

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2019063430402**

**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 (JPM) 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**

JPM has been a FINRA member firm since 1936 and is headquartered in New York City. It provides investment banking, asset management, brokerage, securities trading, advisory, and other financial services. The firm has approximately 27,500 registered representatives across 5,300 branch offices.<sup>1</sup>

**OVERVIEW**

From March 2014 through March 2019 (the relevant period), JPM failed to reasonably supervise a former registered representative (RR 1) who engaged in unsuitable and unauthorized trading in the account of a senior customer, who also was RR 1's grandmother (Customer A). JPM failed to take reasonable action to investigate and address RR 1's misconduct, despite the presence of red flags.

By reason of the foregoing, the firm violated NASD Rule 3010 and FINRA Rules 3110 and 2010.<sup>2</sup>

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<sup>1</sup> For more information about the firm, including prior regulatory events, visit BrokerCheck® at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

<sup>2</sup> FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014. FINRA Rule 3110 therefore applies to JPM's conduct on or after December 1, 2014 and NASD Rule 3010 applies to its conduct before December 1, 2014.

## **FACTS AND VIOLATIVE CONDUCT**

This matter originated from JPM's Uniform Termination Notice for Securities Industry Registration (Form U5) filing, which terminated RR 1's registration with the firm.

### **A. Applicable FINRA Rules and Guidance**

FINRA Rule 3110(a), like its predecessor, NASD Rule 3010(a), requires that each member 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. A firm's duty to supervise its registered representatives includes the responsibility to reasonably investigate "red flags" of potential misconduct. Violations of FINRA Rule 3110 and NASD Rule 3010 also violate FINRA Rule 2010, which requires FINRA members, in the conduct of their business, to "observe high standards of commercial honor and just and equitable principles of trade."

In 2013, FINRA issued Regulatory Notice 12-03 concerning complex products, such as structured notes.<sup>3</sup> The purpose of the notice was to provide guidance to firms about the supervision of complex products and addressed topics including the approval for sale of complex products, post-approval review, training of registered representatives, consideration of a customer's financial sophistication, discussions with the customer, and consideration of whether less complex or costly products could achieve the same objectives for the customer. The notice stated, "[f]irms should also monitor the sale of these products in a manner that is reasonably designed to ensure that each product is recommended only to a customer who understands the essential features of the product and for whom the product is suitable."

### **B. JPM's Failure to Reasonably Supervise RR 1**

In March 2014, Customer A opened an account at JPM with her grandsons, RR 1 and his brother, another former JPM registered representative (RR 2). During the relevant period, RR 1 was responsible for Customer A's investment strategy and made all of the trade recommendations for Customer A's account. At the time of account opening, Customer A was 88 years old, retired, and widowed. Customer A identified as having more than ten years of investment experience, including in structured products.

During the relevant period, the firm failed to reasonably supervise RR 1's unsuitable and unauthorized trading in Customer A's account and failed to reasonably investigate red flags.<sup>4</sup>

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<sup>3</sup> Structured notes are securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance, and/or a foreign currency. Some structured notes offer full protection of the principal invested, whereas others offer limited or no protection of the principal.

<sup>4</sup> RR 1 entered into an AWC issued on April 7, 2021, agreeing to a bar from associating with any FINRA member firm in any capacity in connection with his failure to appear for on-the-record testimony pursuant to FINRA Rule 8210.

1. The Firm Failed to Reasonably Supervise RR 1's Unsuitable Recommendations of Structured Notes

Between March 2014 and May 2015, the firm's written supervisory procedures (WSPs) required firm supervisors to review and approve a suitability form for each structured product purchase to verify that the investment was suitable. The suitability form identified the product being recommended, the customer's total net worth and liquid net worth, years of experience, age, investment amount, percentage of liquid net worth being invested, and percentage of total holdings in structured products. As set forth in the WSPs, the firm used an exception report that generated monthly alerts when structured products exceeded two guidelines—namely, a 50% threshold for net account equity and a 15% threshold for a customer's liquid net worth.

In March 2014, Customer A transferred approximately \$15 million in structured notes to JPM from her previous brokerage firm, which represented approximately 15% of her liquid net worth. After the account was transferred to JPM, RR 1 began purchasing additional structured notes for Customer A's account.

In July 2014, RR 1's supervisor identified that the account had a large position in structured products and decided to call Customer A. During that call, RR 1's supervisor confirmed basic aspects of the customer's investor profile, including that she had more than 10 years of investment experience, a speculative investment objective, and an aggressive risk tolerance. RR 1's supervisor, however, did not explain to the customer that her account was concentrated in structured notes or ascertain whether she understood the features and risks of structured notes. Although firm supervisors typically contacted customers alone, RR 1's supervisor called the customer with RR 1. This telephone call was the last time any firm supervisor spoke with Customer A until January 2019, nearly five years later.

From June 2014 to August 2014, RR 1 submitted, and firm supervisors reviewed and approved, suitability forms that indicated Customer A's concentration in structured products rose from 14% of her liquid net worth in June 2014, to 25% in July 2014, to a high of 43% in August 2014. From August 2014 through April 2015, Customer A's concentration in structured products remained between 27% and 40% of her liquid net worth. Despite this concentration exceeding the firm's 15% guideline, the firm did not contact Customer A (other than the July 2014 call) or otherwise discuss her understanding of the risks of the concentrated position in structured notes.

In May 2015, the firm identified that RR 1's purchases concentrated Customer A's account in structured products, but failed to take reasonable action. On May 18, 2015, RR 1 falsely updated Customer A's liquid net worth from \$100 million to \$155 million in an attempt to avoid further scrutiny of Customer A's account. The firm mailed Customer A written confirmation of the changes made to her liquid net worth. The firm, however, did not call the customer, did not investigate the significant addition to her liquid net worth,

or consider why the increase occurred after the firm began to question RR 1 about Customer A's structured product holdings.

On May 21, 2015, the firm imposed certain limitations on the purchase of structured products in Customer A's account and a senior firm manager directed firm supervisors to call Customer A "asap," meet with her in-person in 2015, and call her twice per year going forward to discuss her investment portfolio and strategy. Notwithstanding the senior firm manager's instructions, no firm supervisor called Customer A until 2019 and no in-person meeting ever took place. In June 2015, the firm restricted RR 1 from purchasing additional structured notes altogether. However, the firm did not place RR 1 under any heightened supervision.

Overall, from May 2014 through May 2015, RR 1 purchased more than \$108 million in securities, \$77 million of which were structured notes, before the firm restricted note purchases. However, the firm failed to reasonably address the account's trading in structured products and the resulting concentration level. By 2019, the structured notes in Customer A's account had realized losses of \$5.5 million.

## 2. The Firm Failed to Reasonably Investigate RR 1's Subsequent Unauthorized and Unsuitable Trading

In or around May 2014, RR 1 created an email address for Customer A, who at that time did not use email or own a computer. Although the email address was listed on Customer A's account opening documents and she consented to the electronic delivery of offering materials to the subject email address, her account statements were initially delivered to her by mail. On March 13, 2017, RR 1 changed the customer's JPM account profile by opting her into electronic delivery of account statements and directing those statements to the email address to which he had access. The firm sent a letter to Customer A confirming her change in account preference. The firm, however, did not call the customer, who was 90 years old at the time, to confirm that she now wanted to receive electronic statements or to verify her email address.

From January 2017 through March 2019, RR 1 placed at least 100 unauthorized transactions in Customer A's account. For example, in December 2018, RR 1 forged Customer A's signature to facilitate a \$5 million unauthorized investment in a private equity fund. According to its private placement memorandum, the fund focused on emerging and volatile technology companies and had no public market.

On January 8, 2019, the firm received a complaint from Customer A who alleged that certain transactions in her account were unauthorized, including the \$5 million private equity fund investment. Although the firm opened an investigation, it did not restrict Customer A's account until February 8, 2019. On January 28, 2019, a \$582,849 wire representing Customer A's first payment toward the unauthorized private equity fund investment was made from her account. Although the firm was aware of Customer A's complaint, the firm did not discuss the wire with Customer A until after it was sent. The firm subsequently caused the funds to be returned to Customer A several weeks later.

In July 2019, Customer A commenced an arbitration proceeding against RR 1, RR 2, and JPM. On February 4, 2021, the arbitration panel issued an award for Customer A of approximately \$18.6 million. Pursuant to the award, RR 1 was ordered to pay \$9 million, RR 2 was ordered to pay \$602,251, and the firm was ordered to pay a total of \$9 million.

By failing reasonably to supervise RR 1's activity in Customer A's account, JPM violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

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

- a censure; and
- a \$200,000 fine.

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

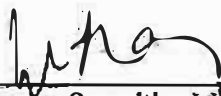
Respondent understands that:

- 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.**

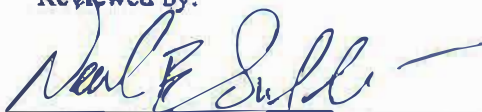
The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and 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.

7-15-2022  
Date

  
J.P. Morgan Securities LLC  
Respondent

Print Name: W. Phil Sieg  
Title: CEO, J.P. Morgan Securities

Reviewed by:



Neal E. Sullivan, Esq.  
Counsel for Respondent  
Sidley Austin LLP  
1501 K Street, N.W.  
Washington, D.C. 20005

**Accepted by FINRA:**

08/04/2022

Date \_\_\_\_\_

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

Michael Dorfman-Gonzalez

**Michael Dorfman-Gonzalez**

## Principal Counsel

**FINRA**

**Department of Enforcement**

### Brookfield Place

200 Liberty Street

New York, NY 10281