

BATS BYX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-09

TO: Bats BYX Exchange, Inc.
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 8.3 of the Rules of Bats BYX Exchange, Inc. ("BYX" or the "Exchange"), J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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; BYX will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 BYX; or to which BYX 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 BYX:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered with BYX since September 15, 2010, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20150478122, the Market Manipulation Investigations Section of FINRA's Department of Market Regulation ("Market Regulation") conducted reviews of potentially violative or manipulative trading by JPMS customers that occurred on the Exchange on three dates in July 2015, and the Firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").¹
4. The above matter, and Matter No. 20120348296, were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including The NASDAQ Stock Market LLC, New York Stock Exchange, Inc., Bats BZX Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including BYX Rules 5.1, 5.2, 5.3, and 3.1, during the period of May 2012 through at least April 2016 (the "Review Period").
5. As a result of Market Regulation's investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
6. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements, including supervising customer trading to detect and prevent potentially violative and manipulative activity, in violation of SEA Rules 15c3-5(b) and (c)(2), and BYX Rules 5.1, 5.2, 5.3, and 3.1.

Violative Conduct

Applicable Rules

7. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

² Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

8. During the Review Period, SEA Rule 15c3-5(c)(2) required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements.
9. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and "a written description of its risk management controls" as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer's compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
10. During the Review Period, BYX Rules 5.1, 5.2 and 5.3 required, among other things, that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to ensure compliance with applicable securities laws and regulations and BYX Rules.
11. During the Review Period, BYX Rule 3.1 provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

Overview of JPMS's Market Access Systems

12. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
13. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm's Global Wealth Management Division, and the Institutional Equities Division.
14. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets. Moreover, the Firm monitored its Market Access Clients and traders' orders on a post-trade basis for, among other things, potentially manipulative activity.

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description "until three years after the termination of the use of" the document. See 17 C.F.R. § 240.17a-4(e)(7).

Inadequate Supervision of Customer Trading

15. During 2015, JPMS used a series of post-trade surveillance reports run by a commercial non-proprietary Third-Party Surveillance System ("Third-Party Surveillance System") to monitor and review customer trading activity to detect, escalate and ultimately prevent potentially violative or manipulative trading activity, including layering⁴ and spoofing.⁵
16. Pursuant to the parameters in the Third-Party Surveillance System utilized by the Firm, several thresholds must be met in order to generate layering and spoofing alerts on the Firm's exception reports. Certain of these thresholds, however, were set at levels that were unreasonable to detect activity that may be indicative of layering and spoofing activity.
17. For example, one threshold requires that potential non-bona fide orders must be priced within a certain number of ticks of the national best bid or offer ("NBBO") which, as currently employed by the Firm, would fail to identify instances of potential layering or spoofing when the non-bona fide orders were displayed and priced at the NBBO or established a new best bid or offer.⁶ Additionally, another threshold requires that the volume on the opposite side of the market must exceed a certain set percentage of the ADTV of the relevant security for the preceding 30 day period in order for an alert to be generated. However, since this percentage is the same for all securities regardless of the ADTV of a security, this exception report would be less likely to identify potential layering or spoofing in a security with a significant ADTV.
18. As a result of the above, JPMS failed to adequately supervise certain of its customers' trading, and failed to detect potentially violative layering activity that occurred on several days on the Exchange in July 2015.
19. The acts, practices, and conduct described above in paragraphs 15 through 18 constitute violations of SEA Rules 15c3-5(b) and (c)(2), and BYX Rules 5.1, 5.2, 5.3, and 3.1.

⁴ Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.

⁵ Spoofing is also a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

⁶ In April 2017, JPMS began using an additional spoofing exception report that considers orders displayed and priced at the NBBO.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$800,000, of which \$15,000 is payable to BYX;⁷ and
3. An undertaking requiring the Firm to address the Market Access Rule deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 90 days of the date of this AWC, JPMS shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- i. A reference to this matter;
- ii. A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- iii. The date(s) this was completed.

The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC.

The Firm 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.

The Firm 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 BYX.

⁷ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under BYX Rules:

- A. To have a Statement of Charges issued specifying the allegations against it;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the BYX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO"), in connection with his or her participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BYX Rule 8.16, 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

The Firm 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 CRO, pursuant to BYX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; 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 BYX or any other regulator against the Firm;
 - 2. This AWC will be published on a website maintained by BYX in accordance with BYX Rule 8.18. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record; and

3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of BYX, or to which BYX 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 BYX is not a party.

D. The Firm 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 BYX, nor does it reflect the views of BYX 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.

6/9/17
Date

J.P. Morgan Securities, LLC, Respondent

By: William Frestel
Name: William Frestel
Title: Morgan Director

Reviewed by:
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Counsel for Respondent

6/21/2017
Date

Greg Hoogasian
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Senior Vice President & Chief Regulatory Officer
Bats BYX Exchange, Inc.

BATS BZX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-04

TO: Bats BZX Exchange, Inc.
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 8.3 of the Rules of Bats BZX Exchange, Inc. ("BZX" or the "Exchange"), J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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, BZX will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 BZX, or to which BZX 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 BZX:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered with BZX as an equities member since August 18, 2008, and as an options member since May 5, 2010, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20140413670, the Chicago Equities Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed the repeated entry and cancellation of 1.2 million short sale Immediate or Cancel market orders submitted by the Firm on May 30, 2012, and other concentrations of orders submitted between April 2013 and September 2013, and the Firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").¹
4. In Matter No. 20160485510, the Market Manipulation Investigations Section of Market Regulation conducted reviews of potentially violative or manipulative trading by JPMS customers that occurred on the Exchange on 12 dates between August 12, 2015 and December 2, 2015, and the Firm's compliance with the Market Access Rule.
5. In Matter No. 20160486998, the Market Analysis Section of Market Regulation reviewed a CEE equities petition filed on the Exchange on April 13, 2016, and the Firm's compliance with the Market Access Rule.
6. In Matter No. 20160500095, the Options Regulation Section of Market Regulation reviewed erroneous options executions and a voluntary request to "bust" (*i.e.*, to cancel) two options trades on the Exchange on January 26, 2015, and the Firm's compliance with the Market Access Rule.
7. The above matters, and Matter No. 20120348296, were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including The NASDAQ Stock Market LLC, New York Stock Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including BZX Rules 5.1, 5.2, 5.3, and 3.1, during the period of May 2012 through at least April 2016 (the "Review Period").
8. As a result of Market Regulation's investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
9. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous equities and options orders by rejecting orders that exceed appropriate price or size parameters, or that indicate

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and BZX Rules 5.1, 5.2, 5.3, and 3.1.

Violative Conduct

Applicable Rules

10. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²
11. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
12. During the Review Period, SEA Rule 15c3-5(c)(2) required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements.
13. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and "a written description of its risk management controls" as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer's compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
14. During the Review Period, BZX Rules 5.1, 5.2 and 5.3 required, among other things, that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to ensure compliance with applicable securities laws and regulations and BZX Rules.
15. During the Review Period, BZX Rule 3.1 provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

² Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description "until three years after the termination of the use of" the document. See 17 C.F.R. § 240.17a-4(e)(7).

Overview of JPMS's Market Access Systems

16. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
17. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm's Global Wealth Management Division, and the Institutional Equities Division.
18. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.
19. Depending on the Market Access Client or Firm trader, JPMS generally implemented at least one of the following pre-trade controls: a duplicate order control; a single order notional control (*i.e.*, the value of an order, which is generally calculated by multiplying the share price by the amount of shares); a single order quantity control; an average daily trade volume ("ADTV") control; and a price limit control applicable to limit orders. The combination of controls and the limits at which these controls were set varied depending upon the Market Access Client or trader.

Inadequate Equities Pre-Trade Erroneous Order Controls

20. Despite the various pre-trade controls and filters designed to prevent the entry of erroneous orders that the Firm had in place during the Review Period, the Firm failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by certain Market Access Clients and certain Firm traders, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders during the Review Period, as set forth below.
21. Because JPMS's pre-trade controls were not reasonably designed as applied to certain of the Firm's Market Access Clients and traders, JPMS did not prevent the transmission of certain erroneous equity orders to the SROs and to the Exchange, causing 14 erroneous order events resulting in CEE filings with the SROs and the Exchange, three volatility trading pauses ("VTPs")⁴ and one request for a voluntary bust (involving 77 trades). These orders caused price movement in the related securities of between 10% and 188%.

⁴ A VTP (*i.e.*, market-wide trading pause) will generally occur when a security falls or rises by a designated percentage within a certain time frame (*e.g.*, 10% to 50% depending on the security in a 5-minute time period).

22. There were several primary deficiencies in JPMS's pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned CEE filings. For example, certain of the Firm's trader specific and Market Access Client specific controls during the Review Period only employed soft-blocks that could easily be overridden by the Firm's traders, causing them to be ineffective without additional reasonable controls.
23. Further, in some instances the Firm did not include controls that took into account the individual characteristics of a security, such as the ADTV of a security, and when it did implement an ADTV control it was generally set too high to be effective and was therefore not reasonably designed, absent additional reasonable controls. Similarly, when the Firm implemented single order notional and quantity controls, they were also set too high to be effective without additional reasonable controls. For example, with regard to the Market Access Clients and traders responsible for the erroneous orders referenced in paragraph 21, one trader at issue had only a single order quantity control and just three Market Access Clients had ADTV controls assigned by the Firm.
24. In addition, a control applicable to limit orders for at least one Market Access Client, called the "Out of Range/Price Check" control, had a generally applicable price check that was set at a particular percentage away from the last sale or the previous day's close or the average of the national best bid or offer ("NBBO"), which was too high to prevent the entry of erroneous orders entered during pre-market trading hours without additional reasonable controls.
25. In at least two instances, the Firm's controls were not applied because, as designed, the controls did not apply to orders that had been amended or modified. For example, on April 13, 2016, a Firm Market Access Client submitted a Volume Weighted Average Price ("VWAP") limit order to sell 175,000 shares of "DEF"⁵ at \$37.28 a share, which was received into the Firm's proprietary sales order management system for low touch orders.⁶ This limit order triggered the ADTV limit control applied to this Client's orders (the order was 18.55% of the ADTV) and was subsequently reviewed by a Firm trader who decided to release the order into the market. The Market Access Client thereafter entered a cancel and replace order, ultimately replacing the VWAP limit order with a market order. Upon doing so, this order did not trigger any of the Firm's pre-trade order controls for erroneous orders, because the market order was classified as an amended order and the controls did not apply to amended orders. Thus, the 175,000 share market order was directly submitted to the markets without being reviewed by the controls and filters resulting in executions on the Exchange. The lowest order execution price was 10.86% away from the security's closing price. The Firm consequently filed a CEE petition. As a result of this incident, the Firm subsequently amended its controls such that they now apply to amended orders.

⁵ A generic identifier has been used in place of the name of this security.

⁶ A "low touch" order is generally submitted directly to an exchange without any interaction by the Firm or its traders.

26. The acts, practices, and conduct described above in paragraphs 20 through 25 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and BZX Rules 5.1, 5.2, 5.3, and 3.1.

Inadequate Equities Pre-Trade Order Controls for Messaging Activity

27. During the Review Period, JPMS failed to have reasonably designed risk management controls to detect instances when algorithms used by its Market Access Clients experienced cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of message traffic on the SROs.
28. Prior to November 2013, JPMS failed to have message rate controls that pertained to its Market Access Clients to detect and prevent inadvertent orders resulting from malfunctioning software programs or systems. Further, the Firm's duplicate order control during the Review Period only rejected orders that were submitted under identical order identifications during a Market Access Client's trading session. Moreover, prior to January 2014, JPMS employed soft-block alerts for order or message activity, rather than any hard-blocks, that could be overridden, and the levels set for the alerts were too high to identify potentially unintended messaging activity.
29. Moreover, the hard-blocks implemented by JPMS were also set at levels that were too high and required activity to persist for too long in order to potentially identify and prevent the entry of a high volume of unintended orders or messages.
30. Additionally, JPMS's method for determining appropriate parameters for messaging alerts and hard-blocks was not reasonable as it was solely based on a multiple of a Market Access Client's peak messaging activity and did not also factor in other individual characteristics of a Client's order flow.
31. Lastly, while JPMS also conducted a review of alerts for a high volume of orders or messages on a post-trade basis to determine whether the activity could be indicative of a manipulative trading strategy, the surveillances used for this purpose were not reasonably designed to be effective, as certain surveillance parameters were set too high and require the activity to persist too long to generate an alert given all facts and circumstances.
32. The acts, practices, and conduct described above in paragraphs 27 through 31 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and BZX Rules 5.1, 5.2, 5.3, and 3.1.

Inadequate Supervision of Customer Equity Trading

33. During 2015, JPMS used a series of post-trade surveillance reports run by a commercial non-proprietary Third-Party Surveillance System ("Third-Party Surveillance System") to monitor and review customer trading activity to detect,

escalate and ultimately prevent potentially violative or manipulative trading activity, including layering⁷ and spoofing.⁸

34. Pursuant to the parameters in the Third-Party Surveillance System utilized by the Firm, several thresholds must be met in order to generate layering and spoofing alerts on the Firm's exception reports. Certain of these thresholds, however, were set at levels that were unreasonable to detect activity that may be indicative of layering and spoofing activity.
35. For example, one threshold requires that potential non-bona fide orders must be priced within a certain number of ticks of the NBBO which, as currently employed by the Firm, would fail to identify instances of potential layering or spoofing when the non-bona fide orders were displayed and priced at the NBBO or established a new best bid or offer.⁹ Additionally, another threshold requires that the volume on the opposite side of the market must exceed a certain set percentage of the ADTV of the relevant security for the preceding 30 day period in order for an alert to be generated. However, since this percentage is the same for all securities regardless of the ADTV of a security, this exception report would be less likely to identify potential layering or spoofing in a security with a significant ADTV.
36. As a result of the above, JPMS failed to adequately supervise certain of its customers' trading, and failed to detect potentially violative spoofing activity that occurred on several days on the Exchange between August 12, 2015 and December 2, 2015.
37. The acts, practices, and conduct described above in paragraphs 33 through 36 constitute violations of SEA Rules 15c3-5(b) and (c)(2), and BZX Rules 5.1, 5.2, 5.3, and 3.1.

Inadequate Options Pre-Trade Erroneous Order Controls

38. Due to the Firm's failure to have reasonably designed pre-trade risk management controls applicable to options orders submitted by certain of the Firm's Market Access Clients and establish and implement reasonable supervisory procedures designed to prevent the entry of erroneous options orders during the Review Period,

⁷ Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.

⁸ Spoofing is also a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

⁹ In April 2017, JPMS began using an additional spoofing exception report that considers orders displayed and priced at the NBBO.

JPMS did not prevent the transmission of two erroneous options orders to the Exchange by one of its Market Access Clients ("AB"),¹⁰ resulting in two requests for a voluntary bust of trades.

39. There were several primary deficiencies in JPMS's pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned requests for a voluntary bust of trades. For example, during the Review Period, while JPMS had pre-trade price controls that applied to limit orders routed to exchanges through the Firm's Options Smart Order Router ("OSOR"), JPMS had no similar applicable price-control for options market orders or another reasonable control designed to take into account potentially unintended large volume market orders that may have an adverse effect on the market and prevent the entry of erroneous orders. Moreover, the controls assigned by the Firm to AB via a JPMS order management system (the "OMS"), which included only a single order quantity control and a daily notional value control, were set too high to be considered reasonable to prevent the submission of erroneous orders without additional controls.

40. As a result, on January 26, 2015, AB mistakenly electronically entered a buy-side market order in a particular option, rather than a limit order as intended, into the OMS. After passing through the OMS controls that were set for AB, the order was then routed to OSOR. Because the order was erroneously submitted as a market order, the price-controls in OSOR did not apply. OSOR broke up the original parent order into several child orders and converted them into Immediate-or-Cancel Intermarket Sweep Order limit orders and routed the orders to the Exchange. OSOR assigned a price to each child limit order by taking a snapshot of the market and basing the limit price on the snapshot, but this method failed to consider the original market conditions that existed when the first child order was executed when setting limit prices for subsequent child orders. Thus, it ignored the impact its own orders had on the symbol's market and would fail to consider if those orders (or another event) had caused a significant price dislocation. In this situation, the entry of two erroneous options orders drove up the price of the option by approximately 110% within 200 milliseconds.

41. The acts, practices, and conduct described above in paragraphs 38 through 40 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and BZX Rules 5.1, 5.2, 5.3, and 3.1.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$800,000, of which \$110,000 is payable to BZX;¹¹ and

¹⁰ A generic identifier has been used in place of this client.

¹¹ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

3. An undertaking requiring the Firm to address the Market Access Rule deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 90 days of the date of this AWC, JPMS shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- i. A reference to this matter;
- ii. A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- iii. The date(s) this was completed.

The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC.

The Firm 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.

The Firm 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 BZX.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under BZX Rules:

- A. To have a Statement of Charges issued specifying the allegations against it;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the BZX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer ("CRO"), in connection with his or her participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BZX Rule 8.16, 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

The Firm 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 CRO, pursuant to BZX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; 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 BZX or any other regulator against the Firm;
 - 2. This AWC will be published on a website maintained by BZX in accordance with BZX Rule 8.18. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record; and
 - 3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of BZX, or to which BZX 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 BZX is not a party.

- D. The Firm 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 BZX, nor does it reflect the views of BZX 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.

6/9/17
Date

J.P. Morgan Securities, LLC, Respondent

By: William Freitel
Name: William Freitel
Title: Managing Director

Reviewed by:
Bruce H. Newman
Bruce H. Newman
WilmerHale
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Counsel for Respondent

6/21/2017
Date

Greg Hoogasian
Greg Hoogasian
Senior Vice President & Chief Regulatory Officer
Bats BZX Exchange, Inc.

BATS EDGX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-05

TO: Bats EDGX Exchange, Inc.
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 8.3 of the Rules of Bats EDGX Exchange, Inc. ("EDGX" or the "Exchange"), J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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, EDGX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 EDGX, or to which EDGX 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 EDGX:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered with EDGX since May 14, 2010, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20160486998, the Market Analysis Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed a CEE petition filed on the

Exchange on April 13, 2016, and the Firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").¹

4. In Matter No. 20150478122, the Market Manipulation Investigations Section of Market Regulation conducted reviews of potentially violative or manipulative trading by JPMS customers that occurred on the Exchange on three dates in July 2015, and the Firm's compliance with the Market Access Rule.
5. In Matter No. 20160485510, the Market Manipulation Investigations Section of Market Regulation conducted reviews of potentially violative or manipulative trading by JPMS customers that occurred on the Exchange on 12 dates between August 12, 2015 and December 2, 2015, and the Firm's compliance with the Market Access Rule.
6. The above matter, and Matter No. 20120348296, were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including The NASDAQ Stock Market LLC, New York Stock Exchange, Inc., Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including EDGX Rules 5.1, 5.2, 5.3, and 3.1, during the period of May 2012 through at least April 2016 (the "Review Period").
7. As a result of Market Regulation's investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
8. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and EDGX Rules 5.1, 5.2, 5.3, and 3.1.

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

Violative Conduct

Applicable Rules

9. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²
10. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
11. During the Review Period, SEA Rule 15c3-5(c)(2) required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements.
12. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and "a written description of its risk management controls" as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer's compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
13. During the Review Period, EDGX Rules 5.1, 5.2 and 5.3 required, among other things, that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to ensure compliance with applicable securities laws and regulations and EDGX Rules.
14. During the Review Period, EDGX Rule 3.1 provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

² Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description "until three years after the termination of the use of" the document. See 17 C.F.R. § 240.17a-4(e)(7).

Overview of JPMS's Market Access Systems

15. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
16. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm's Global Wealth Management Division, and the Institutional Equities Division.
17. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.
18. Depending on the Market Access Client or Firm trader, JPMS generally implemented at least one of the following pre-trade controls: a duplicate order control; a single order notional control (*i.e.*, the value of an order, which is generally calculated by multiplying the share price by the amount of shares); a single order quantity control; an average daily trade volume ("ADTV") control; and a price limit control applicable to limit orders. The combination of controls and the limits at which these controls were set varied depending upon the Market Access Client or trader.

Inadequate Pre-Trade Erroneous Order Controls

19. Despite the various pre-trade controls and filters designed to prevent the entry of erroneous orders that the Firm had in place during the Review Period, the Firm failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by certain Market Access Clients and certain Firm traders, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders during the Review Period, as set forth below.
20. Because JPMS's pre-trade controls were not reasonably designed as applied to certain of the Firm's Market Access Clients and traders, JPMS did not prevent the transmission of certain erroneous equity orders to the SROs and to the Exchange, causing 14 erroneous order events resulting in CEE filings with the SROs and the Exchange, three volatility trading pauses ("VTPs")⁴ and one request for a voluntary

⁴ A VTP (*i.e.*, market-wide trading pause) will generally occur when a security falls or rises by a designated percentage within a certain time frame (*e.g.*, 10% to 50% depending on the security in a 5-minute time period).

bust (involving 77 trades). These orders caused price movement in the related securities of between 10% and 188%.

21. There were several primary deficiencies in JPMS's pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned CEE filings. For example, certain of the Firm's trader specific and Market Access Client specific controls during the Review Period only employed soft-blocks that could easily be overridden by the Firm's traders, causing them to be ineffective without additional reasonable controls.
22. Further, in some instances the Firm did not include controls that took into account the individual characteristics of a security, such as the ADTV of a security, and when it did implement an ADTV control it was generally set too high to be effective and was therefore not reasonably designed, absent additional reasonable controls. Similarly, when the Firm implemented single order notional and quantity controls, they were also set too high to be effective without additional reasonable controls. For example, with regard to the Market Access Clients and traders responsible for the erroneous orders referenced in paragraph 21, one trader at issue had only a single order quantity control and just three Market Access Clients had ADTV controls assigned by the Firm.
23. In addition, a control applicable to limit orders for at least one Market Access Client, called the "Out of Range/Price Check" control, had a generally applicable price check that was set at a particular percentage away from the last sale or the previous day's close or the average of the national best bid or offer ("NBBO"), which was too high to prevent the entry of erroneous orders entered during pre-market trading hours without additional reasonable controls.
24. In at least two instances, the Firm's controls were not applied because, as designed, the controls did not apply to orders that had been amended or modified. For example, on April 13, 2016, a Firm Market Access Client submitted a Volume Weighted Average Price ("VWAP") limit order to sell 175,000 shares of "DEF"⁵ at \$37.28 a share, which was received into the Firm's proprietary sales order management system for low touch orders.⁶ This limit order triggered the ADTV limit control applied to this Client's orders (the order was 18.55% of the ADTV) and was subsequently reviewed by a Firm trader who decided to release the order into the market. The Market Access Client thereafter entered a cancel and replace order, ultimately replacing the VWAP limit order with a market order. Upon doing so, this order did not trigger any of the Firm's pre-trade order controls for erroneous orders, because the market order was classified as an amended order and the controls did not apply to amended orders. Thus, the 175,000 share market order was directly submitted to the markets without being reviewed by the controls and filters resulting in executions on

⁵ A generic identifier has been used in place of the name of this security.

⁶ A "low touch" order is generally submitted directly to an exchange without any interaction by the Firm or its traders.

the Exchange. The lowest order execution price was 10.86% away from the security's closing price. The Firm consequently filed a CEE petition. As a result of this incident, the Firm subsequently amended its controls such that they now apply to amended orders.

25. The acts, practices, and conduct described above in paragraphs 19 through 24 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and EDGX Rules 5.1, 5.2, 5.3, and 3.1.

Inadequate Supervision of Customer Trading

26. During 2015, JPMS used a series of post-trade surveillance reports run by a commercial non-proprietary Third-Party Surveillance System ("Third-Party Surveillance System") to monitor and review customer trading activity to detect, escalate and ultimately prevent potentially violative or manipulative trading activity, including layering⁷ and spoofing.⁸
27. Pursuant to the parameters in the Third-Party Surveillance System utilized by the Firm, several thresholds must be met in order to generate layering and spoofing alerts on the Firm's exception reports. Certain of these thresholds, however, were set at levels that were unreasonable to detect activity that may be indicative of layering and spoofing activity.
28. For example, one threshold requires that potential non-bona fide orders must be priced within a certain number of ticks of the NBBO which, as currently employed by the Firm, would fail to identify instances of potential layering or spoofing when the non-bona fide orders were displayed and priced at the NBBO or established a new best bid or offer.⁹ Additionally, another threshold requires that the volume on the opposite side of the market must exceed a certain set percentage of the ADTV of the relevant security for the preceding 30 day period in order for an alert to be generated. However, since this percentage is the same for all securities regardless of the ADTV

⁷ Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.

⁸ Spoofing is also a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

⁹ In April 2017, JPMS began using an additional spoofing exception report that considers orders displayed and priced at the NBBO.

of a security, this exception report would be less likely to identify potential layering or spoofing in a security with a significant ADTV.

29. As a result of the above, JPMS failed to adequately supervise certain of its customers' trading, and failed to detect potentially violative layering activity that occurred on at least three days on the Exchange in July 2015, and failed to detect potentially violative spoofing activity that occurred on several days on the Exchange between August 12, 2015 and December 2, 2015.
30. The acts, practices, and conduct described above in paragraphs 26 through 29 constitute violations of SEA Rules 15c3-5(b) and (c)(2), and EDGX Rules 5.1, 5.2, 5.3, and 3.1.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$800,000, of which \$50,000 is payable to EDGX,¹⁰ and
3. An undertaking requiring the Firm to address the Market Access Rule deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 90 days of the date of this AWC, JPMS shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- i. A reference to this matter;
- ii. A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- iii. The date(s) this was completed.

The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

¹⁰ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC, NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC.

The Firm 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.

The Firm 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 EDGX.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under EDGX Rules:

- A. To have a Statement of Charges issued specifying the allegations against it;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the EDGX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO"), in connection with his or her participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of EDGX Rule 8.16, 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

The Firm 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 CRO, pursuant to EDGX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; 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 EDGX or any other regulator against the Firm;
 - 2. This AWC will be published on a website maintained by EDGX in accordance with EDGX Rule 8.18. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record; and
 - 3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of EDGX, or to which EDGX 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 EDGX is not a party.
- D. The Firm 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 EDGX, nor does it reflect the views of EDGX 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.

June 9, 2017
Date

J.P. Morgan Securities, LLC, Respondent

By: William Freitel
Name: William Freitel
Title: Managing Director

Reviewed by:
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(212) 230-8835

6/21/2017
Date

Greg Hoogasian
Greg Hoogasian
Senior Vice President & Chief Regulatory Officer
Bats EDGX Exchange, Inc.

**THE NASDAQ OPTIONS MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-07**

TO: The NASDAQ Options Market LLC
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC ("Nasdaq")¹ Code of Procedure, J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered as a member of The NASDAQ Options Market LLC ("NOM" or the "Exchange") since March 12, 2008, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20140411208, the Options Regulation Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed cancel-replace and buy-sell

¹ All NASDAQ Options Market LLC disciplinary matters are governed by the Nasdaq Code of Procedure.

looping of orders on multiple occasions, which caused high levels of options message traffic during various periods in 2014, and the Firm's risk management controls and supervisory procedures for compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").

4. The above matter, as well as Matter No. 20120348296, was part of several investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including NYSE Arca Equities, Inc., New York Stock Exchange, Inc., The NASDAQ Stock Market LLC, Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Options, Inc., and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A, during the period of May 2012 through at least April 2016 (the "Review Period").
5. As a result of Market Regulation's investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
6. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A.

Violative Conduct

Applicable Rules

7. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²
8. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.

² Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

9. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
10. During the Review Period, Chapter III, Section 1 of the NOM Rules required, among other things, that every Options Participant supervise persons associated with the Participant to assure compliance therewith, and Chapter III, Sections 2(a) and 2(a)(i) of the NOM Rules required, among other things, that each Options Participant comply with the Options Participant’s and associated persons’ obligations under the Rules of the Exchange and any other relevant laws, rules, interpretations and obligations.
11. During the Review Period, Nasdaq Rule 3010(a) required, among other things, that each member firm to “establish and maintain a system to supervise the activities of each . . . associated person[.]” and that such system must be “reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq Rules.”
12. During the Review Period, Nasdaq Rule 2010A provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

Overview of JPMS’s Market Access Systems

13. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
14. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation).⁴ These Divisions included the Firm’s Global Wealth Management Division, and the Institutional Equities Division.
15. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets,

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. See 17 C.F.R. § 240.17a-4(e)(7).

⁴ For the Firm’s options business, this also included the Firm’s Electronic Market Making (“EMM”) desk that was used by the Firm to enter quotes.

including the SROs.⁵ Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.

Inadequate Options Pre-Trade Order Controls for Messaging Activity

16. During the Review Period, JPMS failed to have reasonable risk management controls to prevent Firm programs and algorithms from submitting cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of options message traffic on the Exchange, NYSE Arca Options, Inc., and NASDAQ PHLX LLC (the "Options SROs").
17. During the period of January 2014 through July 2014, a system design, specifically the manner in which the system responded to market data given the inherent latency between message entry and acknowledgement from an exchange and the time it was reflected in market data, caused the Firm's EMM desk via its Options EMM system to engage in the above looping activity for messages entered by the Firm on the Options SROs.⁶
18. During the period of January 2014 through July 2014, the EMM system had the ability to withdraw all quotes from the market, if necessary, and the Firm had a T+1 report to review for high message counts. Although the Firm also had a real-time surveillance designed to monitor for high message entries, it did not prevent the looping activity that occurred on the Options SROs between January 2014 and July 2014.
19. While the Firm's post-trade surveillance did flag the activity at issue on the Options SROs and the Firm was aware of the system design issue that was causing the activity by January 2014, the Firm failed to resolve the issue until August 2014, and thus caused repeated entry of unintended elevated messaging activity into the markets for the Options SROs.⁷
20. The acts, practices, and conduct described above in paragraphs 16 through 19 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A.

B. The firm also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$800,000, of which \$20,000 is payable to NOM.⁸

⁵ For the Firm's options business, this also included the Firm's EMM system.

⁶ As of November 28, 2014, the EMM desk was dissolved and thus ceased operating.

⁷ JPMS did not, however, receive any executions in any option in which the messages were entered.

⁸ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC, NYSE Arca Equities, Inc., NYSE Arca Options, Inc., and NASDAQ PHLX LLC.

The Firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The Firm 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

The Firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal 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 Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

The Firm 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 FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; 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 Nasdaq or any other regulator against the Firm;
 - 2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 - 3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. The Firm 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 Nasdaq, nor does it reflect the views of Nasdaq 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.

6/9/17
Date

J.P. Morgan Securities, LLC, Respondent

By: William Freid
Name: William Freid
Title: Managing Director

Reviewed by:
Bruce H. Newman
Bruce H. Newman
WilmerHale
7 World Trade Center
250 Greenwich Street
New York, NY 10007
(212) 230-8835

Counsel for Respondent

Accepted by The NASDAQ Options Market LLC:

6/28/17
Date

Robert A. Marchman
Robert A. Marchman,
Executive Vice President, Legal Section
Department of Market Regulation

Signed on behalf of The NASDAQ Options Market
LLC, by delegated authority from the Director of
ODA

**THE NASDAQ STOCK MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-03**

TO: The NASDAQ Stock Market LLC
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC ("Nasdaq" or the "Exchange") Code of Procedure, J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered with Nasdaq since July 12, 2006, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20120348296, the Market Analysis Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed a Clearly Erroneous Execution ("CEE") petition filed on the Exchange on December 19, 2013, and the Firm's risk

management controls and supervisory procedures for compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 (“SEA”) (the “Market Access Rule”).¹

4. In Matter No. 20140422079, the Market Analysis Section of Market Regulation reviewed CEE petitions filed on the Exchange between August 7, 2014 and January 21, 2015, and the Firm’s compliance with the Market Access Rule.
5. In Matter No. 20150478122, the Market Manipulation Investigations Section of Market Regulation conducted reviews of potentially violative or manipulative trading by JPMS customers that occurred on the Exchange on three dates in July 2015, and the Firm’s compliance with the Market Access Rule
6. In Matter No. 20160486998, the Market Analysis Section of Market Regulation reviewed CEE petitions filed on the Exchange between January 27, 2016 and April 14, 2016, and the Firm’s compliance with the Market Access Rule.
7. The above matters were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., New York Stock Exchange, Inc., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the “SROs”), to review the Firm’s compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including Nasdaq Rules 3010 and 2010A, during the period of May 2012 through at least April 2016 (the “Review Period”).
8. As a result of Market Regulation’s investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
9. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and Nasdaq Rules 3010 and 2010A.

Violative Conduct

Applicable Rules

10. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²

11. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
12. During the Review Period, SEA Rule 15c3-5(c)(2) required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements.
13. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
14. During the Review Period, Nasdaq Rule 3010(a) required, among other things, that each member firm to “establish and maintain a system to supervise the activities of each . . . associated person[,]” and that such system must be “reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq Rules.”
15. During the Review Period, Nasdaq Rule 2010A provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

Overview of JPMS’s Market Access Systems

16. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.

² Rule 15c3-5 requires that broker-dealers providing market access must “appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.” 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); *see* 17 C.F.R. § 240.15c3-5.

³ *See* 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. *See* 17 C.F.R. § 240.17a-4(e)(7).

17. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm's Global Wealth Management Division, and the Institutional Equities Division.
18. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.
19. Depending on the Market Access Client or Firm trader, JPMS generally implemented at least one of the following pre-trade controls: a duplicate order control; a single order notional control (*i.e.*, the value of an order, which is generally calculated by multiplying the share price by the amount of shares); a single order quantity control; an average daily trade volume ("ADTV") control; and a price limit control applicable to limit orders. The combination of controls and the limits at which these controls were set varied depending upon the Market Access Client or trader.

Inadequate Pre-Trade Erroneous Order Controls

20. Despite the various pre-trade controls and filters designed to prevent the entry of erroneous orders that the Firm had in place during the Review Period, the Firm failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by certain Market Access Clients and certain Firm traders, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders during the Review Period, as set forth below.
21. Because JPMS's pre-trade controls were not reasonably designed as applied to certain of the Firm's Market Access Clients and traders, JPMS did not prevent the transmission of certain erroneous equity orders to the SROs and to the Exchange, causing 14 erroneous order events resulting in CEE filings with the SROs and the Exchange, three volatility trading pauses ("VTPs")⁴ and one request for a voluntary bust (involving 77 trades). These orders caused price movement in the related securities of between 10% and 188%.
22. There were several primary deficiencies in JPMS's pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned CEE filings. For example, certain of the Firm's trader specific and Market Access Client specific controls during the Review Period only employed soft-blocks that could

⁴ A VTP (*i.e.*, market-wide trading pause) will generally occur when a security falls or rises by a designated percentage within a certain time frame (*e.g.*, 10% to 50% depending on the security in a 5-minute time period).

easily be overridden by the Firm's traders, causing them to be ineffective without additional reasonable controls.

23. Further, in some instances the Firm did not include controls that took into account the individual characteristics of a security, such as the ADTV of a security, and when it did implement an ADTV control it was generally set too high to be effective and was therefore not reasonably designed, absent additional reasonable controls. Similarly, when the Firm implemented single order notional and quantity controls, they were also set too high to be effective without additional reasonable controls. For example, with regard to the Market Access Clients and traders responsible for the erroneous orders referenced in paragraph 21, one trader at issue had only a single order quantity control and just three Market Access Clients had ADTV controls assigned by the Firm.
24. In addition, a control applicable to limit orders for at least one Market Access Client, called the "Out of Range/Price Check" control, had a generally applicable price check that was set at a particular percentage away from the last sale or the previous day's close or the average of the national best bid or offer ("NBBO"), which was too high to prevent the entry of erroneous orders entered during pre-market trading hours without additional reasonable controls.
25. In at least two instances, the Firm's controls were not applied because, as designed, the controls did not apply to orders that had been amended or modified. For example, on April 13, 2016, a Firm Market Access Client submitted a Volume Weighted Average Price ("VWAP") limit order to sell 175,000 shares of "DEF"⁵ at \$37.28 a share, which was received into the Firm's proprietary sales order management system for low touch orders.⁶ This limit order triggered the ADTV limit control applied to this Client's orders (the order was 18.55% of the ADTV) and was subsequently reviewed by a Firm trader who decided to release the order into the market. The Market Access Client thereafter entered a cancel and replace order, ultimately replacing the VWAP limit order with a market order. Upon doing so, this order did not trigger any of the Firm's pre-trade order controls for erroneous orders, because the market order was classified as an amended order and the controls did not apply to amended orders. Thus, the 175,000 share market order was directly submitted to the markets without being reviewed by the controls and filters resulting in executions on the Exchange. The lowest order execution price was 10.86% away from the security's closing price. The Firm consequently filed a CEE petition. As a result of this incident, the Firm subsequently amended its controls such that they now apply to amended orders.
26. The acts, practices, and conduct described above in paragraphs 20 through 25 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and Nasdaq Rules 3010 and 2010A.

⁵ A generic identifier has been used in place of the name of this security.

⁶ A "low touch" order is generally submitted directly to an exchange without any interaction by the Firm or its traders.

Inadequate Supervision of Customer Trading

27. During 2015, JPMS used a series of post-trade surveillance reports run by a commercial non-proprietary Third-Party Surveillance System ("Third-Party Surveillance System") to monitor and review customer trading activity to detect, escalate and ultimately prevent potentially violative or manipulative trading activity, including layering⁷ and spoofing.⁸
28. Pursuant to the parameters in the Third-Party Surveillance System utilized by the Firm, several thresholds must be met in order to generate layering and spoofing alerts on the Firm's exception reports. Certain of these thresholds, however, were set at levels that were unreasonable to detect activity that may be indicative of layering and spoofing activity.
29. For example, one threshold requires that potential non-bona fide orders must be priced within a certain number of ticks of the NBBO which, as currently employed by the Firm, would fail to identify instances of potential layering or spoofing when the non-bona fide orders were displayed and priced at the NBBO or established a new best bid or offer.⁹ Additionally, another threshold requires that the volume on the opposite side of the market must exceed a certain set percentage of the ADTV of the relevant security for the preceding 30 day period in order for an alert to be generated. However, since this percentage is the same for all securities regardless of the ADTV of a security, this exception report would be less likely to identify potential layering or spoofing in a security with a significant ADTV.
30. As a result of the above, JPMS failed to adequately supervise certain of its customers' trading, and failed to detect potentially violative layering activity that occurred on at least three days on the Exchange in July 2015.
31. The acts, practices, and conduct described above in paragraphs 27 through 30 constitute violations of SEA Rules 15c3-5(b) and (c)(2), and Nasdaq Rules 3010 and 2010A.

⁷ Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.

⁸ Spoofing is also a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

⁹ In April 2017, JPMS began using an additional spoofing exception report that considers orders displayed and priced at the NBBO.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$800,000, of which \$115,000 is payable to Nasdaq;¹⁰ and
3. An undertaking requiring the Firm to address the Market Access Rule deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 90 days of the date of this AWC, JPMS shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- i. A reference to this matter;
- ii. A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- iii. The date(s) this was completed.

The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., New York Stock Exchange, LLC., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC.

The Firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The Firm 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.

¹⁰ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against it;
- B. To be notified of the Formal 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 Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

The Firm 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 FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; 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 Nasdaq or any other regulator against the Firm;

2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.

D. The Firm 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 Nasdaq, nor does it reflect the views of Nasdaq 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.

6/9/17
Date

J.P. Morgan Securities, LLC, Respondent

By: William Frestet

Name: William Frestet

Title: Managing Director

Reviewed by:

Bruce H. Newman

Bruce H. Newman

WilmerHale

7 World Trade Center

250 Greenwich Street

New York, NY 10007

(212) 230-8835

Counsel for Respondent

Accepted by Nasdaq:

6/29/17
Date



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

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

**THE NEW YORK STOCK EXCHANGE LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120348296-02**

TO: New York Stock Exchange LLC
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of the New York Stock Exchange LLC ("NYSE" or the "Exchange") Code of Procedure, J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" or the "Firm") 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, NYSE will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 NYSE, or to which NYSE 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 NYSE:

BACKGROUND

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered with NYSE since November 17, 1982, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

Summary

3. In Matter No. 20140422079, the Market Analysis Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed a Clearly Erroneous Execution ("CEE") petition filed on the Exchange on January 21, 2015, and the Firm's

compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 (“SEA”) (the “Market Access Rule”).¹

4. In Matter No. 20140411875, the Market Analysis Section of Market Regulation reviewed concentrations of messages submitted by the Firm on the Exchange between October 2013 and September 2014, and the Firm’s compliance with the Market Access Rule.
5. The above matters, as well as Matter No. 20120348296, were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including The NASDAQ Stock Market LLC, Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the “SROs”), to review the Firm’s compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including NYSE Rule 342 (prior to 12/1/14) and NYSE Rule 3110 (on or after 12/1/14), and NYSE Rule 2010 during the period of May 2012 through at least April 2016 (the “Review Period”).
6. As a result of Market Regulation’s investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
7. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and NYSE Rule 342 (prior to 12/1/14) and NYSE Rule 3110 (on and after 12/1/14), and NYSE Rule 2010.

Violative Conduct

Applicable Rules

8. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.²

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

² Rule 15c3-5 requires that broker-dealers providing market access must “appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.” 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

9. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
10. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
11. During the Review Period, NYSE Rule 342 (for conduct prior to 12/1/14) and NYSE Rule 3110 (for conduct on and after 12/1/14) required, among other things, each member organization shall establish and maintain a system to supervise the activities of each associated person, including written supervisory procedures, that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules.
12. During the Review Period, NYSE Rule 2010 provided that a member organization, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

Overview of JPMS’s Market Access Systems

13. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
14. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm’s Global Wealth Management Division, and the Institutional Equities Division.
15. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. See 17 C.F.R. § 240.17a-4(e)(7).

controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.

16. Depending on the Market Access Client or Firm trader, JPMS generally implemented at least one of the following pre-trade controls: a duplicate order control; a single order notional control (*i.e.*, the value of an order, which is generally calculated by multiplying the share price by the amount of shares); a single order quantity control; an average daily trade volume (“ADTV”) control; and a price limit control applicable to limit orders. The combination of controls and the limits at which these controls were set varied depending upon the Market Access Client or trader.

Inadequate Pre-Trade Erroneous Order Controls

17. Despite the various pre-trade controls and filters designed to prevent the entry of erroneous orders that the Firm had in place during the Review Period, the Firm failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by certain Market Access Clients and certain Firm traders, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders during the Review Period, as set forth below.
18. Because JPMS’s pre-trade controls were not reasonably designed as applied to certain of the Firm’s Market Access Clients and traders, JPMS did not prevent the transmission of certain erroneous equity orders to the SROs and to the Exchange, causing 14 erroneous order events resulting in CEE filings with the SROs and the Exchange, three volatility trading pauses (“VTPs”)⁴ and one request for a voluntary bust (involving 77 trades). These orders caused price movement in the related securities of between 10% and 188%.
19. There were several primary deficiencies in JPMS’s pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned CEE filings. For example, certain of the Firm’s trader specific and Market Access Client specific controls during the Review Period only employed soft-blocks that could easily be overridden by the Firm’s traders, causing them to be ineffective without additional reasonable controls.
20. Further, in some instances the Firm did not include controls that took into account the individual characteristics of a security, such as the ADTV of a security, and when it did implement an ADTV control it was generally set too high to be effective and was therefore not reasonably designed, absent additional reasonable controls. Similarly, when the Firm implemented single order notional and quantity controls, they were also set too high to be effective without additional reasonable controls. For example, with regard to the Market Access Clients and traders responsible for the erroneous orders referenced in paragraph 18, one trader at issue had only a single order quantity

⁴ A VTP (*i.e.*, market-wide trading pause) will generally occur when a security falls or rises by a designated percentage within a certain time frame (*e.g.*, 10% to 50% depending on the security in a 5-minute time period).

control and just three Market Access Clients had ADTV controls assigned by the Firm.

21. For example, on January 21, 2015, a JPMS sales trader (“first sales trader”) received a not-held order to buy 1 million shares of “DEF”⁵ security from a Firm Market Access Client that breached the single order quantity limit the Firm established for that trader. Consequently, pursuant to the Firm policy, the first sales trader sent the order to a JPMS sales trader on another desk (“second sales trader”) for handling, at which point the order was not subjected to any of the other controls that had been established for the first sales trader (e.g., an ADTV control). Once with the second sales trader, the only control applicable to this order was a daily notional value control established for this trader. The second sales trader sent a portion of the order (100,000 shares) to the Exchange as a Market-on-Close (“MOC”) order. The customer subsequently amended its original order by increasing the quantity to 1.5 million shares. After the amended order was received in the Firm’s systems, at approximately 15:50:37, the second sales trader chose to “accept and forward” the order instead of “accept”, which directed that the unexecuted quantity of 735,978 shares be forwarded into the open MOC order. The Firm’s systems notified the second sales trader that he was amending an MOC order within 15 minutes of the Close. However, the sales trader improperly overrode the soft block alert, causing the Firm’s systems to cancel the MOC order and replace it with a market order for 735,978 shares. This market order was sent to the market where it was immediately executed, causing price movement in DEF of over 41%. The order constituted approximately 32% of the ADV in DEF and resulted in a \$55,000 loss for the Firm. The Firm consequently filed CEEs.
22. In addition, a control applicable to limit orders for at least one Market Access Client, called the “Out of Range/Price Check” control, had a generally applicable price check that was set at a particular percentage away from the last sale or the previous day’s close or the average of the national best bid or offer (“NBBO”), which was too high to prevent the entry of erroneous orders entered during pre-market trading hours without additional reasonable controls.
23. In at least two instances, the Firm’s controls were not applied because, as designed, the controls did not apply to orders that had been amended or modified.
24. The acts, practices, and conduct described above in paragraphs 17 through 23 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and NYSE Rule 342 (prior to 12/1/14) and NYSE Rule 3110 (on and after 12/1/14), and NYSE Rule 2010.

Inadequate Pre-Trade Order Controls for Messaging Activity

25. During the Review Period, JPMS failed to have reasonably designed risk management controls to detect instances when algorithms used by its Market Access

⁵ A generic identifier has been used in place of the name of this security.

Clients experienced cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of message traffic on the SROs.

26. Prior to November 2013, JPMS failed to have message rate controls that pertained to its Market Access Clients to detect and prevent inadvertent orders resulting from malfunctioning software programs or systems. Further, the Firm's duplicate order control during the Review Period only rejected orders that were submitted under identical order identifications during a Market Access Client's trading session. Moreover, prior to January 2014, JPMS employed soft-block alerts for order or message activity, rather than any hard-blocks, that could be overridden, and the levels set for the alerts were too high to identify potentially unintended messaging activity.
27. Moreover, the hard-blocks implemented by JPMS were also set at levels that were too high and required activity to persist for too long in order to potentially identify and prevent the entry of a high volume of unintended orders or messages.
28. Additionally, JPMS's method for determining appropriate parameters for messaging alerts and hard-blocks was not reasonable as it was solely based on a multiple of a Market Access Client's peak messaging activity and did not also factor in other individual characteristics of a Client's order flow.
29. Lastly, while JPMS also conducted a review of alerts for a high volume of orders or messages on a post-trade basis to determine whether the activity could be indicative of a manipulative trading strategy, the surveillances used for this purpose were not reasonably designed to be effective, as certain surveillance parameters were set too high and require the activity to persist too long to generate an alert given all facts and circumstances.
30. The acts, practices, and conduct described above in paragraphs 25 through 29 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and NYSE Rule 342 (prior to 12/1/14) and NYSE Rule 3110 (on and after 12/1/14), and NYSE Rule 2010.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$800,000, of which \$85,000 is payable to NYSE;⁶ and
3. An undertaking requiring the Firm to address the Market Access Rule deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

⁶ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

Within 90 days of the date of this AWC, JPMS shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- i. A reference to this matter;
- ii. A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- iii. The date(s) this was completed.

The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, NYSE Arca Equities, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC.

The Firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The Firm 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 NYSE Regulation staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under NYSE's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal 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 Exchange's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer of the NYSE; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC") and Committee for Review ("CFR"); any Director, DAC member or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE employee; or any Regulatory Staff as defined in Rule 9120 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

The Firm 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 FINRA's Department of Market Regulation and the Chief Regulatory Officer of the NYSE, pursuant to NYSE Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
1. the AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 25 days after it is sent to each Director and each member of the Committee for Review; unless review by the Exchange Board of Directors is requested pursuant to NYSE Rule 9310(a)(1)(B).
 2. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the NYSE, or any other regulator against the the Firm;
 3. the NYSE shall publish a copy of the AWC on its website in accordance with NYSE Rule 8313;
 4. the NYSE may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Rule 8313; and

5. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of the NYSE, or to which the NYSE is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the NYSE is not a party.
- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. The Firm 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 the NYSE, nor does it reflect the views of NYSE Regulation 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.

6/9/17
Date

J.P. Morgan Securities, LLC, Respondent

By: Willam Frenkel
Name: William Frenkel

Title: Managing Director

Reviewed by:

Bruce H. Newman

Bruce H. Newman

WilmerHale

7 World Trade Center

250 Greenwich Street

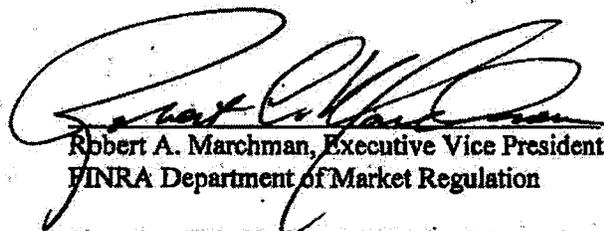
New York, NY 10007

(212) 230-8835

Counsel for Respondent

Accepted by FINRA:

6/21/17
Date



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

Signed on behalf of the NYSE, by delegated
authority from the Chief Regulatory Officer
of the NYSE.

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

J.P. MORGAN SECURITIES LLC,

Respondent.

FINRA Proceeding No. 20120348296-01¹

June 27, 2017

Respondent violated:

Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business, including pre-trade controls to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders;

Exchange Act Rules 15c3-5(b) and (c)(1)(i), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business to prevent the entry of orders that exceed appropriate pre-set credit thresholds for one of the Firm's Market Access Clients.

Exchange Act Rules 15c3-5(b) and (c)(2), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of

¹ Includes FINRA Proceeding Nos. 20140422079, 20150472726, 20140400815, 20130374491, 20150459839, 20150466971, and 20150478122.

its market access business to ensure compliance with all regulatory requirements, including supervising customer trading to detect and prevent potentially violative activity.

Consent to censure, a \$365,000 fine, and an undertaking.

Appearances

For the Complainant: Jacqueline D. Gorham, Esq., Kenneth R. Bozza, Esq., and Robert A. Marchman, Esq., FINRA Department of Market Regulation.

For the Respondent: Bruce H. Newman, Esq., Wilmer Cutler Pickering Hale and Dorr LLP.

DECISION

J.P. Morgan Securities LLC (“J.P. Morgan” or “Firm”) and NYSE Arca, Inc. entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying any allegations or findings referred to in the Offer of Settlement.² The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Equities Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. J.P. Morgan, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants (“Market Access Clients”) for a wide variety of products.
2. The Firm has been registered as an Equities Trading Permit (“ETP”) Holder with NYSE Arca, Inc. (“NYSE Arca Equities” or the “Exchange”) since April 22, 2003, and with FINRA since December 17, 1936. Its registrations remain in effect.
3. Several Jurisdiction Letters were sent to the Firm beginning on May 16, 2014, and continuing through June 23, 2016, notifying the Firm of investigations by FINRA’s

² FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC, and FINRA.

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent.

Department of Market Regulation (“Market Regulation”) into the matters referenced herein. The Firm does not have a relevant disciplinary history.

Overview

4. In Matter No. 20120348296, the Market Analysis Section of Market Regulation reviewed Clearly Erroneous Execution (“CEE”) petitions filed on the Exchange between November 15, 2012, and December 19, 2013, and the Firm’s risk management controls and supervisory procedures for compliance with Rule 15c3-5 (the “Market Access Rule”) of the Securities Exchange Act of 1934 (“Exchange Act”).⁴
5. In Matter No. 20140422079, the Market Analysis Section of Market Regulation reviewed CEE petitions filed between August 7, 2014, and January 21, 2015, and the Firm’s compliance with the Market Access Rule.
6. In Matter No. 20150472726, the Market Analysis Section of Market Regulation reviewed a voluntary request by the Firm to “bust” (*i.e.*, a request to cancel) a trade on the Exchange on July 29, 2015, the credit limit the Firm assigned to one Market Access Client, and the Firm’s compliance with the Market Access Rule.
7. In Matter No. 20140400815, the Chicago Equities Section of Market Regulation reviewed numerous orders in numerous symbols simultaneously entered and canceled by the Firm in a one second period for the same size and price in a symbol without any resulting/corresponding executions between August 1, 2013, and November 29, 2013, and the Firm’s compliance with the Market Access Rule.
8. In Matter No. 20130374491, the Chicago Equities Section of Market Regulation reviewed potentially violative or manipulative trading activity that occurred on the Exchange between December 31, 2012, and September 31, 2014, and the Firm’s compliance with the Market Access Rule.
9. In Matter No. 20150459839, the Chicago Equities Section of Market Regulation reviewed potentially violative or manipulative trading activity executed through J.P. Morgan and occurring on the Exchange between September 25, 2014, and December 31, 2014, and the Firm’s compliance with the Market Access Rule.
10. In Matter No. 20150466971, the Chicago Equities Section of Market Regulation reviewed potentially violative or manipulative trading activity executed through J.P. Morgan and occurring on the Exchange between February 23, 2015, and August 4, 2015, and the Firm’s compliance with the Market Access Rule.

⁴ The Securities and Exchange Commission (“SEC”) adopted Rule 15c3-5 effective July 14, 2011. *See* 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

11. In Matter No. 20150478122, the Market Manipulation Investigations Section of Market Regulation conducted reviews of potentially violative or manipulative trading by J.P. Morgan customers that occurred on the Exchange on three dates in July 2015, and the Firm's compliance with the Market Access Rule.
12. The above matters were part of investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including New York Stock Exchange, Inc., The NASDAQ Stock Market LLC, Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including NYSE Arca Equities Rules 6.18 and 2010, during the period of May 2012 through at least April 2016 (the "Review Period").
13. As a result of Market Regulation's investigations, it was determined that, during the Review Period, J.P. Morgan failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
14. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Equities Rules 6.18 and 2010.
15. Additionally, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of orders that exceeded appropriate pre-set credit thresholds in the aggregate with regard to one of its Market Access Clients, in violation of Exchange Act Rules 15c3-5(b) and (c)(1)(i), and NYSE Arca Equities Rules 6.18 and 2010.
16. Furthermore, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements, including supervising customer trading to detect and prevent potentially violative and manipulative activity, in violation of Exchange Act Rules 15c3-5(b) and (c)(2), and NYSE Arca Equities Rules 6.18 and 2010.

Violations

Applicable Rules

17. During the Review Period, Exchange Act Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.⁵
18. During the Review Period, Exchange Act Rule 15c3-5(c)(1)(i) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of orders that exceed appropriate pre-set capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds.
19. During the Review Period, Exchange Act Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
20. During the Review Period, Exchange Act Rule 15c3-5(c)(2) required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements.
21. Exchange Act Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).⁶ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule.⁷

⁵ Exchange Act Rule 15c3-5 requires that broker-dealers providing market access must “appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.” 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); *see* 17 C.F.R. § 240.15c3-5.

⁶ *See* 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. *See* 17 C.F.R. § 240.17a-4(e)(7).

⁷ Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).

22. During the Review Period, NYSE Arca Equities Rule 6.18(a) required, among other things, that every ETP Holder supervise persons associated with it to ensure compliance with federal securities laws and the Constitution or the Rules of the Exchange. NYSE Arca Equities Rule 6.18(b) required each ETP Holder to “establish and maintain a system to supervise the activities of its associated persons and the operation of its business[,]” and that such system “must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Equities Rules.” Moreover, NYSE Arca Equities Rule 6.18(c) required each ETP Holder to “establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of its associated persons that are reasonably designed to achieve compliance with applicable federal securities laws and regulations with the NYSE Arca Equities Rules.”
23. During the Review Period, NYSE Arca Equities Rule 2010 provided that ETP Holders, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

Overview of J.P. Morgan’s Market Access Systems

24. During the Review Period, J.P. Morgan was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
25. During the Review Period, J.P. Morgan had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation). These Divisions included the Firm’s Global Wealth Management Division, and the Institutional Equities Division.
26. During the Review Period, J.P. Morgan used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs. Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, J.P. Morgan assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.
27. Depending on the Market Access Client or Firm trader, J.P. Morgan generally implemented at least one of the following pre-trade controls: a duplicate order control; a single order notional control (*i.e.*, the value of an order, which is generally calculated by multiplying the share price by the amount of shares); a single order quantity control; an average daily trade volume (“ADTV”) control; and a price limit control applicable to limit orders. The combination of controls and the limits at which these controls were set varied depending upon the Market Access Client or trader.

Inadequate Pre-Trade Erroneous Order Controls

28. Despite the various pre-trade controls and filters designed to prevent the entry of erroneous orders that the Firm had in place during the Review Period, the Firm failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by certain Market Access Clients and certain Firm traders, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders during the Review Period, as set forth below.
29. Because J.P. Morgan's pre-trade controls were not reasonably designed as applied to certain of the Firm's Market Access Clients and traders, J.P. Morgan did not prevent the transmission of certain erroneous equity orders to the SROs and to the Exchange, causing 14 erroneous order events resulting in CEE filings with the SROs and the Exchange, three volatility trading pauses ("VTPs")⁸ and one request for a voluntary bust (involving 77 trades). These orders caused price movement in the related securities of between 10% and 188%.
30. There were several primary deficiencies in J.P. Morgan's pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned CEE filings. For example, certain of the Firm's trader specific and Market Access Client specific controls during the Review Period, only employed soft-blocks that could easily be overridden by the Firm's traders, causing them to be ineffective without additional reasonable controls.
31. Further, in some instances the Firm did not include controls that took into account the individual characteristics of a security, such as the ADTV of a security, and when it did implement an ADTV control it was generally set too high to be effective and was therefore not reasonably designed, absent additional reasonable controls. Similarly, when the Firm implemented single order notional and quantity controls, they were also set too high to be effective without additional reasonable controls. For example, with regard to the Market Access Clients and traders responsible for the erroneous orders referenced in paragraph 29, one trader at issue had only a single order quantity control and just three Market Access Clients had ADTV controls assigned by the Firm.
32. In addition, a control applicable to limit orders for at least one Market Access Client, called the "Out of Range/Price Check" control, had a generally applicable price check that was set at a particular percentage away from the last sale or the previous day's close or the average of the national best bid or offer ("NBBO"), which was too high to prevent the entry of erroneous orders entered during pre-market trading hours without additional reasonable controls.

⁸ A VTP (*i.e.*, market-wide trading pause) will generally occur when a security falls or rises by a designated percentage within a certain time frame (*e.g.*, 10% to 50% depending on the security in a 5-minute time period).

33. On July 29, 2015, the Firm's Out of Range/Price Check control did not prevent the entry of four orders, totaling 233,100 shares, on the Exchange in "ABC"⁹ security that were entered by Market Access Client ("CD")¹⁰ prior to the open with limit prices that were one dollar higher than intended. As a result, CD received 77 executions totaling approximately 177,000 shares at prices up to 9.95% away from the previous day's close in ABC. The Firm, on behalf of CD, requested voluntary busts on the Exchange of these trades.
34. In at least two instances, the Firm's controls were not applied because, as designed, the controls did not apply to orders that had been amended or modified. For example, on November 15, 2012, a Firm trader intended to increase the size of the remainder of a previously entered buy order in "DEF"¹¹ security to 900 shares, but instead mistakenly entered an order to purchase 900,600 shares. The Firm's controls, which provided that orders over 10,000 shares would be automatically routed to a Firm Desk for high touch handling, did not prevent the error because the controls were only applicable to new orders and this was a modification of an existing order. Further, the trader bypassed a verification pop-up screen confirming the erroneous quantity. The Firm incurred a loss of approximately \$575,000 due to this erroneous order, and subsequently amended its controls such that order modifications were also subject to the controls.
35. The acts, practices, and conduct described above in paragraphs 28 through 34 constitute violations of Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Equities Rules 6.18 and 2010.

Inadequate Pre-Trade Order Controls for Messaging Activity

36. During the Review Period, J.P. Morgan failed to have reasonably designed risk management controls to detect instances when algorithms used by its Market Access Clients experienced cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of message traffic on the SROs.
37. Prior to November 2013, J.P. Morgan failed to have message rate controls that pertained to its Market Access Clients to detect and prevent inadvertent orders resulting from malfunctioning software programs or systems. Further, the Firm's duplicate order control during the Review Period only rejected orders that were submitted under identical order identifications during a Market Access Client's trading session. Moreover, prior to January 2014, J.P. Morgan employed soft-block alerts for order or message activity, rather than any hard-blocks, that could be overridden, and the levels set for the alerts were too high to identify potentially unintended messaging activity.

⁹ A generic identifier has been used in place of the name of this security.

¹⁰ A generic identifier was used in place of the name of this client.

¹¹ A generic identifier has been used in place of the name of this security.

38. Moreover, the hard-blocks implemented by J.P. Morgan were also set at levels that were too high and required activity to persist for too long in order to potentially identify and prevent the entry of a high volume of unintended orders or messages.
39. Additionally, J.P. Morgan's method for determining appropriate parameters for messaging alerts and hard-blocks was not reasonable as it was solely based on a multiple of a Market Access Client's peak messaging activity and did not also factor in other individual characteristics of a Client's order flow.
40. Lastly, while J.P. Morgan also conducted a review of alerts for a high volume of orders or messages on a post-trade basis to determine whether the activity could be indicative of a manipulative trading strategy, the surveillances used for this purpose were not reasonably designed to be effective, as certain surveillance parameters were set too high and require the activity to persist too long to generate an alert given all facts and circumstances.
41. The acts, practices, and conduct described above in paragraphs 36 through 40 constitute violations of Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Equities Rules 6.18 and 2010.

Inadequate Credit Thresholds

42. There were deficiencies with respect to the credit limit set for CD, the Market Access Client that entered the four trades in ABC security on July 29, 2015, which resulted in the Firm's request for a voluntary bust of such trades.
43. J.P. Morgan may have set CD's credit limit too high to be reasonable. J.P. Morgan verified certain information when setting CD's initial credit limit, including that the client would be routing orders on behalf of Broker Dealer clients that would be trading well-diversified portfolios in listed securities with the expectation that CD would have a small net position but a larger gross position. Although after setting the initial gross credit limit J.P. Morgan monitored CD's trading activity and subsequently increased the credit limit in early 2015, J.P. Morgan could not establish that when it set the initial credit limit or when it later amended the limit that it inquired as to the financial condition of CD to determine an appropriate credit limit.
44. Consequently, because J.P. Morgan could not establish that it performed its due diligence or otherwise demonstrate the basis for determining the credit limit for CD was reasonable, it cannot be determined whether the credit limit for CD was reasonable.
45. The acts, practices, and conduct described above in paragraphs 42 through 44 constitute violations of Exchange Act Rules 15c3-5(b) and (c)(1)(i), and NYSE Arca Equities Rules 6.18 and 2010.

Inadequate Supervision of Customer Trading

46. Although throughout the Review Period J.P. Morgan employed a series of post-trade surveillances and reviews to detect, escalate, and ultimately prevent potentially violative or manipulative trading activity, including marking the close, layering,¹² and spoofing¹³ activity, J.P. Morgan failed to adequately supervise its Market Access Clients' trading to detect potentially violative activity during the Review Period.
47. While beginning in October 2011, J.P. Morgan began using a commercial non-proprietary Third-Party Surveillance System ("Third-Party Surveillance System") that provides four surveillance reports designed to review for potential marking the close activity, J.P. Morgan did not capture certain potential marking the close activity on the Exchange that occurred during the Review Period.
48. Although during the Review Period, J.P. Morgan's Third-Party Surveillance System generated and J.P. Morgan reviewed alerts for instances of potential marking the close activity, there were several identified deficiencies with certain of J.P. Morgan's surveillances and reviews. First, certain of the parameters of the Third-Party Surveillance System reports were set too high to detect activity that may be indicative of marking the close activity.
49. For example, J.P. Morgan's Third-Party Surveillance System did not generate an alert for activity that appeared to be potential marking the close that occurred during the last nine minutes of trading on January 8, 2014, in security "GHI"¹⁴ by one of J.P. Morgan's Market Access Clients ("EF"),¹⁵ because EF's trading activity did not meet the parameters of J.P. Morgan's surveillances. In less than nine minutes of trading on January 8, 2014, the price of GHI fell by approximately 3.6% (the difference between EF's first execution at 15:51:42 at \$32.60, and the final trade by EF at 15:59:57 at \$31.43), representing a decline in the price of the security of \$1.17 in less than nine minutes.

¹² Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.

¹³ Spoofing is also a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

¹⁴ A generic identifier has been used in place of the name of this security.

¹⁵ A generic identifier has been used in place of the name of this client.

These trades accounted for 100% of EF's activity during the trading day and 68.41% of GHI's sell-side trading volume in the last nine minutes of trading across all markets. EF's trading in GHI, which amounted to 60,307 shares, represented 17.25% of the entire volume for the day in GHI. The price of GHI closed at \$31.53 on this date, up an additional \$0.10 from EF's final trade.

50. Additionally, the Firm used its Third-Party Surveillance System to identify patterns of potentially manipulative activity, but the parameters used in these surveillances failed to identify smaller movements on key dates or over multiple dates. Thus, the Firm's surveillances used to identify patterns of potentially manipulative activity were also ineffective.
51. Moreover, the Firm could not provide evidence that it meaningfully reviewed certain marking the close surveillance alerts during the Review Period. In addition, it failed to memorialize in its written supervisory procedures established practices for how and when to review a supplemental supervisory report generated by one of its Desks that is also used for potential marking the close activity.
52. Lastly, in May 2014, the Third-Party Surveillance System vendor inadvertently disabled one of the four surveillance reports designed to detect potential marking the close activity by identifying a trading pattern in which a Market Access Client affects the closing price of a security by trading significant volume in the period before the close. All of J.P. Morgan's other marking the close alerts remained operational during the Review Period. However, J.P. Morgan did not detect the disabling of this one surveillance report until August 2014, when it notified the Third-Party Surveillance System that it was not receiving alerts. These alerts were thereafter re-established in October 2014.¹⁶
53. During 2015, J.P. Morgan used a series of post-trade surveillance reports run by the Third-Party Surveillance System to monitor and review customer trading activity to detect, escalate and ultimately prevent potentially violative or manipulative trading activity, including layering and spoofing.
54. Pursuant to the parameters in the Third-Party Surveillance System utilized by the Firm, several thresholds must be met in order to generate layering and spoofing alerts on the Firm's exception reports. Certain of these thresholds, however, were set at levels that were unreasonable to detect activity that may be indicative of layering and spoofing activity.
55. For example, one threshold requires that potential non-bona fide orders must be priced within a certain number of ticks of the NBBO which, as currently employed by the Firm, would fail to identify instances of potential layering or spoofing when the non-bona fide

¹⁶ When J.P. Morgan re-reviewed the alert data generated by the disabled report from the May-October 2014 period, J.P. Morgan did not identify any trading activity that it found indicative of potential marking the close.

orders were displayed and priced at the NBBO or established a new best bid or offer¹⁷. Additionally, another threshold requires that the volume on the opposite side of the market must exceed a certain set percentage of the ADTV of the relevant security for the preceding 30-day period in order for an alert to be generated. However, since this percentage is the same for all securities regardless of the ADTV of a security, this exception report would be less likely to identify potential layering or spoofing in a security with a significant ADTV.

56. As a result of the above, J.P. Morgan failed to adequately supervise certain of its customers' trading, and failed to detect potentially violative layering activity that occurred on at least three days on the Exchange in July 2015.
57. The acts, practices, and conduct described above in paragraphs 46 through 56, constitute violations of Exchange Act Rule 15c3-5(b) and (c)(2), and NYSE Arca Equities Rules 6.18 and 2010.

ORDER

J.P. Morgan Securities LLC violated:

Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business, including pre-trade controls to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders;

Exchange Act Rules 15c3-5(b) and (c)(1)(i), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business to prevent the entry of orders that exceed appropriate pre-set credit thresholds for one of the Firm's Market Access Clients; and

Exchange Act Rules 15c3-5(b) and (c)(2), and NYSE Arca Equities Rules 6.18 and 2010, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business to ensure compliance with all regulatory

¹⁷ In April 2017, J.P. Morgan began using an additional spoofing exception report that considers orders displayed and priced at the NBBO.

requirements, including supervising customer trading to detect and prevent potentially violative activity.

SANCTIONS

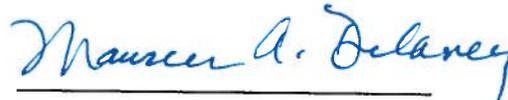
J.P. Morgan Securities LLC is censured and fined \$365,000;¹⁸

J.P. Morgan Securities LLC is also ordered to address the Market Access Rule deficiencies described in this Decision and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 90 days of the date of this Decision, J.P. Morgan shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written report, certified by a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:

- (i) A reference to this matter;
- (ii) A representation that the Firm has addressed each of the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and
- (iii) The date(s) this was completed.¹⁹

These sanctions are effective immediately.



Maureen A, Delaney
Hearing Officer

¹⁸ Under the Offer of Settlement and Consent, J.P. Morgan agreed to pay a total fine of \$800,000, of which \$365,000 shall be paid to NYSE Arca and the remaining amount shall be paid to Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC., NYSE Arca Options, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC., in accordance with the terms of parallel settlement agreements in related matters between J.P. Morgan and each of these self-regulatory organizations.

¹⁹ The Department of Market Regulation may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

J.P. MORGAN SECURITIES LLC,

Respondent.

FINRA Proceeding No. 20120348296-06¹

June 27, 2017

Respondent violated Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Options Rule 11.18, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business, including pre-trade controls to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders. Consent to censure and \$20,000 fine.

Appearances

For the Complainant: Jacqueline D. Gorham, Esq., Kenneth R. Bozza, Esq., and Robert A. Marchman, Esq., FINRA Department of Market Regulation.

For the Respondent: Bruce H. Newman, Esq., Wilmer Cutler Pickering Hale and Dorr LLP.

DECISION

J.P. Morgan Securities LLC (“J.P. Morgan” or “Firm”) and NYSE Arca, Inc. entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying any allegations or findings referred to in the Offer of Settlement.² The Hearing Officer accepts the

¹ Includes FINRA Proceeding No. 20140411208.

² FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC, and FINRA.

Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Options Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. J.P. Morgan, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company, headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants (“Market Access Clients”) for a wide variety of products.
2. The Firm has been registered as an Options Trading Permit (“OTP”) Holder with NYSE Arca, Inc. (the “Exchange”) since July 8, 2010, and with FINRA since December 17, 1936. Its registrations remain in effect.
3. Several Jurisdiction Letters were sent to the Firm beginning on May 16, 2014, and continuing through July 29, 2015, notifying the Firm of investigations into the matters referenced herein by FINRA’s Department of Market Regulation (“Market Regulation”). The Firm does not have a relevant disciplinary history.

Overview

4. In Matter No. 20140411208, the Options Regulation Section of Market Regulation reviewed cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of options message traffic during various periods in 2014, and the Firm’s risk management controls and supervisory procedures for compliance with Rule 15c3-5 (the “Market Access Rule”) of the Securities Exchange Act of 1934 (“Exchange Act”).⁴
5. The above matter, as well as Matter No. 20120348296, was part of several investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including NYSE Arca Equities, Inc., New York Stock Exchange, Inc., The NASDAQ Stock Market LLC, Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (collectively, the “SROs”), to review the Firm’s compliance with the Market Access Rule

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent.

⁴ The Securities and Exchange Commission (“SEC”) adopted Rule 15c3-5 effective July 14, 2011. *See* 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

and the supervisory rules of the relevant SROs, including NYSE Arca Options Rule 11.18, from May 2012 through at least April 2016 (the “Review Period”).

6. As a result of Market Regulation’s investigations, it was determined that, during the Review Period, J.P. Morgan failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
7. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Options Rule 11.18.

Violations

Applicable Rules

8. During the Review Period, Exchange Act Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.⁵
9. During the Review Period, Exchange Act Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
10. Exchange Act Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).⁶ The required written description is intended,

⁵ Exchange Act Rule 15c3-5 requires that broker-dealers providing market access must “appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.” 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); *see* 17 C.F.R. § 240.15c3-5.

⁶ *See* 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. *See* 17 C.F.R. § 240.17a-4(e)(7)

among other things, to assist SEC and SRO staff to assess the broker-dealer's compliance with the Rule.⁷

11. During the Review Period, NYSE Arca Options Rules 11.18(b) and (c) required, in pertinent part, OTP Firms to establish, maintain, and enforce a system, including written procedures, reasonably designed to supervise the activities of its associated persons and the operations of its business to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.

Overview of J.P. Morgan's Market Access Systems

12. During the Review Period, J.P. Morgan was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
13. During the Review Period, J.P. Morgan had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation).⁸ These Divisions included the Firm's Global Wealth Management Division, and the Institutional Equities Division.
14. During the Review Period, J.P. Morgan used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets, including the SROs.⁹ Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, J.P. Morgan assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.

Inadequate Options Pre-Trade Order Controls for Messaging Activity

15. During the Review Period, J.P. Morgan failed to have reasonable risk management controls to prevent Firm programs and algorithms from submitting cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of options

⁷ Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).

⁸ For the Firm's options business, this also included the Firm's Electronic Market Making ("EMM") desk that was used by the Firm to enter quotes.

⁹ For the Firm's options business, this also included the Firm's EMM system.

message traffic on the Exchange, The NASDAQ Options Market LLC, and NASDAQ PHLX LLC (the “Options SROs”).

16. During January 2014 through July 2014, a system design, specifically the manner in which the system responded to market data given the inherent latency between message entry and acknowledgement from an exchange and the time it was reflected in market data, caused the Firm’s EMM desk via its Options EMM system to engage in the above looping activity for messages entered by the Firm on the Options SROs.¹⁰
17. During January 2014 through July 2014, the EMM system had the ability to withdraw all quotes from the market, if necessary, and the Firm had a T+1 report to review for high message counts. Although the Firm also had a real-time surveillance designed to monitor for high message entries, it did not prevent the looping activity that occurred on the Options SROs between January 2014 and July 2014.
18. While the Firm’s post-trade surveillance did flag the activity at issue on the Options SROs and the Firm was aware of the system design issue that was causing the activity by January 2014, the Firm failed to resolve the issue until August 2014, and thus caused repeated entry of unintended elevated messaging activity into the markets for the Options SROs.¹¹
19. The acts, practices, and conduct described above in paragraphs 15 through 18 constitute violations of Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Options Rule 11.18.

ORDER

J.P. Morgan Securities LLC violated Exchange Act Rules 15c3-5(b) and (c)(1)(ii), and NYSE Arca Options Rule 11.18, by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business. J.P. Morgan’s market access business failed to have reasonable risk management controls, including pre-trade controls to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders.

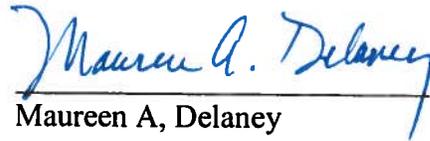
¹⁰ As of November 28, 2014, the EMM desk was dissolved and thus ceased operating.

¹¹ J.P. Morgan did not, however, receive any executions in any option in which the messages were entered.

SANCTIONS

J.P. Morgan Securities LLC is censured and fined \$20,000.¹²

These sanctions are effective immediately.



Maureen A, Delaney
Hearing Officer

¹² Under the Offer of Settlement and Consent, J.P. Morgan agreed to pay a total fine of \$800,000, of which \$20,000 shall be paid to the Exchange and the remaining amount shall be paid to Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC., NYSE Arca Equities, Inc., The NASDAQ Options Market LLC, and NASDAQ PHLX LLC, in accordance with the terms of parallel settlement agreements in related matters between J.P. Morgan and each of these self-regulatory organizations.

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF
NASDAQ PHLX LLC

IN THE MATTER OF

J.P. Morgan Securities LLC
(CRD No. 79),

Respondent.

Enforcement No. 2017-10

**FINRA No. 20120348296-08
(includes No. 20140411208)**

**DECISION ISSUED UPON
ACCEPTANCE OF OFFER OF SETTLEMENT**

The Decision of the Business Conduct Committee ("Committee") of NASDAQ PHLX LLC (the "Exchange" or "PHLX") in the above-captioned matter is as follows:

1. J.P. Morgan Securities LLC ("Respondent") made an Offer of Settlement, Stipulation of Facts and Consent to Sanctions ("Offer") on June 9, 2017.
2. At its regular meeting of June 23, 2017, the Committee reviewed a report of an Exchange investigation concerning the facts underlying this matter, made a finding that said facts disclosed probable cause that Respondent had committed violations within the Exchange's disciplinary jurisdiction, and authorized the issuance of a Statement of Charges against Respondent based on said facts and violations. The Statement of Charges so authorized was dated June 23, 2017, and was forthwith served upon Respondent.
3. Respondent made and entered into said Offer, pursuant to Exchange Rule 960.7, solely for the purposes of these proceedings and to settle and conclude all disciplinary actions by the Exchange based on or arising out of the facts hereinafter stipulated.
4. The Committee and Respondent have agreed to settle this matter on the following terms:

a. Respondent stipulates to the facts, consents to the conclusion of violations of certain provisions of Exchange Rules and federal securities laws, and consents to the imposition of sanctions specifically including, but not limited to, consenting to pay the fine imposed by the Committee consistent with the Offer, and to comply with all other sanctions, all as hereinafter set forth, without admitting or denying the allegations or conclusions in the Statement of Charges.

b. The Exchange shall not institute or entertain at any time any further proceeding against Respondent based on or arising out of, in whole or in part, the facts hereinafter stipulated.

c. Respondent shall not institute or entertain at any time any further proceeding against the Exchange or any of its board members, officers, committee members, employees or agents, based on or arising out of, in whole or in part, the facts hereinafter stipulated, or the investigation, prosecution and disposition of this matter.

d. Nothing in Paragraph 4b above shall be construed to prevent the Exchange from instituting separate proceedings against Respondent arising from failures to pay fees, fines or other monies owed to the Exchange by Respondent, irrespective of whether the fees, fines or other monies owed are based on or arise from, in whole or in part, the facts hereinafter stipulated.

e. The Exchange shall not be precluded from instituting a separate proceeding against Respondent based on or arising from facts other than those hereinafter stipulated.

f. The Committee, in any other Exchange proceeding against Respondent, may take notice of the Decision to be issued herein in determining the appropriate sanction, if any, to be imposed in such other proceeding.

g. Respondent consents to the entry by the Committee of a Decision pursuant to Exchange Rules 960.7 and 960.8, containing the stipulation of facts in Paragraph 5 below, the conclusion of violations of Rule 15c3-5(b) and (c)(1)(ii) of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule"), and Exchange Rules 748(b), (d) and (g) (later re-designated as Rule 748(h)), as agreed to in Paragraph 6 below, and to the imposition of sanctions not to exceed those agreed to in Paragraph 8.

h. Respondent agrees that the Decision to be issued herein shall be final, and waives any right to a review of the Decision or any other phase or aspect of this proceeding:

(1) by the Board of Directors of the Exchange;

- (2) by the U.S. Securities and Exchange Commission;
- (3) by any federal or state court; or
- (4) in any other forum or by any other means.

5. The facts, as stipulated to in the Offer, are as follows:

a. The Committee has jurisdiction over this matter pursuant to Exchange By-Law Article V, Section 5-3 and Exchange Rule 960.1.

b. During the period between May 2012 through at least April 2016 (the "Review Period"), Respondent was a member organization of the Exchange.

c. During the Review Period, SEA Rule 15c3-5 and Exchange Rule 748 were in full force and effect.

d. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business. SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders. Exchange Rule 748 required that member organizations provide for appropriate supervisory control of the organization and compliance with securities laws and regulations, including the Exchange's By-Laws and Rules; provide for appropriate written procedures of supervision and control; and establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised. Exchange Rule 748 also required member organizations to establish, maintain, and enforce written supervisory procedures reasonably designed to prevent and detect, insofar as practicable, violations of securities laws and regulations, including the Exchange's By-Laws and Rules, and further required each person with supervisory control to reasonably discharge his duties and obligations in connection with the organization's supervision and control to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the Exchange's By-Laws and Rules.

e. During the Review Period, Respondent failed to have reasonable risk management controls to prevent Firm programs and algorithms from submitting cancel-replace and buy-sell looping of orders

on multiple occasions, which caused high levels of options message traffic on the Exchange, NYSE Arca Options, Inc., and The NASDAQ Options Market LLC (the "Options SROs").

e. During the period of January 2014 through July 2014, a system design, specifically the manner in which the system responded to market data given the inherent latency between message entry and acknowledgement from an exchange and the time it was reflected in market data, caused the Firm's EMM desk via its Options EMM system to engage in the above looping activity for messages entered by the Firm on the Options SROs.¹

f. During the period of January 2014 through July 2014, the EMM system had the ability to withdraw all quotes from the market, if necessary, and the Firm had a T+1 report to review for high message counts. Although the Firm also had a real-time surveillance designed to monitor for high message entries, it did not prevent the looping activity that occurred on the Options SROs between January 2014 and July 2014.

g. While the Firm's post-trade surveillance did flag the activity at issue on the Options SROs and the Firm was aware of the system design issue that was causing the activity by January 2014, the Firm failed to resolve the issue until August 2014, and thus caused repeated entry of unintended elevated messaging activity into the markets for the Options SROs.²

h. By failing to have reasonable risk management controls to prevent Firm programs and algorithms from submitting cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of options message traffic on the Exchange, NYSE Arca Options, Inc., and The NASDAQ Options Market LLC, between the period of January 2014 through July 2014, JPMS violated SEA Rule 15c3-5(b) and (c)(1)(ii) and Exchange Rule 748.

i. During the Review Period, Respondent failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.

j. Specifically, during the Review Period, Respondent violated SEA Rule 15c3-5(b) and (c)(1)(ii), and Exchange Rule 748 by failing to

¹ As of November 28, 2014, the EMM desk was dissolved and thus ceased operating.

² JPMS did not, however, receive any executions in any option in which the messages were entered.

establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders.

6. The Committee accepts the foregoing stipulation of facts, and on the basis thereof finds that Respondent violated SEA Rule 15c3-5(b) and (c)(1)(ii) and Exchange Rule 748.

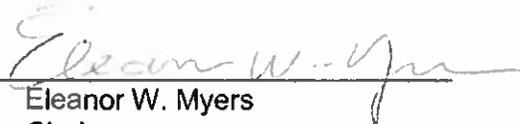
7. The Committee believes that the sanctions proposed by Respondent in its Offer serve the public interest, are sufficiently remedial under the circumstances, and represent a proper discharge of the Exchange's regulatory responsibilities under the Exchange Act.

8. The Committee concurs in the sanctions consented to by Respondent, and orders the imposition of the following sanctions: (i) a censure; and (ii) a total fine in the amount of \$800,000, of which \$20,000 is payable to the Exchange. Respondent will pay the balance of the fine to Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC, NYSE Arca Equities, Inc., NYSE Arca Options, Inc., and The NASDAQ Options Market LLC.

9. If Respondent fails to pay the fine within 30 calendar days of the date of this Decision, or fails to comply with any other sanction by the date set forth herein, the Committee shall declare Respondent to be in material breach of its agreement and may take whatever actions it deems necessary to respond to the breach, including, but not limited to, rescinding this Decision and allowing the matter to proceed in accordance with Exchange Rules 960.1 through 960.12.

Dated: 6/26, 2017.

BUSINESS CONDUCT COMMITTEE

By: 
Eleanor W. Myers
Chair