

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018058111301**

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

RE: J.P. Morgan Securities LLC (Respondent)
Member Firm
CRD No. 79

Pursuant to FINRA Rule 9216, Respondent J.P. Morgan Securities LLC 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

The firm has been a FINRA member since December 1936. The firm is headquartered in New York, New York, with over 30,000 registered representatives and over 5,400 branches nationwide. The firm services corporate and broker-dealer clients and institutional investors and provides wealth management and brokerage services to individuals. The firm acts as an agency broker-dealer and provides market access and execution services to market participants for a variety of products.

In June 2017, the firm consented without admitting or denying the findings to a \$800,000 fine and an undertaking imposed by multiple exchanges for violations of Securities Exchange Act of 1934 (Exchange Act) Rule 15c3-5 and applicable exchange rules. The exchanges found, in relevant part, that between May 2012 and April 2016, the firm failed to have reasonable controls to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders.

In November 2021, the firm consented without admitting or denying the findings to a fine of \$120,000 imposed by Cboe BZX Exchange, Inc., Cboe BYX Exchange, Inc., Cboe EDGX Exchange, Inc., and Cboe EDGA Exchange, Inc. for violations of Exchange Act Rule 15c3-5. These exchanges found that, on August 7, 2018, and December 19, 2019, the firm failed to prevent the entry of erroneous orders because, in part, the firm's thresholds for size and price controls were too high to be effective, and its supervisory system for review of soft blocks was not reasonably designed. Some of the violative

conduct in this AWC relates to the same controls at issue in the aforementioned Cboe settlements.¹

OVERVIEW

From January 2019 to July 2022, the firm’s financial risk management controls and supervisory procedures were not reasonably designed to prevent certain erroneous orders that exceeded appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicated duplicative orders. Accordingly, the firm violated Exchange Act § 15(c)(3) and Rule 15c3-5(b) and (c)(1)(ii), and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated, in part, from referrals from The Nasdaq Stock Market LLC and investigations by FINRA’s Department of Market Regulation and relates to five erroneous orders routed to the market between January 2019 and April 2021.

Applicable Rules

Section 15(c)(3) of the Exchange Act prohibits broker-dealers from contravening the rules and regulations prescribed by the Commission to “provide safeguards with respect to the financial responsibility and related practices of brokers and dealers” The Commission adopted Exchange Act Rule 15c3-5 pursuant to Section 15(c)(3) on November 3, 2010.

Exchange Act Rule 15c3-5(b) requires a broker-dealer with market access to “establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.” It defines market access as “[a]ccess to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system, respectively.”

Exchange Act Rule 15c3-5(c)(1)(ii) specifically requires that a broker-dealer’s system of risk management controls and supervisory procedures must be reasonably designed to “[p]revent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.”

FINRA Rule 2010 states that a “member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” A violation of the Exchange Act constitutes a violation of FINRA Rule 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

The firm's market access controls failed to prevent five erroneous orders routed to exchanges and alternative trading systems.

On January 30, 2019, a firm trader on the Program Trading Agency Desk routed to the market an order to purchase 50,000 shares of an equity security. The trader intended to enter a limit price of \$268.50, but mistakenly input \$286.50. The firm received executions with prices over 5% higher than the last execution in the market prior to entry of this order. The firm submitted clearly erroneous filings and approximately half of the 50,000-share order (executions above \$276.57) were busted.

On July 26, 2019, a client entered a market order to sell 86,500 equity shares instead of the intended limit order. A trader accepted the order and routed it to the market. The last share price at the time of order entry was \$27.23. The firm received executions at prices down to \$22.25, representing an approximately 18% drop.

On December 19, 2019, instead of entering a limit-on-close order, a firm trader on the Equity Finance Trading Desk erroneously entered a limit order to buy 230,000 shares of an equity security at \$154.17. The firm routed the order to the market and received executions with prices up to \$154.17, which was approximately 3% higher than the prior execution price at order entry of \$149.52. The firm filed a clearly erroneous submission and all trades above \$154.01 were busted.

On March 26, 2020, a client entered a pairs order in the firm's system. While a firm algorithm was handling the order, a control paused the order for manual review. After the review and the resumption of the order, the algorithm handling the order did not refresh the market data to account for the pause. In less than one minute, the system routed to various execution venues over 80,000 immediate-or-cancel orders, which the execution venues canceled back unfilled because they were priced away from the prevailing market.

On April 22, 2021, a client entered a market order to buy 4,765 equity shares but intended to buy 50 shares at a limit price of \$4,765. The Electronic Client Solutions Desk received the order and routed it to the market. The firm received executions with prices up to \$5,077.30, which was approximately 6% higher than the last traded price of \$4,799.99. The firm submitted a clearly erroneous submission and all trades above \$4,903.50 were busted.

The firm's erroneous order and duplicative order controls were not reasonably designed.

For each of the orders described above, the firm's trading desks applied fixed single order quantity limits ranging from 100,000 to 9,999,999 shares depending on the specific desk, trader, and/or client involved in each order. The firm also applied static single order notional value limits ranging from \$25,000,000 to \$500,000,000 depending on the specific desk, trader, and/or client. Each of these single order quantity and single order

notional value limits applied static limits regardless of security and thus failed to consider the individual characteristics of the security. The firm further applied average daily volume limits ranging from 25 to 50 percent based on the specific desk, trader, and/or client. With the exception of one desk's single order quantity control, the firm's single order quantity, single order notional value, and average daily value thresholds were too large to be effective, and the firm failed to provide any documented rationale for why it set them at such levels.

Moreover, many of the above referenced size controls triggered "soft blocks" when applicable thresholds were reached. In contrast to a "hard block," which generally prevents an order from being submitted by automatically rejecting it, a soft block pauses an order until the block is overridden or the order is cancelled back or modified. For most of the relevant period, however, the firm's written supervisory procedures did not address how to handle, document, and review soft block overrides. Accordingly, the firm's controls that relied on soft blocks did not prevent the entry of certain erroneous orders. By January 2021, the firm implemented changes to its supervisory requirements relating to soft blocks that included tracking and reviews of soft block overrides and adding compliance trainings and updates to its written supervisory procedures on the handling of soft blocks.

For each of the orders described above, the firm's trading desks applied single order limit price controls based on fixed percentages away from the National Best Bid and Offer, ranging from three to 15 percent depending on the desk, trader, and/or client involved. Like the firm's size controls, certain limit price thresholds were set too high to be effective. In particular, the limit price controls generally exceeded the numerical guidelines for clearly erroneous transactions. The firm failed to provide any documented rationale for why it set its limit price thresholds at levels greater than the definition of a clearly erroneous transaction. Additionally, for the same reasons previously noted above, the firm's supervisory system for soft blocks was deficient for most of the relevant period. In October 2020, the firm began introducing a price control that applied different thresholds to differently priced securities.

Furthermore, the firm did not have a reasonable duplicative order control. The firm did apply a risk control that checked orders with the same symbol, side, and quantity. This control triggered a hard block if more than 50,000 order messages with the same symbol, side, and quantity were sent within two seconds. However, the 50,000-order threshold, which was applied separately to each of the firm's connections to external venues, was too high to be effective. The firm provided no documented rationale supporting why such a high threshold was reasonable.

As of July 2022, the firm had implemented additional controls to prevent the entry of orders that—based on price and/or size of the order relative to the market—could potentially lead to unintended market impact.

Therefore, from January 2019 to July 2022, Respondent violated Exchange Act § 15(c)(3) and Rule 15c3-5(b) and (c)(1)(ii), and FINRA Rule 2010.

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

- a censure and
- a total fine of \$750,000 to be paid jointly to Nasdaq and FINRA, of which \$187,500 is allocated to FINRA.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 it;
- 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 its acceptance or rejection.

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 action 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 its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a



party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

- 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.

The undersigned, on behalf of Respondent, certifies that a person 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 the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

May 16, 2023

Date

Heath Windcliff

J.P. Morgan Securities LLC
Respondent

Print Name: Heath Windcliff

Title: Managing Director

Reviewed by:

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Accepted by FINRA:

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

May 22, 2023

Date

Jeffery Ding

Jeffery Ding
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