

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
No. 2016049305401**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, J.P. Morgan Securities LLC ("JPMS," "Respondent," 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.¹ This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against JPMS alleging violations based on the same factual findings described herein.

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ACCEPTANCE AND CONSENT

- A. JPMS 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 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

JPMS has been a FINRA member since 1936 and is headquartered in New York, New York. It is part of a larger financial enterprise, JP Morgan Chase Holdings LLC ("JPM Chase"), and conducts a full-service brokerage business including, among other things, sales and trading, research and underwriting services. JPMS has approximately 35,000 associated persons.

RELEVANT DISCIPLINARY HISTORY

JPMS has no relevant disciplinary history.

OVERVIEW

Federal securities laws require that FINRA member firms fingerprint most associated persons prior to or upon association with the firm. The firms review the fingerprint results as part of their background check to determine, among other things, whether a prospective associated

¹ As used in this AWC, JPMS includes J.P. Morgan Clearing Corp, CRD No. 28432, which was also affected by the matters discussed in this AWC and which was merged into JPMS on December 14, 2016.

person has previously engaged in misconduct that subjects her or him to a "statutory disqualification." As set forth in Section 3(a)(39) of the Securities Exchange Act of 1934 ("Exchange Act"), certain criminal and regulatory events will subject a person to a statutory disqualification. The fingerprint results provide information about a prospective associated person's criminal background. FINRA members must also obtain other background information to determine if a prospective associated person is subject to certain serious, but non-criminal, findings or sanctions imposed by financial regulators that could also subject her or him to a statutory disqualification.

From January 1, 2009 through May 2017 ("relevant period"), JPMS failed to conduct timely or adequate background checks on approximately 8,670—or approximately 95%—of its non-registered associated persons. The Firm did not fingerprint 1,880 of the 8,670 until after the start of its remediation process and did not fingerprint another 156 until after they began to work for JPMS. JPMS timely fingerprinted the remaining 6,634 associated persons, but screened them under Section 19 of the Federal Insurance Deposit Act ("Section 19") and an internally-created list of crimes (the "List").² It failed to screen any of the 8,670 for some types of felony convictions or regulatory actions, as required under the Exchange Act. In addition, at least four persons who were subject to a statutory disqualification were allowed to associate, or remain associated, with JPMS during the relevant period, and the Firm was unable to determine whether another 391 associated persons were subject to a statutory disqualification because when JPM conducted its review their associations had ended or they were on leave.

The Firm's failure to fingerprint or properly screen 8,670 of its associated persons during the relevant period arose from its failure to maintain a supervisory system or procedures to identify and properly screen all individuals who became associated with the Firm in a non-registered capacity. As a result of the foregoing, JPMS violated Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, the FINRA By-Laws, Article III, Section 3(b), NASD Rule 3010, and FINRA Rules 3110 and 2010.

JPMS also failed to create and maintain certain required records in violation of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110, and FINRA Rules 4511 and 2010.³

FACTS AND VIOLATIVE CONDUCT

A. JPMS Failed to Fingerprint or Timely Fingerprint Associated Persons

JPMS and other FINRA members are required by the federal securities laws to fingerprint most associated persons and are required by FINRA rules to screen all associated persons to ensure they are not subject to statutory disqualification, or disallowed from associating with a broker dealer. FINRA members use fingerprint results as part of the necessary screening process.

² The List included Kidnapping, Rape, Sexual Assault, Sodomy, Murder, Manslaughter, Stalking/Aggravated Harassment, Multiple convictions for the same type of offense, i.e., Assault Convictions, Aggravated Domestic Violence/Domestic Violence, Aggravated Battery/Assault/Battery Assault, Offenses involving Moral Turpitude, Cyber Crimes (crimes involving the internet), and listing on a Sexual Offender Registry.

³ On December 5, 2011, FINRA Rule 4511 replaced NASD Rule 3110.

Written policies and procedures called for all JPM Chase employees, including JPMS non-registered personnel, to be fingerprinted prior to employment. However, 2,036 JPMS associated persons were not fingerprinted by JPMS or JPM Chase prior to employment. Of these, 1,880 were not fingerprinted prior to the implementation of JPMS' remediation process, and 156 were not fingerprinted prior to their association with JPMS.

By virtue of the foregoing, JPMS violated Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, and FINRA Rule 2010.

B. JPMS Failed to Adequately Screen for Statutory Disqualification

Section 19 requires banks to obtain approval to hire or retain anyone who has been convicted of, or entered into a pretrial diversion or similar program related to, any criminal offense involving dishonesty or a breach of trust or money laundering. Requirements under Section 3(a)(39) of the Exchange Act and FINRA By-Laws, are broader. They call for broker dealers to obtain approval prior to associating with anyone convicted, within the past ten years, of criminal offenses (including misdemeanors) similar to those specified in Section 19, as well as anyone convicted of any domestic felony or subject to specified findings or actions by certain financial regulators. During the relevant period, JPMS failed to adequately screen 8,670 non-registered associated persons to ensure they were not subject to statutory disqualification before they associated with the Firm. JPM Chase screened most of these associated persons under the provisions of Section 19 and the List, but not under the more expansive provisions contained in the Exchange Act and FINRA By-Laws.

Four JPMS associated persons who were subject to disqualification were allowed to become or remain associated with the Firm for extended times during the relevant period. One of the four remained associated with the Firm for 10 years after a disqualifying event occurred; another remained associated for eight years after a disqualifying event and, subsequently, was rehired and associated for an additional six months while subject to disqualification. The other two became associated while subject to disqualifications and continued as associated persons for six and eight months, respectively, while disqualified. JPMS was not able to re-screen, and thus could not determine the disqualification status of, another 391 non-registered associated persons, 283 of whom had permanently ended their association with JPMS and 108 of whom were on leaves of absence.

By virtue of the foregoing, JPMS violated Article III, Section 3(b) of the FINRA By-Laws and FINRA Rule 2010.

C. JPMS Failed to Create and Maintain Required Records

JPMS failed to create and maintain, for the four associated persons who were subject to disqualification, "questionnaire[s] or application[s] ... approved in writing by an authorized representative of the member that contained," among other things, a record of the respective arrests and convictions, as required by Section 17(a) of the Exchange Act and Rule 17a-3(a)(12)(i)(C) thereunder. In addition, JPMS did not create and maintain fingerprint records for

all of its eligible associated persons, as required by Section 17(a) of the Exchange Act and Rule 17a-3(a)(13) thereunder. As a result, JPMS violated Section 17(a) of the Exchange Act and Rules 17a-3(a)(12)(i)(G) and 17a-3(a)(13) thereunder, NASD Rule 3110, and FINRA Rules 4511 and 2010.

D. JPMS Failed to Establish and Maintain an Adequate Supervisory System and Failed to Establish, Maintain and Enforce Written Supervisory Procedures

JPMS' written supervisory policies and procedures for fingerprinting focused on individuals who were, or intended to become, registered. For the most part, onboarding of JPMS' non-registered associated persons was handled by JPM Chase, which fingerprinted and screened them for compliance with Section 19 and the List. The policies and procedures, with some limited exceptions, did not address methods for identifying JPMS non-registered associated persons or the need to screen them under the Exchange Act standards. JPMS also failed to enforce its written procedures requiring that all employees be fingerprinted prior to employment.

By virtue of the foregoing, JPMS failed to establish and maintain a supervisory system to identify all of its associated persons, to screen them for statutory disqualification as required by FINRA By-Laws, and to fingerprint eligible associated persons as required by Section 17(f) of the Exchange Act and Rule 17f-2 thereunder. JPMS also failed to establish, maintain and enforce written procedures that were reasonably designed to achieve compliance with applicable securities laws and regulations, including: (i) the recordkeeping provisions (Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110 and FINRA Rule 4511); (ii) the fingerprinting provisions (Section 17(f) of the Exchange Act and Rule 17f-2 thereunder); and (iii) FINRA eligibility rules (FINRA By-Laws, Article III, Section 3(b)). Therefore, JPMS violated NASD Rules 3010(a) and (b), and FINRA Rules 3110(a) and (b) and 2010.

OTHER FACTORS

In determining the appropriate monetary sanction, FINRA staff considered the Firm's cooperation in self-reporting and undertaking to remedy its violations.⁴

SANCTIONS

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

- a censure;
- a fine in the amount of \$1,250,000; and
- an undertaking to review its systems and procedures regarding the identification, fingerprinting, and screening of non-registered associated persons to ensure that current systems and procedures are reasonably designed to achieve compliance with all securities laws and regulations, including Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, FINRA By-Laws Article III,

⁴ See FINRA Regulatory Notice 08-70 (Nov. 2008).

Section 3(b), and FINRA Rule 4511. Within 60 days of Notice of Acceptance of this AWC, an officer or director of the Firm shall describe in a written statement the methodology used by the Firm to conduct the referenced review and certify in writing to FINRA's Department of Enforcement that the Firm has adopted and implemented policies and procedures, including written procedures, reasonably designed to ensure compliance with the provisions of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, FINRA By-Laws Article III, Section 3(b), and FINRA Rule 4511. For good cause shown and upon receipt of a timely application, FINRA staff may extend the review and certification deadline set forth above.

JPMS agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. JPMS has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

JPMS specifically and voluntarily waives any right to claim that it is 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

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

- A. To have a Complaint issued specifying the allegations against it;
- 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, JPMS specifically and voluntarily waives 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.

JPMS further specifically and voluntarily waives 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

JPMS 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 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 JPMS; 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 FINRA or any other regulator against it;
 - 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. JPMS 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. JPMS 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 JPMS's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. JPMS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. JPMS 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 FINRA, nor does it reflect the views of FINRA 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 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 the Firm to submit it.

Date: 10/27/17

J.P. Morgan Securities LLC

By: 

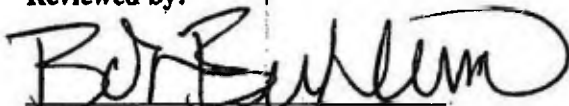
Name:

Jeremy B. Li

Title:

Chief Compliance Officer, JPMS, LLC

Reviewed by:



Robert Buhlman, Esq.

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(617) 223-0333

Counsel for Respondent

Accepted by FINRA:

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

Date: 11/2/17

By: 

James E. Day

Vice President and Chief Counsel

FINRA Department of Enforcement

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