

**NASDAQ ISE, LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2022.03.0378**

TO: Nasdaq ISE, LLC  
Nasdaq ISE Enforcement Department

RE: J.P. Morgan Securities LLC  
Member Firm  
CRD No. 79

Pursuant to Rule 9216 of the Nasdaq ISE, LLC (“ISE”) Code of Procedure,<sup>1</sup> J.P. Morgan Securities LLC (the “Firm,” “JPM,” or “Respondent”) submits this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, ISE will not bring any future actions against the Respondent 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 ISE, or to which ISE 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 ISE:

**BACKGROUND**

The Firm became a member of ISE on May 1, 2000. The Firm’s registration remains in effect. JPM, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company, headquartered in New York, New York. Among other services, JPM acts an agency broker-dealer and options market maker.

On November 8, 2017, the Firm was censured and fined \$25,000 by NYSE Arca, Inc. for one instance of anticipatory hedging in violation of NYSE Arca Options Rule 6.49(b).<sup>2</sup>

**SUMMARY**

Between August 2019 and October 2022 (the “Relevant Period”), on three occasions, JPM improperly hedged its anticipated facilitation of customer orders prior to disclosure to the trading crowd of all material terms and conditions of the customer order, in separate and distinct violations of ISE Rule Options 9, Section 1, Supplemental Material

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<sup>1</sup> Series 9000 of The Nasdaq Stock Market, LLC (“Nasdaq”) Rules are incorporated by reference into the Nasdaq ISE Rules General 5, Section 3, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to Nasdaq ISE’s jurisdiction.

<sup>2</sup> NYSE Arca, Inc. Matter No. 2017-03-00042.

.02. Further, JPM's supervisory system was not reasonably designed to assure compliance with ISE Rule Options 9, Section 1, Supplemental Material .02 because of two deficiencies that prevented the Firm from identifying the transactions at issue. Accordingly, JPM also violated ISE Rule Options 9, Sections 1 and 2.

### **FACTS AND VIOLATIVE CONDUCT**

1. ISE Rule Options 9, Section 1 provides that "No Member shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Members shall have the same duties and obligations as Members under the Rules of this Options 9."
2. ISE Rule Options 9, Section 1.02 makes it clear that "[i]t may be considered conduct inconsistent with just and equitable principles of trade for any person associated with a Member who has knowledge of all material terms and conditions of: (i) an order and a solicited order, (ii) an order being facilitated, or (iii) orders being crossed; the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until (i) the terms of the order and any changes in the terms of the order of which the person associated with the Member has knowledge are disclosed to the trading crowd, or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to the trading crowd on the Exchange when the order is entered into the System, the Facilitation or Solicited Order Mechanisms."

#### **Anticipatory Hedging Violations**

3. On August 2, 2019, October 21, 2020, and October 14, 2022, JPM traders, having knowledge of the material terms and conditions of a customer options order, effected improper hedging transactions prior to the terms and conditions of the customer options orders being disclosed.

*August 2, 2019*

4. On August 2, 2019, a JPM trader ("JPM Trader A") received a customer order for a three-legged options transaction consisting of 27,450 option spreads. JPM Trader A agreed to facilitate the trade.
5. At approximately 11:10:17 a.m., JPM Trader A entered the entire customer options order for electronic execution on ISE. JPM Trader A received a reject message cancelling the order almost instantaneously from ISE. Nonetheless, at 11:10:21 a.m., JPM Trader A instructed another JPM trader on a different desk ("JPM Trader B") to enter JPM's hedging order to buy the underlying security. As a result, at 11:10:21 a.m., JPM Trader B entered and executed an order to buy

83,280 shares of the underlying security to partially hedge JPM's facilitation of the customer options order.<sup>3</sup>

6. At 11:10:33 a.m., and after JPM's hedging order had been executed, JPM Trader A rerouted to ISE an electronic facilitation for 14,000 option spreads of the customer options order, which executed. At 11:10:51 a.m., JPM Trader A instructed an unaffiliated options floor broker to cross the remaining 13,450 option spreads of the customer's order on a different exchange.
7. By entering a hedging order to buy the underlying security before the terms and conditions of the customer options order had been disclosed to the market, JPM violated ISE Rule Options 9, Section 1.02.

*October 21, 2020*

8. On October 21, 2020, JPM Trader C received a customer order to sell 2,000 calls in options series 1 and buy 2,000 calls in options series 2 (the "call spreads"). JPM Trader C agreed to facilitate the trade at 2:46:16 p.m.
9. At 2:48:02 p.m., JPM Trader C routed and executed an electronic facilitation for 500 of the 2,000 call spreads on ISE. As the facilitating contra side, JPM needed to sell approximately 15,000 shares of the underlying security to hedge its facilitation trade. Instead, at 2:48:14 p.m., JPM Trader C entered an order to sell 25,000 shares, which executed between 2:48:14 p.m. and 2:49:51 p.m. By doing so, JPM overhedged the portion of the customer options order that had been disclosed to the market by approximately 10,000 shares.
10. At 2:50:10 p.m., JPM Trader C routed and executed an electronic facilitation for an additional 500 of the 1,500 remaining call spreads on ISE. As the facilitating contra side, JPM again needed to sell approximately 15,000 shares of the underlying security to hedge its second facilitation trade. Instead, at 2:50:47 p.m., JPM Trader C entered an order to sell 20,000 shares of the underlying security, of which 9,800 shares executed between 2:50:47 p.m. and 2:51:49 p.m. By submitting an order to sell 20,000 shares, JPM again overhedged the portion of the customer options order that had been disclosed to the market by approximately 5,000 shares.
11. At 2:51:02 p.m., JPM Trader C routed and executed 500 of the 1,000 remaining call spreads. At 2:51:15 p.m., JPM Trader C then instructed an unaffiliated options floor broker to cross the remaining 500 call spreads on a different exchange. At 2:52:01 p.m., the remaining 10,200 shares of the original 20,000 share hedge order executed.
12. By entering hedging orders to sell a total of 45,000 shares of the underlying security between 2:48:14 p.m. and 2:50:47 p.m., JPM improperly overhedged the

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<sup>3</sup> JPM, as facilitating contra party, needed to buy approximately 582,000 shares of the underlying security in order to fully hedge the customer options order, the balance of which came from the desk's existing inventory.

disclosed portions of the facilitated customer options order by approximately 15,000 shares. As a result, JPM violated ISE Rule Options 9, Section 1.02.

*October 14, 2022*

13. On October 14, 2022, JPM Trader D received a customer order to buy 2,000 calls in options series 3. At 11:37:14 a.m., JPM Trader D communicated electronically with a broker, seeking contra-side interest for the customer order. At 11:37:22 a.m., the broker acknowledged the interest. At 11:48:04 a.m., after learning that interest for the entire customer order was not available, JPM Trader D instructed the broker: "OK lets [sic] cross the rest and try to get me out of some at the cross pls." The broker acknowledged "ok" a few seconds later at 11:48:18 a.m..
14. At 11:51:06 a.m., JPM Trader D began entering hedging orders to purchase options in the same underlying security as a hedge, buying 101 options before canceling the order at 11:51:17 a.m. At 11:51:21 a.m., JPM Trader D entered an order to buy more options in the same underlying security as a hedge, buying 26 options before canceling again at 11:51:28 a.m. After the cancelations, JPM Trader D realized that the broker had not sent any fills from the facilitation and ceased entering further hedging orders.
15. At 11:51:42 a.m., JPM Trader D contacted the broker to ask if the customer order had been printed. At 11:51:57 a.m., the broker replied that the trade was "Going up now." The customer order was printed at 11:52:31 a.m., with the Firm facilitating half the customer order.
16. By entering hedging orders to buy options contracts in the same underlying security as the customer options order before the customer options order had been disclosed to the market, JPM violated ISE Rule Options 9, Section 1.02.
17. JPM self-identified and self-reported this trading activity to the ISE Enforcement Department in the course of this investigation.

### **Supervision**

18. ISE Rule Options 9, Section 2 provides that "[n]o Member shall engage in conduct in violation of the Exchange Act, the By-Laws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange Transaction, or any written interpretation thereof. Every Member shall so supervise persons associated with the Member as to assure compliance therewith."
19. ISE Rule Options 9, Section 1 provides that "No Member shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Members shall have the same duties and obligations as Members under the Rules of this Options 9."

20. Although JPM had daily monitoring in place to flag for potential anticipatory hedging and front running of customer orders, its supervisory system was not reasonably designed to assure compliance with ISE Rule Options 9, Section 1.02. Specifically, during the Relevant Period, the Firm did not conduct reviews of transactions across different aggregation units, and thus did not identify the August 2, 2019, anticipatory hedging activity. In addition, due to a coding issue, the Firm's monitoring logic failed to identify potential anticipatory hedging activity in connection with facilitation trades for multi-leg customer options orders, and thus did not identify the October 21, 2020, anticipatory hedging activity. JPM fully remediated both deficiencies in July 2022. The conduct described in this paragraph constitutes violations of ISE Rule Options 9, Sections 2 and 1.

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

1. A censure and a total fine in the amount of \$90,000.<sup>4</sup>

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

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by ISE Enforcement Department staff.

## II.

### WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under ISE'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 ISE Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

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<sup>4</sup> The balance of the sanction, for a total fine amount of \$230,000, will be paid to NYSE Arca, Inc. and NYSE American LLC, which conducted a parallel investigation to this matter.

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

Respondent 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

Respondent understands that:

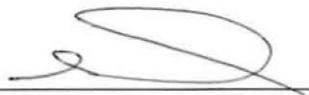
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the ISE Enforcement Department and the ISE Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to ISE Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Respondent; and
- C. If accepted:
  1. This AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by ISE or any other regulator against the Respondent;
  2. ISE may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with ISE Rule 8310 and IM-8310-3; and
  3. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of ISE, or to which ISE is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which ISE is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent

with the AWC in this Statement. This Statement does not constitute factual or legal findings by ISE, nor does it reflect the views of ISE 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 the Firm 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.

J.P. Morgan Securities LLC

Respondent

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

Print Name: Michael Kurd

Title: Managing Director

3/16/23  
Date

Accepted by ISE:

3/30/23  
Date

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

  
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Muiyiwa Odeniyide  
Enforcement Counsel  
ISE Enforcement Department