ENTERED
OCT 14 2014
COMMISSIONERS OFFICE

**COMMONWEALTH OF KENTUCKY**
**PUBLIC PROTECTION CABINET**
**DEPARTMENT OF FINANCIAL INSTITUTIONS**
**AGENCY CASE NO. 2014-AH-078**

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| In the matter of | ) | |
| | ) | |
| **J. P. MORGAN SECURITIES, LLC** | ) | |
| | ) | **ADMINISTRATIVE CONSENT** |
| | ) | **ORDER** |
| Respondent | ) | |
| | ) | |

WHEREAS, J. P. Morgan Securities, LLC ("JPMS") is a broker-dealer registered in the state of Kentucky, with a Central Registration Depository number of 79; and

State securities regulators from multiple jurisdictions have conducted an investigation into the registration of JPMS sales assistants ("SAs") and JPMS's supervisory systems with respect to the registration of SAs; and

JPMS has cooperated with regulators by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

JPMS has advised regulators of its agreement to resolve the multi-state investigation pursuant to the terms specified in this Consent Order ("Order"); and

JPMS agrees to make, and already has made, certain remedial changes to its registration policies, supervisory procedures, and order entry systems, and agrees to make certain payments in accordance with the terms of this Order; and

JPMS elects to permanently waive any right to a hearing and appeal under KRS 292.490 and KRS 292.470 with respect to this Order; and

JPMS agrees that the scope of the multi-state investigation is from January 1, 2004 through December 31, 2011; and

Solely for the purposes of terminating the multi-state investigations, and in settlement of the issues contained in this Order, JPMS, without admitting or denying the findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

NOW, THEREFORE, the Commissioner of the Department of Financial Institutions ("Commissioner"), as administrator of the Securities Act of Kentucky (KRS Chapter 292), hereby enters this Order:

## I.
## STATEMENT OF FACTS

1. JPMS admits the jurisdiction of the Department of Financial Institutions in this matter.

Relevant JPMS Business Units

2. JPMS's legacy wealth management business unit was referred to as Private Bank within JPMS.A review of Private Bank SAs was included in the scope of this investigation.

3. In July of 2006,the legacy brokerage unit of Banc One Securities Corporation, then known as the Private Wealth Management ("PWM") business unit, was operating in J.P. Morgan Securities Inc., the predecessor broker-dealer to JPMS. A review of PWM SAs was included in the scope of this investigation.

4. In October 2008, the legacy brokerage unit of Bear, Stearns & Co. Inc. known as Private Client Services ("PCS") was operating in J.P. Morgan Securities Inc., the predecessor broker-dealer to JPMS. A review of PCS SAs was included in the scope of this investigation.

Sales Assistant Registration Policies

5. For JPMS's legacy Private Bank, PWM, and PCS business units, SAs provided administrative and sales support to one or more JPMS brokers. Many SAs, as part of their support function to brokers, directly accepted and entered orders from clients.

*Private Bank*

6. SAs for Private Bank were generally not assigned to specific brokers but rather assisted all brokers in the respective offices in which they were located.

7. Private Bank SAs primarily supported one or more brokers in all facets of the daily business of Private Bank, including contacting clients, maintaining accounts, and accepting client orders.

8. Notably, all Private Bank SAs authorized to accept orders must comply with a 50 state registration policy and compliance with this policy was confirmed prior to granting access to the order entry system.

*Private Wealth Management*

9. Like Private Bank SAs, PWM SAs were generally not assigned to specific brokers but rather assisted all brokers in the respective offices in which they were located.

10. PWM SAs primarily supported one or more brokers in all facets of the daily business of PWM, including client support, maintaining accounts, and accepting client orders.

11. From 2006 through 2008, JPMS's PWM endeavored to register SAs that were authorized to accept client orders in the same states as the broker(s) they supported, but PWMSAs were generally not registered in all 50 states.

12. In 2009, PWM adopted Private Bank's 50 state registration policy for all SAs who were authorized to accept client orders.

*Private Client Services*

13. Unlike SAs for Private Bank and PWM, SAs for PCS were generally assigned to support specific brokers.

14. PCS SAs' primary role was to support one or more brokers in all facets of the daily business of PCS, including extensive client contacts, reviewing account activity, and accepting orders from clients.

15. PCS policies required PCS SAs who were authorized to accept client orders to be registered in the same state as the broker(s) they supported, but PCS SAs were generally not registered in all 50 states. The multi-state investigation revealed that, in some instances, there were PCS SAs that were authorized to accept client orders but not registered in the same state as the broker(s) they supported.

Unlicensed Sales Assistants

16. Consistent with Private Bank's 50 state registration policy, the multi-state investigation did not find that Private Bank SAs accepted orders without appropriate state registrations.

17. However, the multi-state investigation concluded that certain SAs for PWM and PCS accepted unsolicited orders at times when the SAs were not appropriately registered in Kentucky.

Failure to Comply with Books & Records Requirements

18. At all relevant times, Private Bank has utilized an order entry system called TOPAZ.

19. Prior to October of 2008, PWM utilized an order entry system called Streetscape. In connection with each order, Streetscape recorded, among other information, the identity of the person who accepted the order from the client. In October of 2008, PWM transferred from Streetscape to TOPAZ.

20. Prior to February of 2011, TOPAZ did not specifically record the identity of the order acceptor (as distinct from the order enterer) and JPMS did not in all instances maintain a separate record to identify the order acceptor for equity or mutual fund trades. Furthermore, prior to June of 2011, TOPAZ did not specifically record the identity of the order acceptor (as distinct from the order enterer) and JPMS did not in all instances maintain a separate record to identify the order acceptor for fixed income and structured product trades.

21. KRS 292.336(c) and 808 KAR 10:030, Section 4 require registered broker-dealers to comply with applicable SEC regulations. To that end, a registered broker-dealer is required to comply with SEC Rule 17a-3.a.(6)(i), which requires each broker-dealer to make and maintain a memorandum of each brokerage order. In addition to other information, this memorandum is required to show the identity of any person, other than the employee responsible for the account, who accepted a client order. The memorandum need not show the identity of any person, other than the agent responsible for the account, who entered or accepted the order if the order is entered into an electronic system that generates the memorandum and if that system is not capable of receiving an entry of the identity of any person other than the responsible agent; in that circumstance, the dealer shall maintain a separate record that identifies each other person.

Remedial Efforts

22. JPMS has implemented a number of enhancements in its legacy PCS division since this investigation began, including implementing a new trading system with additional blocking mechanisms and the ability to confirm the registration status of order acceptors.

23. JPMS has further enhanced its registration, compliance training, and written compliance policies.

24. As noted above and as a result of the multi-state investigation, JPMS updated the TOPAZ system to record the identity of the order acceptor in the electronic order system.

25. JPMS provided substantial cooperation in connection with this regulatory investigation.

## II.
## CONCLUSIONS OF LAW

1. The Department of Financial Institutions has jurisdiction over this matter pursuant to KRS 292.500(1).

2. JPMS failed to establish an adequate supervisory system to monitor the registration status of persons accepting client orders, which constitutes grounds to impose sanctions/discipline for failure to establish a reasonably designed supervisory system and/or failure to establish maintain and enforce reasonably designed procedures in violation of KRS 292.337(2)(k) and 808 KAR 10:030, Section 4.

3. JPMS's failure to ensure its SAs were registered in accordance with JPMS's written procedures constitutes a failure to enforce its established written procedures, and is a basis for the issuance of an Order assessing a fine against JPMS pursuant to KRS 292.500(14).

4. JPMS's acceptance of orders in Kentucky through SAs who were not properly registered in Kentucky constitute violations of KRS 292.330(1) and 292.330(7) for the use/employment of unregistered agents/ sales representatives.

5. JPMS's failures, in certain instances, to record the identity of the person accepting client orders entered through the TOPAZ system until June of 2011 constitute violations of KRS 292.336(1)(c) and (2)(b) requiring licensees to maintains such books and records in accordance with SEC Rules.

6. Pursuant to KRS 292.500(14), the violations described above constitute basis for the assessment of an administrative fine against JPMS.

7. The Commissioner finds the following relief appropriate and in the public interest.

## III.
## ORDER

On the basis of the Statement of Facts, Conclusions of Law, and JPMS's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Department of Financial Institutions and any other action that the Department of Financial Institutions could commence against JPMS under applicable Kentucky law on behalf of the Commonwealth of Kentucky as it relates to unregistered activity in Kentucky by JPMS's SAs and JPMS's supervision of SAs' registration status during the period from January 1, 2004 through December 31, 2011.

2. This Order is entered into solely for the purposes of resolving the referenced multistate investigation, and is not intended to be used for any other purpose. For any person or entity not a party to the Order, this Order does not limit or create any private rights or remedies against JPMS including, limit or create liability of JPMS, or limit or create defenses of JPMS, to any claims.

3. JPMS is hereby ordered to pay the sum of Fifty Thousand Eight Hundred Dollars ($50,800.00), payable to the Kentucky State Treasurer and delivered to The Department of Financial Institutions, Division of Securities, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky within ten days of the date of this Order.

4. This Order is not intended by the Department of Financial Institutions to subject any Covered Person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities regulator or self-regulatory organization, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. "Covered Person" means JPMS or any of its affiliates and their current or former officers, directors, employees, or other persons

that could otherwise be disqualified as a result of the Orders (as defined in paragraph 5 below).

5. This Order and the order of any other State in any proceeding related to JPMS's agreement to resolve the above referenced multi-state investigation (collectively, the "Orders") shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed or permitted to perform under applicable securities laws or regulations of Kentucky and any disqualifications from relying upon this state's administration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

6. This Order shall be binding upon JPMS and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to the conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Dated this 13th day of October, 2014.

BY ORDER OF THE COMMISSIONER

CHARLES A. VICE

## CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY JPMS

J.P. Morgan Securities, LLC ("JPMS") hereby acknowledges that it has been served with a copy of this Consent Order ("Order"), has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

JPMS admits jurisdiction of the Department of Financial Institutions, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Department of Financial Institutions as settlement of the issues contained in this Order.

JPMS agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that JPMS shall pay pursuant to this Order.

JPMS states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Jeffrey M. Lipman represents that he is a Senior Vice President of JPMS and that, as such, has been authorized by JPMS to enter into this Order for and on behalf of JPMS.

Dated this 1st day of October, 2014.

J.P. MORGAN SECURITIES, LLC

By: _____

Title: Senior Vice President

SUBSCRIBED AND SWORN TO before me this 1 day of October, 2014.

[Affix seal]

Deborah Badagliacca

Notary Public for the state of NY

My Commission Expires:

April 11, 2017



DEBORAH BADAGLIACCA
Notary Public, State of New York
Qualified in New York County
No. 01BA6125173
My Commission Expires April 11, 2017

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Agreed Order was sent by United States mail on this the 14 day of October, 2014, to the following:

Jeffrey M. Lipman
Senior Vice President
J.P. Morgan Securities, LLC
277 Park Avenue
New York, New York 10172

And

Neal Sullivan
Sidley Austin
1501 K Street, NW
Washington, D.C. 20005

Christina Hayden
Department of Financial Institutions