

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2013035265401**

TO: Department of Enforcement  
Financial Industry Regulatory Authority (“FINRA”)

RE: J.P. Morgan Securities LLC, Respondent  
BD No. 79

and

J.P. Morgan Clearing Corp., Respondent  
B.D. No. 28432

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, J.P. Morgan Securities LLC (“JPMS”) and J.P. Morgan Clearing Corp. (“JPMCC”), collectively the “Respondents,” submit this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against either Respondent alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

**J.P. Morgan Securities LLC**

Respondent JPMS is a full-service broker-dealer headquartered in New York, New York. JPMS has been a FINRA member since December 17, 1936. It currently employs over 20,000 registered representatives and operates out of approximately 5,700 branches.

**J.P. Morgan Clearing Corp.**

Respondent JPMCC has been a FINRA member since 1991 and its principal place of business is Brooklyn, New York. JPMCC offers securities clearing, custody, settlement, and lending

services to traders, hedge fund managers, broker-dealers, and investment advisors. It currently employs approximately 245 registered representatives in four branch offices.

### **RELEVANT DISCIPLINARY HISTORY**

JPMS has relevant disciplinary history.

- In July 2015, JPMS entered into an AWC with FINRA through which it was censured and fined a total of \$47,500, in connection with various findings including its failure to provide accurate information on certain transaction confirmations.
- In October 2012, JPMS entered into an AWC with FINRA through which it was censured and fined a total of \$20,000, in connection with various findings including its failure to provide accurate information on certain transaction confirmations.
- In May 2012, JPMS entered into an AWC with FINRA through which it was censured and fined \$5,000 for its failure to provide certain information on transaction confirmations.

JPMCC has no relevant disciplinary history.

### **OVERVIEW**

This matter concerns areas of operational systems and supervisory deficiencies at JPMS along with related recordkeeping deficiencies. The violations at JPMS principally concern systems impacting clients of two JPMS Global Wealth Management ("GWM") lines of business, J.P. Morgan Private Bank ("Private Bank") and JPMS Heritage Private Client Services ("JPMS Private Client Services").

In addition, JPMCC failed to deliver certain notices required by Regulation S-P of the Securities Exchange Act of 1934 (the "Exchange Act").

### **FACTS AND VIOLATIVE CONDUCT**

1. **JPMS failed to send investment objective change letters to certain Global Wealth Management customers.**

In the period December 1, 2006 through December 10, 2012, Respondent JPMS failed to send letters to a total of 3,266 GWM customer accounts confirming changes in their investment objectives within 30 days of the change, as required under SEC rules. Of those 3,266 GWM customer accounts, 3,018 were Private Bank customers and 248 were JPMS Private Client Services customers. Prior to December 2012, when customers notified JPMS of changes to their investment objectives, JPMS uploaded that information into its systems, but certain investment objective change letters were manually prepared and transmitted. Stated differently, while the information concerning the changes was input to JPMS's systems, JPMS failed to ensure that it met its obligation to confirm the information with its clients in writing.

Though JPMS had in place a system to generate automated internal alerts prompting the need for sending an investment objective confirmation, as required under SEC rules, JPMS failed to reasonably enforce its system and, as a result, failed to send and retain the required investment objective change letters. JPMS discovered the failure while updating certain systems and subsequently sent the required investment objective change letters to affected account holders.

As a result, JPMS violated Exchange Act § 17(a)(1); Exchange Act Rules 17a-3(a)(17)(i)(B)(3) and 17a-4(e)(5); NASD Conduct Rule 3110(a) (for the conduct before December 5, 2011) and FINRA Rule 4511 (for the conduct from December 5, 2011); NASD Conduct Rule 3010(a) and (b); and NASD Conduct Rule 2110 (for the conduct before December 15, 2008) and FINRA Rule 2010 (for the conduct from December 15, 2008).

**2. JPMS failed to collect and review certain employees' outside brokerage account statements.**

NASD Conduct Rule 3050 places requirements on representatives holding brokerage accounts away from their employing firm, including a requirement to notify the respective employer firms and, where requested, to provide duplicate copies of information related to such accounts. This rule was designed so that employer firms would exercise supervision over their representatives' outside accounts, to evaluate account activity for compliance with securities laws and rules.

During the period October 2012 through August 2013, JPMS failed to collect and review certain outside brokerage statements associated with employee accounts. These so-called "non-designated accounts" were accounts where duplicate electronic statements were not available to send to JPMS and, instead, hard-copy duplicate statements were required. JPMS discovered that it did not have – and therefore had not reviewed – as many as 12,456 outside brokerage account statements associated with 1,929 employee accounts during that 11-month period.

JPMS discovered this failure while it was in the process of enhancing its internal system for tracking and recording such outside brokerage account statements for review. Following a look-back review, JPMS discovered seven instances where employees violated the firm's policy requiring pre-clearance of their transactions involving exchange-traded funds.

Although JPMS had supervisory systems and procedures in place to track and review employees' outside brokerage accounts, those systems were not reasonably designed to track and record outside brokerage statements for review.

As a result, JPMS violated NASD Conduct Rule 3010(a) and (b), and FINRA Rule 2010.

**3. JPMS failed to send 30-day letters to Private Bank customers.**

In the period January 1, 2009 through September 19, 2013, JPMS failed to send letters providing a copy of the account record to 1,310 new Private Bank account holders within 30 days of account opening. Until September 2013, when Private Bank customers opened new accounts, JPMS manually prepared and transmitted the letters confirming account information as required

under SEC rules. Though JPMS had supervisory systems and procedures in place concerning these 30-day letters, those systems and procedures were deficient because they did not ensure that such letters were prepared and sent, and that copies were preserved.

As a result, JPMS violated Exchange Act § 17(a)(1); Exchange Act Rules 17a-3(a)(17)(i)(B)(1) and 17a-4(e)(5); NASD Conduct Rule 3110(a) (for the conduct before December 5, 2011) and FINRA Rule 4511 (for the conduct from December 5, 2011); NASD Conduct Rule 3010(a) and (b); and FINRA Rule 2010.

**4. JPMS failed to deliver certain transaction confirmations to Private Bank customers.**

During the period September 2007 through September 2014, Respondent JPMS failed to provide transaction confirmations to 7,298 Private Bank accounts concerning 92,563 transactions. As a result of its failure to deliver these transaction confirmations, JPMS also failed to make and preserve records of such documents.

During that period, JPMS's default setting for transaction-confirmation delivery for certain types of self-directed foreign fixed-income transactions by certain Private Bank customers was by fax. But for some Private Bank customers, JPMS's customer profile system incorrectly contained an internal JPMS operations fax number, resulting in a failure to deliver the confirmation to the correct location.

Until July 2014, JPMS's system for generating and reconciling account statements for Private Bank customers was not fully automated and JPMS used these faxed transaction confirmations as part of that process. Though JPMS had supervisory systems and procedures in place concerning delivery of the required transaction confirmations, those systems and procedures were deficient because they did not ensure that such confirmations were prepared and sent, and that copies were preserved.

JPMS discovered the issue in September 2014. Subsequent testing confirmed that the transactions at issue appeared on customer account statements. JPMS has received no customer complaints regarding those transactions by any of the affected Private Bank customers.

As a result, JPMS violated Exchange Act Rules 10b-10(a)(2), 17a-3(a)(8), and 17a-4(b)(1); NASD Conduct Rule 2230 (for the conduct before June 17, 2011) and FINRA Rule 2232 (for the conduct from June 17, 2011; NASD Conduct Rule 3110(a) (for the conduct before December 5, 2011) and FINRA Rule 4511 (for the conduct from December 5, 2011); NASD Conduct Rule 3010(a) and (b); and NASD Conduct Rule 2110 (for the conduct before December 15, 2008) and FINRA Rule 2010 (for the conduct from December 15, 2008).

**5. JPMS failed to accurately preserve certain written correspondence with certain JPMS Private Client Services customers.**

During the period January 1, 2011 through December 7, 2012, when certain JPMS Private Client Services customers updated their investor profiles, JPMS retained that information in its systems

and sent updating letters to those customers, but it did not keep copies of those letters. Instead, JPMS retained some – but not all – electronic information in its systems for each such letter so that copies could be regenerated at a later date.

In particular, the system that JPMS used for this purpose did not retain the name of the regional supervisory manager (“RSM”) whose name appeared in the signature block of investor profile update letters that were sent to JPMS Private Client Services customers. Instead, when JPMS produced a copy of any such letter, its system populated the regenerated letter with the name of the current RSM, who might not be the same person as the RSM whose name appeared in the signature block of the original letter. As a result, if JPMS had regenerated the 70,455 investor profile letters that it sent to JPMS Private Client Services customers between January 1, 2011 and December 7, 2012, 5,051 of the regenerated letters would reflect different RSMs from those whose names appeared in the signature block of the original customer letters.

In addition, in response to document requests in five customer arbitrations between January 1, 2012 and June 24, 2013, JPMS produced regenerated copies of investor profile update letters that reflected different RSMs from those who signed the original letters. While JPMS became aware of this issue in connection with at least one of those customer arbitrations, it did not notify claimants at the time of production of any inaccuracies with the records it produced or otherwise correct the problem.

As a result, JPMS violated Exchange Act § 17(a); Exchange Act Rule 17a-4(b)(4); NASD Conduct Rule 3110(a) (for the conduct before December 5, 2011) and FINRA Rule 4511 (for the conduct from December 5, 2011); NASD Conduct Rule 3010(a) and (b); and FINRA Rule 2010.

#### **6. JPMCC failed to send Privacy Notices to certain customers.**

SEC Regulation S-P, entitled “Privacy of Consumer Financial Information,” requires, among other things, that FINRA member firms develop and provide annual Privacy Notices to their customers, unless certain conditions are met.

JPMCC provides clearing and custody services for a variety of broker-dealers. In 2011, 2012, and 2013, JPMCC was required under Regulation S-P to send Privacy Notices on its own behalf to account holders of those broker-dealers. Under its policies and procedures, to comply with Regulation S-P, JPMCC would send its annual Privacy Notices to those existing account holders each June.

In May 2014, in connection with preparing its 2014 annual Privacy Notices, JPMCC discovered that it had not sent the 2013 Privacy Notices to certain account holders. JPMCC further discovered that it:

- Failed to send its 2011 annual Privacy Notice to 96,350 account holders;
- Failed to send its 2012 annual Privacy Notice to 143,666 account holders; and
- Failed to send its 2013 annual Privacy Notice to 965,341 account holders.

While JPMCC had supervisory policies and procedures in place with respect to these annual Privacy Notices, including certain checklists concerning the steps involved in obtaining and sending the Privacy Notices, its controls were inadequate to ensure that such Privacy Notices were sent to all account holders.

As a result, JPMCC violated NASD Conduct Rule 3010(a) and (b), and FINRA Rule 2010.

- B. Respondents JPMS and JPMCC also consent to the imposition of the following sanctions:**
- 1. JPMS consents to:**
    - a. A censure; and**
    - b. A fine of \$775,000.**
  
  - 2. JPMCC consents to:**
    - a. A censure; and**
    - b. A fine of \$250,000.**

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have each submitted Election of Payment forms showing the method by which each Respondent proposes to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondents JPMS and JPMCC specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;**
  
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;**
  
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and**

- D. To appeal any such decision to the National Adjudicatory Council (“NAC”) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person’s or body’s participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person’s or body’s participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

### **III.**

#### **OTHER MATTERS**

Respondents JPMS and JPMCC understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
- C. If accepted:
  - 1. this AWC will become part of the permanent disciplinary records of Respondent JPMS and JPMCC and may be considered in any future actions brought by FINRA or any other regulator against either of them;
  - 2. this AWC will be made available through FINRA’s public disclosure program in accordance with FINRA Rule 8313;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
  - 4. Respondents 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. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which

**FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects: (i) Respondents' testimonial obligations; or (ii) the right of either Respondent to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**

- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.**

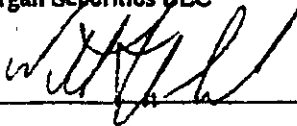


The undersigned, on behalf of Respondent JPMS, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent JPMS has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent JPMS to submit it.

3/9/16  
Date (mm/dd/yyyy)

\_\_\_\_\_  
Respondent

J.P. Morgan Securities LLC

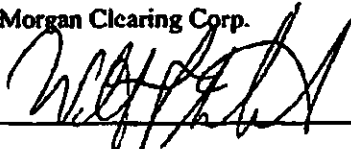
By:  \_\_\_\_\_

The undersigned, on behalf of Respondent JPMCC, 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 Respondent JPMCC has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent JPMCC to submit it.

3/8/16  
Date (mm/dd/yyyy)

\_\_\_\_\_  
Respondent

J.P. Morgan Clearing Corp.

By:  \_\_\_\_\_

Reviewed by:



Paul M. Tyrrell  
Counsel for Respondents  
Sidley Austin LLP  
60 State Street  
Boston, MA 02109  
Phone: 617-223-0350

Accepted by FINRA:

April 22, 2016  
Date

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



Andrew T. Beirne  
Senior Regional Counsel  
FINRA Department of Enforcement  
Brookfield Place  
200 Liberty Street  
New York, NY 10281  
Phone: 212-858-4080  
Fax: 202-721-6565