

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120335150-01

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

RE: J.P. Morgan Securities LLC, Respondent
Broker-Dealer
CRD No. 79

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, J.P. Morgan Securities LLC (the "firm" or "Respondent") 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 herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

The firm became a member of FINRA on December 17, 1936, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On May 15, 2012, the firm finalized an AWC in which it was censured and fined \$50,000 for over-advertising its trade volume during the period of November 2009 in violation of NASD Rule 3310 and FINRA Rule 2010.

SUMMARY

In matter 20120335150, the Market Quality Team of FINRA's Department of Market Regulation (the "staff") reviewed the firm's trade volume advertisements as transmitted to Bloomberg and AutEx during the periods described below.

Bloomberg and AutEx are a private service providers that allow certain subscribers, including broker-dealers, to advertise intra-day and historical trading volume in a particular security. Trade advertisements can be used by buy-side traders as a pre-trade

analytic to help them determine which brokers have recently had access to the greatest amount of liquidity in a particular security and are, therefore, most likely to execute the contra side of their order with the minimum market impact. Sellside traders can use trade advertisements as a way to measure their market share performance in comparison to their peers in a particular security or based on an aggregate level based on certain factors.

Trade advertisement data over longer periods can also be used by issuers to gauge which brokers are most likely to be interacting with clients that invest in their security, sector or type of security and are most likely to be in a position to help them access those clients to raise additional capital. Trade volumes advertised by each broker can, therefore, reflect the level of their natural client business in each security.

Between February 25, 2012, and June 25, 2012, the firm undertook a "Code-Split" which was designed to create two separate order management systems ("OMS") for its institutional cash clients and retail clients.

Prior to and after the Code-Split, JPMS used a system to transmit advertised trade volume to Bloomberg and AutEx that utilized certain filters to take into account the advertising preferences of clients and to ensure that trading volume was not replicated. However, during the Code-Split, the firm failed to take into account those historical filters and, as a result, erroneously captured volume that had already been advertised on a trade date when it later swept for volume that was delayed for advertising, based on client preference, on trade date plus three ("T+3"). The firm's prior system also did not filter out replicated parent-child order volume. As a result, an institutional client trade that was advertised appropriately on a particular trade date would be submitted *again* for advertisement, and in the case of some parent-child orders, more than once, on a T+3 basis. As additional institutional clients were moved to the new OMS, a process that occurred over a four-month period, the impact of the over-advertised T+3 volume increased.

During the course of the staff's review of the Code-Split issue, the staff identified additional instances of over-advertisement between June 9, 2010 and July 26, 2012.

The advertisement of inaccurate trade volume violates FINRA Rule 5210 which provides, in part, that "[n]o member shall publish or circulate, or cause to be published or circulated, any . . . advertisement, . . . or communication of any kind which purports to report any transaction as a purchase or sale of any security unless such member believes that such transaction was a bona fide purchase or sale of such security."

NASD Rule 3010 requires a firm to establish and maintain a system, including written supervisory procedures ("WSPs"), to supervise the activities of its associated persons and the types of businesses in which it engages. During the period described below, the firm's supervisory system violated NASD Rule 3010 in two ways. First, up until the summer of 2010, the individual who conducted reviews of the accuracy of advertised trade volume did not have access to firm-wide execution volume because of information barriers. From 2011 to the end of the review period, firm-wide execution volume was not readily accessible to the individuals conducting reviews of the accuracy of advertised

trade volume. This inhibited the firm's ability to adequately know the trade volume for any security to ensure any advertisement of such volume was accurate. Second, the firm failed to have any supervisory system in place to review the accuracy of trade volume advertised on a T+3 basis. The firm's supervisory deficiencies adversely affected the firm's ability to adequately review the accuracy of its trade volume advertisements.

FACTS AND VIOLATIVE CONDUCT

1. Between February 25, 2012, and June 25, 2012, the firm undertook a Code-Split designed to create a separate OMS for its institutional cash clients and for its retail clients. In implementing the Code-Split, the firm failed to account for certain filters in the firm's prior OMS which resulted in the over-advertisement of trade volume during the period.
2. Based on the firm's over-advertisement of trade volume attributable to the Code-Split, the staff expanded its review and sampled 99 securities in which the firm advertised trade volume between June 9, 2010 and July 26, 2012. The firm over-advertised its executed trade volume in 66 of the sampled securities for a total over-advertisement of more than 120 million shares. Specifically, in 49 instances, the firm executed volume in the relevant securities, but over-advertised its executed trade volume from approximately 14,000 shares to more than approximately 9.5 million shares, resulting in overstatements of between 2 percent and more than 798,000 percent. In the remaining 17 instances, the firm did not execute any volume in the relevant securities, but over-advertised its executed trade volume between 120,000 shares and more than approximately 46 million shares. Ultimately, the firm voluntarily removed billions of shares that it advertised, including advertisements related to actual executions, but not until after the relevant trade dates.
3. Extrapolating from the violations identified in paragraph 2 indicates that the firm likely overstated its advertised trade volume by billions of shares through Bloomberg and AutEx.
4. The conduct described in the paragraphs above constitutes separate and distinct violations of FINRA Rules 5210 and 2010.
5. Lastly, up until the summer of 2010, the individual who conducted reviews of the accuracy of advertised trade volume did not have access to firm-wide execution volume because of information barriers. From 2011 to the end of the review period, firm-wide execution volume was not readily accessible to the individuals conducting reviews of the accuracy of advertised trade volume. This inhibited the firm's ability to adequately know the trade volume for any security to ensure any advertisement of such volume was accurate. The firm also failed to have any supervisory system, including WSPs, in place to review the accuracy of trade volume advertised on a T+3 basis. The conduct described in this paragraph violated NASD Rule 3010 and FINRA Rule 2010.

OTHER FACTORS

In determining to resolve this matter in the manner set forth herein, and in determining the appropriate monetary sanction, the staff took into consideration the firm's self-reporting of the over-advertising violations described in paragraph 1.¹

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

1. A censure, a fine of \$1,100,000 (consisting of a \$200,000 fine for the supervision violations and a \$900,000 fine for violating FINRA Rules 5210 and 2010), and an undertaking to revise the firm's WSPs with respect to the areas described in paragraphs I.A.5. Within 30 calendar days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its WSPs to address the deficiencies described in this paragraph; and (3) the date the revised procedures were implemented.
2. An undertaking to provide, after the receipt of the documentation noted above in paragraph B.1, a written report certified by an executive officer of the firm to FINRA 60 calendar days after the date of the Notice of Acceptance of this AWC regarding the implementation and performance (to date) of the firm's revised WSPs with respect to the areas outlined in paragraph I.A.5; the steps taken by supervisory personnel to review for compliance with applicable rules; the results of such supervisory reviews; and any modifications or recommendations for further improvements to the firm's system or procedures. For good cause shown and upon receipt of a timely application from the firm, FINRA staff may extend the deadline set forth in this undertaking.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It 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 that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

¹ See Regulatory Notice 08-70.

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 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 acceptance or rejection of this AWC.

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 the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;

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. 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 the firm'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. The firm 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 the firm, 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

Aug 9, 2017
Date.

Respondent
J.P. Morgan Securities LLC

By: Dennis

Name: Dennis Fitzgerald

Title: Managing Director

Reviewed by:

Richard T. Sharp

Attorney Name:
Richard T. Sharp
Milbank, Tweed, Hadley & McCloy LLP
28 Liberty Street
New York, NY 10005
(212) 530-5209

Accepted by FINRA:

9/13/17
Date.

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

Robert A. Marchman

Robert A. Marchman, Esq.
Executive Vice President
FINRA Department of Market Regulation