the firm's written supervisory procedures relating to the RTRS reporting of the customer legs of "riskless" principal transactions executed by certain trading desks did not include: (a) the identification of the individual(s) responsible for supervision with respect to these rules; (b) a statement of the supervisory step(s) to be taken by the identified person(s); (c) a statement as to how often such person(s) should take such step(s); and (d) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of MSRB Rule G-27.

#### **OTHER FACTORS**

The sanctions set forth below take into consideration the firm's: (1) self-identification of this conduct; (2) self-reporting of this conduct to the staff following an internal investigation; (3) extraordinary assistance with the investigation, which included conducting an internal investigation into the cause of the conduct and providing the findings of the investigation to the staff; and (4) remediation efforts, which included the immediate implementation of an interim solution, a change in order management systems used for fixed income reporting, and enhancements to the firm's written supervisory procedures to include a new weekly review to ensure that client-side transactions are timely reported.

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

A censure and a fine of \$675,000 (comprised of \$287,500 for the TRACE reporting violations; \$287,500 for the MSRB Rule G-14 violations; \$50,000 for the TRACE-related supervision violations; and \$50,000 for the MSRB-related supervision violations).

Respondent 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.

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 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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:

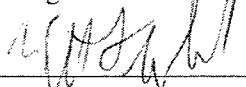
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

- 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 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. 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 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. Respondent 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.

2/22/17  
Date

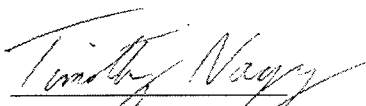
Respondent  
J.P. Morgan Securities LLC

By: 

Name: William H. Freilich  
**Managing Director**

Title: \_\_\_\_\_

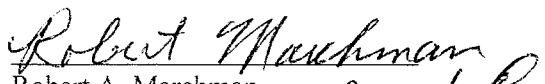
Reviewed by:

  
Timothy B. Nagy, Esq.  
Counsel for Respondent  
Sidley Austin LLP  
1501 K Street, NW  
Washington, DC 20005  
(202) 736-8054

Accepted by FINRA:

2-27-2017  
Date

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

  
Robert A. Marchman *per J.C.*  
Executive Vice President  
FINRA Department of Market Regulation