THE NASDAQ STOCK MARKET LLC
NOTICE OF ACCEPTANCE OF AWC

Certified, Return Receipt Requested

TO: **J.P. Morgan Securities LLC**
Mr. William Freilich
Managing Director
383 Madison Avenue
New York, NY 10179

FROM: The NASDAQ Stock Market LLC ("Nasdaq")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850

DATE: June 28, 2017

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. **20120348296-03**

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **June 28, 2017** by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by NASDAQ's Finance Department regarding the payment of any fine if a fine has been imposed.

If you have any questions concerning this matter, please contact Jacqueline Gorham, Senior Counsel, at (646) 430-7044.

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

Signed on behalf of NASDAQ

Enclosure

FINRA District 10 – New York
Michael Solomon
Senior Vice President and Regional Director
(Via email)

Bruce H. Newman
WilmerHale
7 World Trade Center
250 Greenwich Street
New York, NY 10007
Counsel for Respondent

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.

<u>Violative Conduct</u>

<u>Applicable Rules</u>

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.

<u>**Overview of JPMS's Market Access Systems**</u>

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.

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[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 Equites 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.

<u>Inadequate Pre-Trade Erroneous Order Controls</u>

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.

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[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 layering[7] 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.

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[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.

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[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: [signature]
Name: William Freitel
Title: Managing Director

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

Counsel for Respondent

Accepted by Nasdaq:

6/28/17
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

ELECTION OF PAYMENT FORM

The Firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

θ A firm check or bank check for the full amount;

X Wire transfer;

Respectfully submitted,

June 12, 2017
Date

J.P. Morgan Securities, LLC, Respondent

By: Judith Romaine

Name: JUDITH ROMAINE

Title: EXECUTIVE DIRECTOR
ASSISTANT GENERAL COUNSEL

Billing and Payment Contact

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. ***Please DO NOT submit payment until Nasdaq has sent you an invoice.***

Billing Contact Name: Judith Romaine

Billing Contact Address: 383 Madison Avenue, Floor 32, NY NY 10179

Billing Contact Email: judith.bm.romaine@JPMChase.com

Billing Contact Phone Number: 212-272-4431