

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017053493101**

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

RE: J.P. Morgan Securities LLC, Respondent ("JPMS" or the "Firm")
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 JPMS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

JPMS 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

JPMS is a full service broker-dealer headquartered in New York, New York. It has been a FINRA member since December 17, 1936. JPMS currently employs more than 20,000 registered representatives and maintains 5,467 branch office throughout the United States.

RELEVANT DISCIPLINARY HISTORY

JPMS has no relevant disciplinary history.

OVERVIEW

From September 2013 through March 2017 (the "Relevant Period"), the Chase Wealth Management ("CWM") line of business within JPMS failed to establish and maintain a supervisory system reasonably designed to oversee firm functions it outsourced to a vendor for wealth management accounts custodied at JPMS. Specifically, technological upgrades to vendor systems caused errors in the automated rebalancing of 6,411 accounts and applied erroneous fees to more than 150,000 accounts. During the Relevant Period, the Firm failed to detect these issues, which cost customers \$4.4 million. As discussed in more detail below, the Firm violated NASD Rule 3010(a) (for the period prior to

December 1, 2014), FINRA Rule 3110(a) (for the period on and after December 1, 2014) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3110(a) requires member firms to “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” NASD Rule 3010(a) provides substantially the same.

A firm’s supervisory obligation extends to a firm’s outsourcing of certain functions covered by the Rule to a third-party vendor, and includes activities and functions that, if performed directly by a member, would be required to be the subject of a supervisory system and written supervisory procedures (“covered activities”). Accordingly, Regulatory Notice 05-48 reminds member firms “[i]f a member . . . outsources covered activities, the member’s supervisory system and written supervisory procedures must include procedures regarding its outsourcing practices to ensure compliance with applicable securities laws and regulations and NASD rules.” In particular, firms should conduct due diligence to determine whether a third party vendor is capable of performing the outsourced functions and, once it has contracted with the third party, the firm has an ongoing obligation “to oversee, supervise, and monitor the service provider’s performance of covered activities.” Under FINRA Rule 3110(a) and NASD Rule 3010(a) “[f]inal responsibility for proper supervision shall rest with the member.”

During the Relevant Period, JPMS’s parent company maintained general written supervisory procedures governing third party relationships and oversight that extended to all subsidiaries, including JPMS. The procedures required each line of business to develop a system to monitor its vendors and assess their performance, which included periodic performance reviews.

In 2012, the Firm contracted with a vendor to handle two relevant covered activities: the automated realignment of portfolio assets (“rebalancing”) in certain customer accounts invested in mutual funds to the model selected by the customer, and the calculation of fees charged to wealth management customers. The Firm, however, failed to establish and maintain a system and procedures reasonably designed to monitor and evaluate the performance of the vendor that handled these functions on behalf of the Firm.

Undetected Vendor Rebalancing Errors

The Firm discovered that the vendor was not rebalancing certain accounts. In May 2016, an employee reviewing a surveillance report noticed an excess of cash beyond program parameters in a customer account. The issue was escalated and the Firm undertook a review of all program accounts. Technology upgrades by the vendor in 2013 and 2014 caused accounts to not be rebalanced at the appropriate time. Over three years, 6,411 accounts were not rebalanced as required. As a result, 2,514 of the accounts that missed rebalancing collectively sustained losses or missed gains of \$1.3 million.

The Firm did not detect this deficiency because it failed to establish and maintain a system and procedures reasonably designed to ensure that it complied with its obligation to monitor the services provided by the vendor. For example, the Firm relied on the vendor to review its own exception reports without any further review or testing by the Firm to assess performance. Further, the Firm had no procedures for reviewing reports provided by the vendor on accounts that exceeded model allocations. In addition, the Firm never conducted end-to-end testing to ensure that technology enhancements functioned properly.

Undetected Vendor Billing Errors

The Firm also used the same vendor to calculate certain fees and rebates in wealth management accounts. Prior to April 2017, these accounts were billed quarterly in advance. At the end of each quarter, a reconciliation occurred to account for adjustments relating to IRA advisory fees, trade corrections, termination fees and the billing rates applied to an account based on an account's balance.

In July 2014, the vendor converted to a new billing platform. Because the Firm did not conduct testing after technology changes or have any other supervisory procedures in place, multiple billing errors went undetected for periods of several months to almost three years. For example, between October 2014 and December 2015, incorrect fee rebates were calculated for 186,395 IRA accounts. Of those accounts, 44,856 accounts failed to receive the correct rebate, while 127,843 accounts received rebates in error. In addition, during the Relevant Period, trade correction fee adjustments were not properly applied to 2,877 accounts. Also, in 44,314 accounts, account fee terminations were processed one day late, or incorrect final fees were posted. In addition, between July 2014 and March 2017, almost 60,000 accounts received incorrect blended rates. Because the Firm failed to monitor how its vendor calculated these fees and rebates, approximately \$3.1 million in erroneous fees were assessed in more than 150,000 accounts.

FINRA Rule 3110(a) and NASD Rule 3010(a) required the Firm to establish and maintain a supervisory system, including written procedures reasonably designed to achieve compliance with applicable securities laws and regulatory rules. This obligation extends to the Firm's outsourcing of account rebalancing and fee billing to a vendor. Because the Firm had no system to oversee and monitor its vendor's performance of covered activities, the Firm violated NASD Rule 3010(a), FINRA Rules 3110(a), and FINRA Rule 2010.

OTHER FACTORS

In determining the appropriately remedial sanction in this matter, Enforcement consulted FINRA's guidance in Regulatory Notice 08-70. Based on several factors, as described below and taken together, FINRA has determined not to impose a monetary sanction in this matter.

First, JPMS self-reported its initial discovery of certain issues before FINRA was aware of the issues and promptly began its own examination to determine the full extent of the deficiencies described above, making additional reports to FINRA. These efforts extended beyond the Firm's obligation to report certain issues pursuant to FINRA Rule 4530(b). JPMS met with FINRA, shared the results of its examination and explained in detail its findings as to the scope of the problems and the root causes. Second, the Firm took extraordinary steps to correct its deficient system and procedures by implementing enhanced controls and testing to ensure the accuracy of the vendor's rebalancing and fee calculations. Indeed, for a period of time, the Firm held weekly meetings with the vendor's account team (including the CEO and COO) to identify and correct additional issues, review open issues and address planned system enhancements. The Firm hired two full-time employees dedicated to managing risks and implementing controls tailored to the needs of the wealth management accounts. The Firm also assigned a dedicated manager to oversee the vendor responsible for the errors described above. The Firm further enhanced its fee billing structure to avoid further issues by changing it from an advance quarterly calculation requiring a reconciliation to a monthly arrears billing system. Third, JPMS provided extraordinary remediation to customers without being compelled to do so by FINRA. Upon discovering the issues described herein, the Firm promptly conducted a comprehensive review of all of its wealth management accounts and implemented a manual, historical rebalancing of each account impacted by the vendor's errors. The Firm paid total restitution of \$4,620,140 to impacted customers. Finally, the Firm provided substantial assistance to FINRA by proactively undertaking an extensive lookback concerning its complex and systemic failures and reporting related findings on an ongoing basis.

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

- A censure; and
- Within 90 business days of the date of the Notice of Acceptance of this AWC, an officer of the Firm, shall certify in writing to Karen Cherrington, Principal Counsel, Department of Enforcement, at the address listed above, that JPMS has (i) engaged in a risk-based review of CWM client facing third party vendors not unacceptable to FINRA Staff and (ii) as of the date of the certification, has corrected any issues detected and established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD Rules cited herein.

The sanctions imposed herein shall be effective on a date set by FINRA Staff. FINRA Staff may, upon written request and with good reason, extend any of the deadlines set forth above.

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, JPMS 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.

JPMS 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

JPMS 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

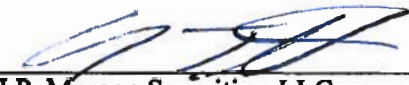
C. If accepted:

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 JPMS;
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 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 JPMS, 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 the Firm 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.

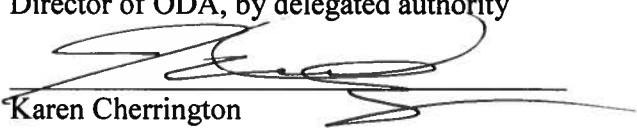
9/25/18
Date


J.P. Morgan Securities, LLC

By: Eric Teppar - Managing Director

10/18/2018
Date

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



Karen Cherrington
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