

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020065501201**

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 (JPMS) 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

JPMS has been a FINRA member firm since 1936. It is headquartered in New York, New York. The firm provides investment banking, asset management, brokerage, securities trading, advisory, and other financial services. It has over 34,000 registered representatives across more than 5,600 branch offices.

In May 2015, FINRA fined J.P. Morgan Clearing Corp. (JPMCC) \$195,000 for inaccurately reporting 2,146 short interest positions totaling approximately one billion shares of dually listed foreign securities and for related supervisory failures during the period of 2009 to 2011. JPMCC subsequently merged into JPMS in October 2016 and JPMCC's former operations continued within JPMS.¹

OVERVIEW

From June 2008 to August 2024, JPMS inaccurately reported approximately 820,000 short interest positions involving approximately 77 billion shares. The inaccurate reporting resulted from multiple causes that each impacted the firm's short interest reporting at different intervals during the relevant period. In certain instances, the firm overreported its short interest positions. In other instances, the firm underreported its

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

short interest positions. As a result, JPMS violated FINRA Rules 4560 and 2010, and NASD Rules 3360 and 2110.²

Additionally, during the same period, JPMS failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its short interest reporting obligations. JPMS thus violated FINRA Rules 3110(a) and (b) and 2010, and NASD Rules 3010 and 2110.³

FACTS AND VIOLATIVE CONDUCT

This matter originated from a self-disclosure by JPMS pursuant to FINRA Rule 4530(b).

JPMS failed to accurately report short interest positions to FINRA.

Short interest reflects the total open short positions on a firm's books and records on a per-security basis. All member firms must report short interest data to FINRA twice a month, reflecting open short positions at the middle and end of the month. The accuracy of reported short interest is crucial for regulatory purposes. Aggregate short interest data is disseminated to the public by FINRA and exchanges, as well as financial media, and may be considered by the public in making investment decisions.

FINRA Rule 4560(a) and its predecessor, NASD Rule 3360(a), require member firms to maintain a record of total short positions in equity securities in all customer and proprietary accounts and to report such information to FINRA in the manner prescribed by FINRA. A violation of FINRA Rule 4560 or NASD Rule 3360 is also a violation of FINRA Rule 2010 or its predecessor, NASD Rule 2110, both of which require a member firm, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

From June 2008 to August 2024, JPMS inaccurately reported approximately 820,000 short interest positions involving approximately 77 billion shares across 390 bimonthly reporting cycles. The inaccurate reporting was the result of the following causes which impacted the firm's short interest reporting during the intervals identified below:

- From June 2008 to May 2020, JPMS incorrectly reported short interest positions of certain customers of its non-U.S. broker-dealer affiliates on a net basis (aggregating customer positions held in the affiliates' omnibus accounts) rather than a gross basis (based on the individual customer accounts held at JPMS's non-U.S. affiliates).
- From June 2008 to May 2020, JPMS incorrectly included in its short interest reporting certain positions resulting from stock loan activity.

² On December 15, 2008, FINRA Rules 4560 and 2010 superseded NASD Rules 3360 and 2110, respectively.

³ On December 1, 2014, FINRA Rule 3110 superseded NASD Rule 3010.

- From June 2016 to December 2019, JPMS incorrectly excluded positions in Canadian and Latin American securities held in certain accounts from its short interest reporting logic.
- From at least July 2016 to November 2019, JPMS excluded from its short interest reporting certain positions in over the counter (OTC) foreign securities that were dually listed, *i.e.*, foreign-listed securities that share an International Securities Identification Number (ISIN) with a U.S. listed symbol.
- From April 2018 to November 2023, JPMS included in its short interest reporting certain transactions in the prime brokerage accounts of a client that related to incorrectly identified external transfers, rather than reportable trading activity.
- From July 2018 to January 2020, JPMS overreported short interest positions that were ineligible for reporting since the positions related to dividend reinvestment activity, rather than trading activity.
- From November 2023 to August 2024, JPMS incorrectly excluded from its short interest reporting certain positions in an affiliate's omnibus account held at JPMS.

The firm has remediated each of these issues.

As a result of its submission of inaccurate short interest reports to FINRA, JPMS violated FINRA Rules 4560 and 2010, and NASD Rules 3360 and 2110.

JPMS failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its short interest reporting obligations.

FINRA Rule 3110(a) and its predecessor, NASD Rule 3010(a), require 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. FINRA Rule 3110(b) and its predecessor, NASD Rule 3010(b), require member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

Between June 2008 and August 2024, JPMS failed to establish and maintain a reasonable supervisory system, including reasonably designed written supervisory procedures, to achieve compliance with NASD Rule 3360 and FINRA Rule 4560. At all relevant times, JPMS's written supervisory procedures required the firm to report short interest positions to FINRA and identified the operational steps for submitting a short interest report to FINRA. Prior to 2020, however, JPMS did not have a process in place to periodically review whether accounts were properly included or excluded for purposes of short interest reporting. In 2020, JPMS enhanced its policies and procedures, including by introducing a quarterly process for reviewing whether accounts were properly included or

excluded from short interest reporting and by implementing controls for identifying whether new accounts will reflect reportable positions. In addition, in November 2023, JPMS took steps to confirm that its prime brokerage clients provide the firm with trade files that accurately reflect short positions. Finally, in September 2024, JPMS confirmed that existing customer accounts coded as omnibus accounts were appropriately excluded from short interest reporting and introduced an ongoing review process for confirming that new or reclassified accounts are correctly classified.

By failing to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its short interest reporting obligations, JPMS violated FINRA Rules 3110(a) and (b) and 2010, as well as NASD Rules 3010 and 2110.

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

- a censure; and
- a \$3,000,000 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:

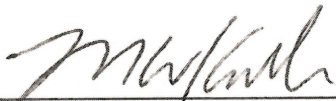
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not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

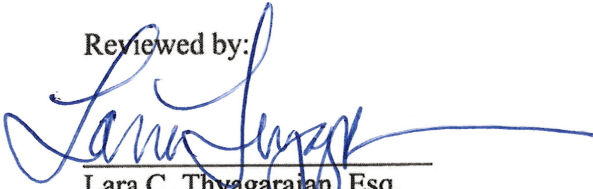
12/17/24
Date


J.P. Morgan Securities LLC
Respondent

Print Name: Michael Kelleher

Title: Managing Director

Reviewed by:


Lara C. Thyagarajan, Esq.
Counsel for Respondent
Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

Accepted by FINRA:

12/23/2024

Date

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



Jeffrey E. Baldwin
Senior Counsel
FINRA
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