FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020067014002

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 since 1936, is headquartered in New York, New York, and is a full-service brokerage firm. JPMS has approximately 35,000 registered representatives at approximately 5,700 branches.[1]

OVERVIEW

From at least January 2016 through April 2020, JPMS failed to reasonably supervise a registered representative who generally recommended an investment strategy that involved taking large, concentrated positions in high-yield securities using leverage. Customers in this strategy lost money during a period of significant market volatility starting in March 2020. The firm failed to take reasonable action in response to red flags related to the representative's trading activity and use of discretion without written authorization identified throughout the relevant period.

JPMS therefore violated FINRA Rules 3110(a) and 2010. JPMS is censured and fined $3,250,000.

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

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of a customer-initiated arbitration.

FINRA Rule 3110(a) requires that FINRA members "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." The duty to supervise also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation. A violation of FINRA Rule 3110(a) also is a violation of FINRA Rule 2010, which requires FINRA member firms, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

During the relevant period, JPMS was required to reasonably supervise the activities of its associated persons for compliance with FINRA Rules 2111 and 3260(b). Prior to June 30, 2020, FINRA Rule 2111 required member firms and their associated persons to have a reasonable basis to believe that a recommended investment strategy involving securities is suitable for the customer based on the customer's investment profile.[2] FINRA Rule 3260(b) provides that no registered representative shall exercise any discretionary power in a customer's account unless the customer has given prior written authorization and the representative's member firm has accepted the account as discretionary, as evidenced in writing by the member.[3]

A. The representative's investment strategy.

From at least January 2016 through April 2020, the representative implemented a complex investment strategy that involved purchasing concentrated positions in high-yield securities, while also using margin and other forms of leverage to finance these positions.[4] This strategy relied on the expectation that interest from the investments, including non-investment grade bonds and preferred stocks, would exceed the costs of the leverage used to purchase them. While non-investment grade securities generate higher interest payments than investment grade securities, customers are exposed to a greater risk of losses during market downturns or issuer-specific adverse events. Additionally, the use of margin magnified potential gains or losses and, in the event of losses, could trigger margin calls, forcing liquidation of positions at unfavorable prices.

During the relevant period, the representative recommended this high-risk investment strategy in customer accounts without reasonable consideration of each individual customer's investment profile, including senior customers, customers with moderate risk

[2] FINRA Rule 2111 is still in effect, but as of June 30, 2020, it no longer applies to recommendations that are subject to Rule 15*l*-1 of the Securities Exchange Act of 1934 (Regulation Best Interest).

[3] FINRA Rule 3260 superseded NASD Rule 2510 on May 8, 2019.

[4] FINRA barred the representative for refusing to cooperate in FINRA's investigation in violation of FINRA Rules 8210 and 2010.

tolerances, and customers with limited investment knowledge and no prior experience with margin or other types of leverage.

The customers engaged in the investment strategy maintained non-discretionary accounts at JPMS. However, instead of contacting customers for authorization prior to every trade, the representative routinely exercised discretion in these accounts by executing trades based on recommendations he typically made to customers weekly, monthly, or quarterly.

B. JPMS failed to reasonably supervise the representative's recommended investment strategy for suitability and his exercise of discretion in customer accounts without prior written authorization.

Throughout the relevant period, JPMS failed to reasonably respond to red flags concerning the suitability of the representative's investment strategy and his exercise of discretion without prior written authorization. As discussed further below, the firm (i) failed to reasonably act upon thousands of supervisory alerts that were triggered on the representative's customers; (ii) failed to contact customers to verify their understanding and approval of the representative's investment strategy and suppressed margin call notices to customers; (iii) changed customer risk tolerances in firm systems without prior customer validation; and (iv) failed to reasonably address the representative's use of discretion without prior written authorization.

Supervisory Alerts. JPMS's procedures required ongoing suitability reviews via its electronic monitoring system. This system generated nearly 10,000 supervisory alerts across the representative's accounts during the relevant period, of which more than 2,500 were related to overconcentration. Many of these alerts triggered repeatedly for activity related to the same customers over the course of months or years without reasonable investigation by the firm. Former supervisory personnel resolved hundreds of alerts without reasonably addressing the underlying account activity either by closing them with no review or using a boilerplate response that omitted any information specific to the customer or why the alert was triggered. For instance, they resolved dozens of concentration-related alerts by pasting notes into the firm's system, but those notes contained only general information about the representative's strategy and investor base and did not include any details on individual customers or the specific portfolio which was the subject of the alert.

Customer Contact. JPMS's procedures required supervisory personnel to scrutinize account activity inconsistent with a customer's investment profile and determine when customer contact was warranted, including when the level of concentration or leverage in an account appeared inconsistent with a customer's investment profile. Throughout the relevant period, the representative objected to the firm sending activity letters to his customers or otherwise contacting them, and the firm failed to follow recommendations made by supervisory personnel to send activity letters to inform the representative's customers of their high concentration and leverage levels and confirm their understanding of the associated risks. Despite questions raised by supervisory personnel, the

representative was also granted an exception to the firm's practice of sending written margin call notifications to customers.

Customer Risk Tolerances. During the relevant period, JPMS's procedures required supervisors to holistically assess the suitability of a recommended investment strategy, including comparing a customer's investment profile to the risk of the portfolio. The firm, however, changed dozens of the representative's customers' risk tolerances from moderate to aggressive without first validating the changes with the customers.

Exercise of Discretion. JPMS's procedures prohibited representatives from exercising discretion in non-discretionary customer accounts except in certain temporary or limited circumstances that are not present here. However, the representative routinely exercised discretion without prior written authorization when implementing his investment strategy in customer accounts based on recommendations made to those customers the previous week, month, or quarter. JPMS relied on the representative's representations that he would call customers before placing trades. When, however, supervisory personnel escalated concerns throughout the relevant period regarding the representative's potential discretionary trading, the firm failed to take sufficient steps to verify the representative's representations regarding customer contact.

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Throughout the relevant period, JPMS failed to address red flags related to the representative's recommended investment strategy and his improper exercise of discretion. JPMS failed to reasonably address supervisory alerts or take sufficient steps aimed at preventing the representative's discretionary trading and keeping customers informed of the risky nature of the representative's trading strategy, including informing customers of their leverage and concentration levels and confirming that customers understood both the strategy and their current risk tolerance.

When the markets began experiencing increased volatility in March 2020, certain of the representative's customers faced steep declines as many of the customers' positions, which were purchased using margin or other leverage, began losing significant value. Customers began receiving margin calls and were forced to liquidate significant portions of their portfolios at steep losses. By the end of April 2020, the representative's customers began initiating arbitrations and complaints related to his handling of their accounts. In response to customer losses and complaints, the firm initiated a review of the representative's trading practices and took steps to limit the representative's customers' leverage and concentration levels.[5]

To date, the firm has paid over $55 million to complaining customers via arbitration awards or settlements and has voluntarily made offers of approximately $1.35 million to

[5] On September 16, 2021, JPMS filed a Uniform Termination Notice for Securities Industry Registration (Form U5) disclosing that it had discharged the representative for "[l]oss of confidence concerning adherence to firm policies and brokerage order handling requirements."

six additional customers who incurred losses while engaged in the representative's investment strategy.

By failing to reasonably supervise its representative's recommendations for suitability and his improper exercise of discretion without written authorization, JPMS violated FINRA Rules 3110(a) and 2010.

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

- a censure and
- a $3,250,000 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.

3-25-26
Date

J.P. Morgan Securities LLC
Respondent

Print Name: Jonathan T. Cook

Title: Managing Director

Reviewed by:

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Accepted by FINRA:

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

04/06/2026

Date

Jamie Stinson
Senior Counsel
FINRA
Department of Enforcement
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