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COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF BANKING AND SECURITIES

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COMMONWEALTH OF PENNSYLVANIA	:	PA DEPARTMENT OF BANKING AND SECURITIES
DEPARTMENT OF BANKING AND SECURITIES:	:	
BUREAU OF SECURITIES LICENSING,	:	
COMPLIANCE AND ENFORCEMENT	:	
	:	
v.	:	Docket No. 140051 (SEC-CAO)
	:	
J.P. MORGAN SECURITIES, LLC	:	
	:	

CONSENT AGREEMENT AND ORDER

The Commonwealth of Pennsylvania, acting through the Department of Banking and Securities (“Department”), Bureau of Licensing, Compliance and Enforcement (“Bureau”), has conducted an investigation of the registration of J. P. Morgan Securities, LLC (“JPMS”) sales assistants (“SAs”) and JPMS’s supervisory system with respect to the registration of SAs through a coordinated investigation by state securities regulators. Solely for the purpose of terminating the multi-state coordinated investigation, and in settlement of the issues contained herein, without admitting or denying the facts or conclusions contained herein, and in lieu of an administrative hearing, JPMS, intending to be legally bound, hereby agrees to the terms of this Consent Agreement and Order (“Order”).

BACKGROUND

1. The Department is the Commonwealth of Pennsylvania’s administrative agency authorized and empowered to administer and enforce the Pennsylvania Securities Act of 1972 (“1972 Act”).

2. The Bureau is primarily responsible for administering and enforcing the 1972 Act for the Department.
3. JPMS, CRD # 79, was, at all times material herein, a registered broker-dealer pursuant to Section 301 of the 1972 Act, 70 P.S. § 1-301, with offices in the Commonwealth of Pennsylvania.
4. JPMS's legacy wealth management business unit was referred to as Private Bank ("PB") within JPMS.
5. 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.
6. 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 Assistants Registration Policies

7. For JPMS's PB, PMW, 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.
8. SAs for PB were generally not assigned to specific brokers but rather assisted all brokers in the respective offices in which they were located. PB SAs primarily supported one or more brokers in all facets of the daily business of PB, including contacting clients, maintaining accounts, and accepting client sales orders. Notably, all PB 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.
9. Like PB SAs, PMW SAs were generally not assigned to specific brokers but rather assisted all brokers in the respective offices in which they were located. PMW SAs primarily supported one or more brokers in all facets of the daily business of PMW, including client support, maintaining accounts, and accepting client orders. 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 PMW SAs were generally not registered in all 50 states. In 2009, PMW adopted PB's state registration policy for all SAs who were authorized to accept client orders.
10. Unlike SAs for PB and PWM, SAs for PCS were generally assigned to support specific brokers. 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. 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.

- 11: Consistent with PB's 50 state registration policy, the multi-state investigation did not find that PB SAs accepted orders without appropriate state registrations. 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 Pennsylvania.

Registration Required

12. Unless exempted, pursuant to Section 301(a) of the 1972 Act, 70 P.S. §1-301(a), it is unlawful for any person to transact business as an agent unless he is registered under the 1972 Act.
13. Pursuant to Section 301(a) of the 1972 Act, 70 P.S. §1-301(a), a person cannot accept unsolicited orders in Pennsylvania without being registered in Pennsylvania.
14. Pursuant to Sections 602.1(b) and (c) of the 1972 Act, 70 P.S. §1-602.1(b) and (c), a broker-dealer also may be subject to an administrative assessment and investigative costs for having failed to reasonably supervise its agents

Failure to Comply with Books and Records Requirements

15. At all relevant times, PB has utilized an order entry system called TOPAZ.

16. 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.

17. 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.

18. Regulation § 304.011, 10 Pa. Code §304.011 requires registered broker-dealers to comply with applicable SEC regulations. To that end, a registered broker-dealer is required to comply with SEC Rule 17a-3a(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 the 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

19. 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.
20. JPMS has further enhanced its registration, compliance training, and written compliance policies.
21. 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.
22. JPMS provided substantial cooperation in connection with this regulatory investigation.

CONCLUSIONS OF LAW

23. The Bureau has jurisdiction over JPMS because it regulates the offers and sales of securities in the Commonwealth of Pennsylvania pursuant to the 1972 Act, 70 P.S. §1-101 et. seq.

24. JPMS's failure to establish an adequate supervisory system to monitor the registration status of persons accepting client orders constitutes a failure to reasonably supervise its agents in violation of Section 305(a)(vii), 70 P.S. §1-305(a)(vii) and Regulation §305.011(a), 10 Pa. Code §1-305.011(a).
25. 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 reprimanding, censuring, and assessing a fine against JPMS pursuant to Section 305(a)(vii) of the 1072 Act, 70 P.S. § 1-305(a)(vii).
26. JPMS's acceptance of orders for purchases and sales of securities from clients residing in Pennsylvania through SAs not registered in Pennsylvania constitutes violations of Section 301(a) of the 1972 Act, 70 P.S. §1-301(a).
27. JPMS's failure, in certain instances, to record the identity of persons accepting client orders entered through the TOPAZ system until June of 2011 constitutes violations of Section 304(a) of the 1972 Act, 70 P.S. §1-304 and Regulation 304.011, 10 Pa. Code § 304.011.

AUTHORITY

28. Based on the afore-mentioned violations, the Department may issue an order imposing an administrative assessment against JPMS pursuant to Section 602.1 of the 1972 Act, 70 P.S. §1-602.1.
29. The Department find the following relief appropriate and in the public interest.

RELIEF

30. This Order concludes the investigation by the Bureau and any other action that the Bureau could commence against JPMS and its officers, directors, and present and former employees under Pennsylvania law on behalf of Pennsylvania as it relates to unregistered activity in Pennsylvania by JPMS's SAs and JPMS's supervision of SA registrations during the period from January 1, 2004 through December 31, 2011.
31. This Order is entered into solely for the purpose of resolving the referenced multi-state 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, limit or create liability of JPMS, or limit or create defenses of JPMS, to any claims.
32. Pursuant to Section 602.1(b) and (c) of the 1972 Act, 70 P.S. §1-602.1(b) and (c), JPMS is hereby ordered to pay the sum of sixty thousand, seven hundred and twenty dollars (\$60,720.00) to the Department within ten days of this Order. Payment shall be made by certified check or money order made payable to the "Department of Banking and Securities" and shall be mailed or delivered, in person, to the Bureau of Licensing, Compliance and Enforcement located at 17 N. Second Street, Suite 1300, Harrisburg, PA 17101.

33. This Order is not intended by the Department 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 US Virgin Islands including, without limitation, any disqualification from relying upon the state or federal exemptions or safe harbor provisions. "Covered Person" means JPMS or any of its affiliates and their current or former officers or former officers, directors, employees, or other persons that would otherwise be disqualified as a result of the Orders (as defined in paragraph 34 below).
34. 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 of the Commonwealth of Pennsylvania and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.
35. 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 all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.
36. JPMS is ORDERED to comply with the 1972 Act, and Regulations adopted by the Department, and in particular Section 305(a)(vii), 70 P.S. §1-305(a)(vii), and Regulation § 305.011(a), 10 Pa. Code § 305.011(a). Specifically, JPMS agrees to establish and maintain

policies, procedures, and systems to reasonably supervise the trade process so that a person can only accept client orders that originate from jurisdictions where the person accepting the order is appropriately registered.

37. Should JPMS fail to pay the assessment as set forth in Paragraph 32, above, the sanctions set forth elsewhere in the Order shall continue in full force and effect until full payment is made. However, this provision shall not be construed as affording JPMS the option of either paying the assessment or being indefinitely subjected to the sanctions.
38. Should JPMS fail to comply with any and all provisions of this Order, the Department may impose additional sanctions and costs and seek other appropriate relief subject to JPMS's right to a hearing pursuant to the 1972 Act.

FURTHER PROVISIONS

39. Consent. JPMS hereby knowingly, willingly, voluntarily and irrevocably consents to the entry of this Order pursuant to the Bureau's authority under the 1972 Act and agrees that it understands all of the terms and conditions contained herein. JPMS, by voluntarily entering into this Order, permanently waives any right to a hearing or appeal concerning the terms, conditions and/or penalties set forth in this Order.
40. Cooperation. JPMS has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations and is in agreement to resolve the investigations pursuant to the terms of this Order.

41. Tax Claims. 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 assessment, cost or penalty it is paying pursuant to this Order.

42. Entire Agreement. This Order contains the entire agreement between the Department and JPMS. There are no other terms, obligations, covenants, representations, statements, conditions, or otherwise, of any kind whatsoever concerning this Order. This Order may be amended in writing by mutual agreement by the Department and JPMS.

43. Counsel. This Order is entered into by the parties upon full opportunity for legal advice from legal counsel.

44. Effectiveness. JPMS hereby stipulates and agrees that the Order shall become effective on the date that the Bureau executes the Order (“Effective Date”).

45. Other Enforcement Action.

(a) The Department reserves all of its rights, duties, and authority to enforce all statutes, rules, and regulations under its jurisdiction against JPMS in the future regarding all matters not resolved by this Order.

(b) JPMS acknowledges and agrees that this Order is only binding upon the Department and not any other local, state, or federal agency, department or office that has separate, independent jurisdiction over the issues described herein.

46. Authorization. The parties below are authorized to execute this Order and legally bind their respective parties.

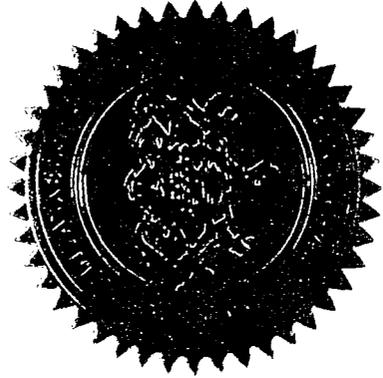
47. Counterparts. This Order may be executed in separate counterparts, by facsimile, and by PDF.

48. Titles. The titles used to identify the paragraphs of this document are for the convenience of reference only and do not control the interpretation of this document.

49. Finding. The Department finds that it is necessary and appropriate in the public interest and for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the 1972 Act to issue this Order.

WHEREFORE, in consideration of the foregoing, including the recital paragraphs, the Commonwealth of Pennsylvania, Department of Banking and Securities, Bureau of Licensing, Compliance, and Enforcement and J.P. Morgan Securities, LLC intending to be legally bound, do hereby execute this Consent Agreement and Order.

FOR THE COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF BANKING AND SECURITIES
BUREAU OF SECURITIES, LICENSING, COMPLIANCE AND ENFORCEMENT



Victoria A. Reider
Executive Deputy Secretary of Banking and Securities

Date: September 4, 2014

FOR J.P. MORGAN SECURITIES, LLC

Senior Vice President
Title

Date: Oct 22, 2014

