

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040051801

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

Respondent has been a member of FINRA since December 17, 1936, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

- On July 20, 2015, FINRA accepted an AWC in which the firm consented to a censure and a fine of \$47,500, consisting of \$27,500 for Order Audit Trail System ("OATS") reporting violations; \$12,500 for OATS-related supervisory deficiencies; and \$7,500 for Rule 10b-10 violations on June 20, 2013.
- On June 24, 2014, FINRA accepted an AWC in which the firm consented to a censure and a fine of \$30,000, of which \$9,000 was for violating Rule 605 of Regulation NMS during June 2012, and \$11,000 was for OATS reporting violations during August 6-7, 2012.
- On May 8, 2014, FINRA accepted an AWC in which the firm consented to a censure and a fine of \$15,000 for OATS reporting violations during September 1, 2010 through December 31, 2010.

SUMMARY

In connection with Review No. 20140400518, the Market Analysis Section (the "Market Analysis staff") of FINRA's Department of Market Regulation ("Market Regulation") conducted a review of the firm's compliance with Regulation NMS Rules 605 and 606 ("Rules 605 and 606") reporting requirements and the supervisory systems and procedures relating to those rules. Market Analysis staff conducted this review as a result of a FINRA Rule 4530 self-disclosure by the firm submitted to FINRA in January 2014. In its self-disclosure, the firm informed FINRA that it "ha[d] identified certain issues concerning the reports the Firm prepares pursuant to Rule 605 and Rule 606 of Regulation NMS" The violations at issue here resulted from significant supervisory deficiencies that failed to detect misreported information arising from technology issues affecting both the systems of the firm and its third-party vendor.

The firm's Rule 4530 self-disclosure identified issues that affected the firm's Regulation NMS reporting during April 2010 through November 2014 (the "Regulation NMS review period"). Following the firm's discovery of the issues disclosed in its self-report, the firm broadened its review and established a working group to evaluate and identify other issues affecting Rule 605 and Rule 606 reporting. The working group was comprised of personnel from technology, business unit representatives and other stakeholders, legal, and compliance. Further, the firm retained outside counsel to support the effort.

As a result of the efforts undertaken by the firm's working group, the firm ultimately identified a total of ten technology-driven issues that affected the firm's Regulation NMS reporting, two of which also impacted OATS reporting pursuant to FINRA Rule 7450. Further, the firm's supervisory system, including its written supervisory procedures, were not reasonably designed to achieve compliance with laws and regulations applicable to Rule 605, Rule 606, and Rule 7450.

In connection with Review No. 20150442276, the Trading and Financial Compliance Examinations ("TFCE") staff (the "TFCE staff") of Market Regulation conducted a 2015 TFCE Cycle Examination of certain trading activity of the firm, primarily for the trade date of August 17-18, 2015 (the "TFCE review period"). The examination found that, from February 2015 through June 2016, as a result of a vendor's system configuration, Mid-Price Peg, Immediate or Cancel orders were misclassified in the firm's Rule 605 reports. Further, during the TFCE review period, the firm failed to submit information to OATS and failed to provide, or provided inaccurate or incomplete, confirmations to customers. Finally, as described below, the firm's supervisory system, including its written supervisory procedures, were not reasonably designed to achieve compliance with laws and regulations applicable to Rule 605, SEC Rule 10b-10, and Rule 7450.

Thus, the firm violated Rules 605 and 606 of Regulation NMS, FINRA Rule 7450, SEC Rule 10b-10, NASD Rule 3010 (for the period prior to December 1, 2014), FINRA Rule 3110 (for the period after November 30, 2014), and Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Findings Concerning Supervisory Deficiencies

In connection with Matter Nos. 20140400518 and 20150442276:

1. FINRA's rules – NASD Rule 3010 (for the period prior to December 1, 2014) and FINRA Rule 3110 (for the period after November 30, 2014) – provide that members are required to establish and maintain a supervisory system, including written supervisory procedures, that is reasonably designed to achieve compliance with applicable FINRA and SEC rules and regulations. As is set forth in NASD Notice to Members 98-96, at a minimum, written supervisory procedures should describe, among other things, the supervisory steps and reviews to be taken by the appropriate supervisor and how such reviews should be documented.
2. During the Regulation NMS review period, the firm's supervisory system, including written supervisory procedures, applicable to Rule 605 and Rule 606 reporting failed to include procedures reasonably designed to ensure the accuracy of information reported. While the procedures provided for comparisons of data in current reporting to data in prior periods, for the purpose of identifying outlying data in current reports, the procedures were not reasonably designed insofar as they did not identify steps to be followed and documented by the responsible supervisor to resolve potential data quality issues identified through such comparisons. As a result, the firm's erroneous Rule 605 and Rule 606 reporting and the collateral OATS misreporting discussed below in paragraphs 8-10, 16-18, and 20-23 was not detected prior to the firm's self-report and subsequent remedial efforts discussed in "Other Factors" below.
3. During the TFCE review period, the firm's supervisory system, including written supervisory procedures, was not reasonably designed to achieve compliance with Rule 605, OATS reporting requirements, and Rule 10b-10. With regard to Rule 605, the supervisory deficiencies resulted in the firm's failure to identify the misclassification of Mid-Price Peg, Immediate or Cancel orders, which ultimately resulted in misreporting during February 2015 through June 2016. Further, with regard to OATS reporting, the firm's procedures were not reasonably designed to ensure that information reported to OATS was consistent with information submitted to a Trade Reporting Facility and/or Alternative Display Facility. Finally, the firm's procedures were not reasonably designed to ensure that customers received confirmations for transactions in equity securities with correct disclosures, as required by Rule 10b-10, because they did not provide for sufficient sampling of confirmation data and appropriate evaluation of findings for equity trades.
4. Thus, during the periods described above, the firm's supervisory system, including its written supervisory procedures, did not provide for supervision reasonably designed to achieve compliance with Rules 605 and 606 of Regulation NMS, SEC Rule 10b-10, and FINRA Rule 7450.

5. The conduct described in paragraphs 2 through 4 constitutes violations of NASD Rule 3010 (for the period prior to December 1, 2014), FINRA Rule 3110 (for the period after November 30, 2014), and FINRA Rule 2010.

Findings Concerning Rule 605 of Regulation NMS

In connection with Matter No. 20140400518:

6. On June 9, 2005, the U.S. Securities and Exchange Commission ("Commission") adopted Regulation NMS, which established new substantive rules designed to modernize and strengthen the regulatory structure of the equities markets in the United States. Among the rules consolidated in Regulation NMS were pre-existing Rules 605 and 606 (previously Rules 11Ac1-5 and 11Ac1-6), which are designed to foster greater transparency in connection with broker-dealers' "best execution" responsibilities.
7. More specifically, Rule 605 is aimed at improving public disclosure of order execution quality. Under Rule 605, the Commission requires market centers that trade national market system ("NMS") stocks to make monthly electronic reports that include information about each market center's quality of executions on a stock-by-stock basis, including how market orders of various sizes are executed relative to the public quotes. These reports must also disclose information about effective spreads (the spreads actually paid by investors whose orders are routed to a particular market center). In addition, market centers must disclose the extent to which they provide executions at prices better than the public quotes to investors using limit orders.
8. During the Regulation NMS review period, the firm made available monthly reports on the covered orders in NMS stocks that it received for execution from any person pursuant to Rule 605. These 56 monthly reports, however, included incorrect information due to 8 separate technology issues that resulted in omitted or misclassified orders and omitted shares.
9. The technology issues that affected the firm's Rule 605 reporting included the erroneous deletion of certain securities from the firm's market maker identification table; incomplete transmissions of data to the vendor engaged to prepare the reports; misclassifications of certain "Held" orders as "Not Held" orders; errors as to certain orders executed by the firm which were treated as having been executed at another venue; erroneous exclusion of certain cancelled Immediate-or-Cancel ("IOC") orders; and erroneous exclusion of certain principal orders.
10. The conduct described in paragraphs 8 and 9 constitutes separate and distinct violations of Rule 605 of Regulation NMS and FINRA Rule 2010.

In connection with Matter No. 20150442276:

11. In the course of the 2015 TFCE Cycle Examination, the TFCE staff identified an additional system issue that affected the firm's Rule 605 reporting, which was included in the review of the firm's Rule 605 compliance.
12. For the months of February 2015 through June 2016, as a result of a vendor's system configuration issue, the firm made available monthly reports on the covered orders in NMS stocks that it received for execution from any person. These 17 reports included incorrect information as to classification of Mid-Price Peg, Immediate or Cancel orders, which were erroneously classified as marketable limit orders instead of inside-the-quote limit orders.
13. The conduct described in paragraph 12 constitutes separate and distinct violations of Rule 605 of Regulation NMS and FINRA Rule 2010.

Findings Concerning Rule 606 of Regulation NMS

In connection with Matter No. 20140400518:

14. Rule 606 requires all brokers and dealers to make publicly available each calendar quarter a report on its routing of non-directed orders in NMS securities. The reports must also disclose:
 - (a) the percentage of total customer orders that were non-directed orders, and the percentages of total non-directed orders that were market orders, limit orders, and other orders;
 - (b) the identity of the ten venues to which the largest number of total non-directed orders were routed for execution and of any venue to which 5 percent or more of non-directed orders were routed for execution, the percentage of total non-directed orders routed to the venue, and the percentages of total non-directed market orders, total non-directed limit orders, and total non-directed other orders that were routed to the venue; and
 - (c) a discussion of the material aspects of the broker's or dealer's relationship with each venue identified, including a description of any arrangement for payment for order flow and any profit-sharing relationship.
15. As discussed above with regard to the firm's Rule 605 reporting, the firm's self-report and subsequently established working group identified technology driven issues that affected its Rule 606 reporting.
16. For each calendar quarter beginning with the second quarter of 2012 and continuing through the fourth quarter of 2014, the firm made publicly available a report on its routing of non-directed orders in covered securities during that quarter pursuant to Rule

606. These 11 quarterly reports, however, included incorrect and incomplete information regarding routing percentages due to 8 technology issues that resulted in the omission or misclassification of orders in the calculations of routing percentages.¹

17. The technology issues that affected the firm's Rule 606 reporting included incomplete transmissions of data to the vendor engaged to prepare the reports; misclassifications of certain Held orders as Not Held orders; orders excluded due to the assignment of erroneous internal directed venues; erroneous exclusion of certain cancelled IOC orders; and erroneous identification of the firm as an options venue for the orders.
18. The conduct described in paragraphs 16 and 17 constitutes separate and distinct violations of Rule 606 of Regulation NMS and FINRA Rule 2010.

Findings Concerning OATS Reporting

In connection with Matter No. 20140400518:

19. OATS is an integrated audit trail of order, quote, and trade information for all NMS stocks and OTC equity securities. FINRA uses this audit trail system to recreate events in the life cycle of orders and more completely monitor the trading practices of member firms. Pursuant to Rule 7440, certain members that receive or originate orders are required to record certain information pertaining to order origination and receipt; order transmittal; and order modifications, cancellations, and executions, and Rule 7450 sets forth requirements for the transmission of such information to OATS.
20. As discussed above with regard to the firm's Rule 605 reporting, two of the technology-driven issues that the firm identified also affected its OATS reporting.
21. From April 16, 2012 through November 29, 2013, the firm transmitted to OATS approximately 4,222,000 reports that contained inaccurate "Not Held" codes because of a technology issue that caused certain "Held" orders to be classified erroneously as "Not Held."
22. From September 3, 2013 through March 14, 2014, the firm transmitted to OATS approximately 8,779,000 reports that contained inaccurate "Not Held" codes because of a technology issue that caused certain Immediate-or-Cancel ("IOC") orders to be classified erroneously as Not Held.
23. The conduct described in paragraphs 21 and 22 constitutes separate and distinct violations of FINRA Rule 7450.

¹ Six of the technology issues were among those referenced in paragraph 8 above.

In connection with Matter No. 20150442276:

24. During the TFCE review period, the firm failed to transmit 111 Reportable Order Events ("ROEs") to OATS.
25. The conduct described in paragraph 24 constitutes separate and distinct violations of Rule 7450.

Findings Concerning Rule 10b-10 Under the Securities Exchange Act of 1934

In connection with Matter No. 20150442276:

26. Rule 10b-10 provides that a broker-dealer effecting a transaction in securities shall, at or before the completion of the transaction, provide written notification to its customer disclosing certain information related to the transaction. The customer confirmation requirement provides basic investor protections by conveying information allowing investors to verify the terms of their transactions; alerting investors to potential conflicts of interest with their broker-dealers; acting as a safeguard against fraud; and providing investors a means to evaluate the costs of their transactions and the quality of their broker-dealer's execution.
27. On August 17, 2015, the firm failed on 8 occasions to provide written notification disclosing to its customer its correct capacity in the transaction and on 51 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security.
28. From March 20, 2015, through January 15, 2016, the firm failed on 5,423 occasions to provide the required written notification of a transaction to its customer.
29. The conduct described in paragraphs 27 and 28 constitutes separate and distinct violations of Rule 10b-10 under the Securities Exchange Act of 1934 and FINRA Rule 2010.

OTHER FACTORS

As described above, pursuant to its regulatory obligations, in January 2014, the firm self-reported to FINRA that it had identified issues that affected its reporting pursuant to Rules 605 and 606. The firm proceeded to broaden its review and establish a multi-faceted working group to evaluate, identify and correct other issues affecting Rule 605 and Rule 606 reporting. As a result of the efforts undertaken by the firm's working group, the firm ultimately identified and disclosed to FINRA a total of ten technology-driven issues that affected the firm's Regulation NMS reporting, two of which also impacted OATS reporting. The sanctions set forth below take into consideration the firm's disclosures and efforts and the remedial measures taken by the firm to address the reporting issues.

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

A censure and a fine of \$560,000 (consisting of \$175,000 for the Rule 605 and Rule 2010 violations; \$100,000 for the Rule 606 and Rule 2010 violations; \$60,000 for the OATS violations; \$50,000 for the Rule 10b-10 and Rule 2010 violations; and \$175,000 for the supervisory violations).

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments 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 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 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, 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 Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 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 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 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.

12/13/18

Date

Respondent

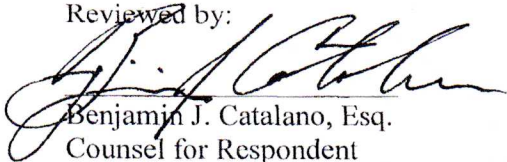
J.P. Morgan Securities LLC

By: 

Name: Christopher Berthe

Title: Managing Director

Reviewed by:



Benjamin J. Catalano, Esq.

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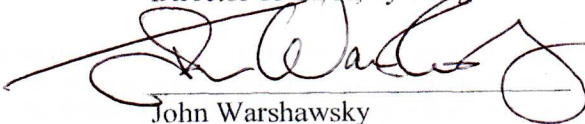
Accepted by FINRA:

12/21/2018

Date

Signed on behalf of the

Director of ODA, by delegated authority



John Warshawsky

Senior Counsel

Department of Enforcement