

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015047127703**

**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 of FINRA's Code of Procedure, 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**

J.P. Morgan Securities, LLC ("JPMS" or the "Firm") has been a FINRA member since 1936 and is headquartered in New York, New York. It is part of a larger financial services enterprise, JP Morgan Chase Holdings LLC (JP Morgan Chase), and conducts a full-service brokerage business including, among other things, sales and trading, research, and underwriting services. JPMS has approximately 26,000 registered persons.

**RELEVANT DISCIPLINARY HISTORY**

In AWC No. 2007009764901 (Feb. 4, 2009), FINRA censured and fined Chase Investment Services Corp, a predecessor of JPMS,<sup>1</sup> \$150,000 for failing to make 118 regulatory disclosures required by Question 7F on the Uniform Termination Notice for Securities Industry Registration ("Form U5"). Although the Firm had

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<sup>1</sup> On October 1, 2012, Chase Investment Services Corp. merged with and into JPMS, leaving JPMS as the surviving legal entity.

described the reason for representatives' terminations in Section 3 of Form U5, the Firm failed to make the disclosures separately required in Section 7F of the Form U5 following allegations of theft, fraud, or violations of investment-related rules.

## OVERVIEW

Between January 1, 2012 and April 10, 2018 (the "Relevant Period"), JPMS failed to disclose on Form U5, or disclosed more than 60 days late, 89 internal reviews or allegations involving fraud, wrongful taking of property, or violations of investment-related statutes, regulations, rules or industry standards of conduct by the Firm's current or former registered representatives ("Required Information"). This prevented or delayed regulators, other member firms, and the public from learning about those events and, in certain instances, prevented FINRA from pursuing potential disciplinary action.

The Firm failed to disclose the Required Information because it failed to establish and maintain reasonably designed supervisory systems and written supervisory procedures for disclosing the Required Information in response to Questions 7B and 7F on Form U5.

By virtue of this misconduct, the Firm violated Article V, Sections 3(a) and 3(b) of the FINRA By-Laws of the Corporation, FINRA Rule 1122, FINRA Rule 3110, NASD Rule 3010, and FINRA Rule 2010.

## FACTS AND VIOLATIVE CONDUCT

### Disclosure Failures

Under Article V, Section 3(a) of FINRA's By-Laws and FINRA Rule 1122, firms are required to notify FINRA when the firm terminates a registered representative's association by filing a Form U5 within 30 days. Under Article V, Section 3(b) of FINRA's By-Laws and FINRA Rule 1122, firms must file an amendment to Form U5 within 30 days after they learn of facts or circumstances causing any information set forth in a previously filed Form U5 to become inaccurate or incomplete.

In Regulatory Notice 10-39 (Sept 2010), FINRA reminded member firms of their obligation to provide timely, complete, and accurate information on Form U5 and to file an amended Form U5 when required. As described in the Regulatory Notice, it is imperative that firms timely file complete and accurate Forms U5 and amendments thereto because, among other reasons, FINRA uses the information on Form U5 to help identify potential misconduct and sanction individuals, states and regulators use the information to make informed licensing decisions, member firms use the information to make informed employment decisions, and investors

use the information, displayed through BrokerCheck, when considering whether to do business with a registered, or formerly registered, person.

During the Relevant Period, JPMS failed to respond accurately to Questions 7B and 7F on Form U5, failing to disclose certain allegations of serious misconduct. Question 7B on Form U5 asks, "Currently is, or at termination was, the individual under internal review for fraud or wrongful taking of property, or violating *investment-related* statutes, regulations, rules or industry standards of conduct?"<sup>2</sup> In addition, Question 7F on Form U5 asks, "Did the individual voluntarily *resign* from your *firm*, or was the individual discharged or permitted to *resign* from your *firm*, after allegations were made that accused the individual of: (1) violating *investment-related* statutes, regulations, rules or industry standards of conduct?, (2) fraud or the wrongful taking of property?, or (3) failure to supervise in connection with *investment-related* statutes, regulations, rules or industry standards of conduct?" If Question 7B or 7F is answered "Yes," details related to the internal review or allegation must also be provided on Form U5.

During the Relevant Period, JPMS failed to disclose on Form U5, or disclosed more than 60 days late, 89 allegations or internal reviews involving Required Information. The Firm made 66 disclosures of the Required Information only after FINRA commenced inquiries and asked the Firm to conduct a review to identify instances in which it had failed to disclose the Required Information. When the Required Information was filed, it was, on average, more than two years late.

Most of the failures to disclose the Required Information concerned registered representatives who were employed by JPMS's affiliate bank while associated with JPMS and registered with FINRA, and voluntarily resigned after they became the subject of an internal review, or where the Firm began the internal review after the registered representative was terminated. In many of the other instances, the Firm failed to disclose the Required Information when the allegation or internal review related to: (i) the misappropriation or transmission of proprietary Firm information, (ii) instances in which a representative who was transitioning to a new firm brought customer information with him or her, or (iii) a violation of an investment-related banking industry standard of conduct by an individual who was an employee of JPMS's affiliated bank.

The Firm's failure to disclose the Required Information presented significant risks. For example, the Firm failed to disclose, or timely disclose, internal reviews about and allegations that 13 registered representatives misappropriated funds from banking customers and five registered representatives misappropriated company funds. Additional allegations included that registered representatives engaged in structuring or other suspicious activity, falsified, forged, or altered

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<sup>2</sup> The term *investment-related* is broadly defined in the Form U5 Explanation of Terms as "Pertain[ing] to securities, commodities, banking, insurance, or real estate (including, but not limited to, acting as or being associated with a broker-dealer, issuer, investment company, investment adviser, futures sponsor, bank, or savings association)."

bank-related documents, engaged in unauthorized trading, made unsuitable recommendations, engaged in selling away or undisclosed outside business activities, and borrowed from customers.

FINRA's jurisdiction expired over 30 of the registered representatives before JPMS disclosed the Required Information, thereby preventing FINRA from taking potential disciplinary action against those individuals in connection with the Required Information.<sup>3</sup> In addition, 36 of the registered representatives became associated with other FINRA member firms before JPMS disclosed the Required Information about them.

### Supervisory Failures

The Firm's disclosure failures resulted primarily from the Firm's failure to establish and maintain reasonable supervisory systems and written supervisory procedures. FINRA Rule 3110(a), formerly NASD Rule 3010(a), requires that member firms establish and maintain a system to supervise the activities of registered representatives, registered principals, and other associated persons that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules. FINRA Rule 3110(b) further requires, and until November 30, 2014, NASD Rule 3010(b) required, each member firm 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."

During the Relevant Period, the Firm's Registration Group was responsible for making Form U5 filings where the answers to the Disclosure Questions, including Questions 7B and 7F, might be "yes," and where further consideration of those questions was necessary ("Registration"). The Firm regularly notified Registration of the registered representative's termination if the Firm considered it "involuntary" or if the registered representative had been "permitted to resign." However, JPMS did not establish and maintain a supervisory system or written supervisory procedures reasonably designed to notify Registration that a registered representative: (i) had voluntarily resigned but was the subject of an internal review or allegation, or (ii) was the subject of an internal review that began after the registered representative was terminated. This was unreasonable because the obligation to make a 7B or 7F disclosure does not depend on whether the termination was voluntary or involuntary, and a disclosure in response to Question 7B is still required if the internal review begins after the termination.

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<sup>3</sup> Pursuant to Article V, Section 4 of the FINRA by-laws, a person whose association with a member has terminated remains subject to the filing of a complaint based on conduct that occurred prior to their termination for two years after the effective date of termination of registration. In addition, any amendment to a notice of termination that is filed within two years of the original notice, which discloses that the person may have engaged in actionable misconduct, recommences the running of the two-year period.

For example, although at times Registration learned about internal investigations through a Firm database or when the Firm's business lines reached out to Registration directly, Registration was only regularly notified of a termination if it was labeled as "involuntary" or "permitted to resign" in the database. If the termination was labeled as "voluntary," it was processed by a different operations group. During the Relevant Period, the Firm did not have a reasonable system in place to routinely notify Registration that a registered representative was the subject of an internal review, including instances in which the registered representative voluntarily resigned while under internal review or where the internal review began after the registered representative's termination. As a result, Registration was unaware of the need to disclose the Required Information about the 89 allegations or internal reviews.

In addition, the Firm failed to reasonably train or provide guidance to employees about the circumstances in which 7B and 7F disclosures were required.

By virtue of the foregoing, JPMS violated Article V, Sections 3(a) and 3(b) of the FINRA By-Laws of the Corporation, FINRA Rules 1122, 3110, and 2010, and NASD Rule 3010.

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

1. A censure;
2. A fine of \$1.1 million; and,
3. The undertaking described below:
  - a. Certification Regarding Implementation of Reasonably Designed Procedures: Within 60 days of the date this AWC is accepted, a senior officer and principal of JPMS with supervisory authority over the Firm's licensing and registration functions shall certify in writing to FINRA that the Firm has implemented supervisory systems and written supervisory procedures reasonably designed to address each of the areas of conduct identified in this AWC, including to achieve compliance with the requirements to respond timely to the Disclosure Questions contained on Form U5. This certification shall be submitted by letter addressed to Frank Mazzaelli, Director, FINRA Enforcement Department, 15200 Omega Drive, Third Floor, Rockville, MD, 20850.

JPMS agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. JPMS has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

JPMS 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.

## 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 prejudice 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 Respondent’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
  - 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 Respondent’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. 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 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 its 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.

09/16/2019  
Date (mm/dd/yyyy)


J.P. Morgan Securities, LLC  
Respondent

J.P. Morgan Securities, LLC

By: 

Print Name: Eric Tepper

Title: Managing Director

Reviewed by:  


Robert A. Buhlman  
Counsel for Respondent  
Sidley Austin LLP  
60 State Street, 36<sup>th</sup> Floor  
Boston, MA 02109  
617-223-0333

Accepted by FINRA:

9/16/2019  
Date

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



Frank Mazzealli  
Director  
FINRA Department of Enforcement  
15200 Omega Drive  
Rockville, MD 20850  
(301) 258-8557