

THE NASDAQ OPTIONS MARKET LLC
NOTICE OF ACCEPTANCE OF AWC

Certified, Return Receipt Requested

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

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

DATE: August 22, 2016

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. **20130374348-04**

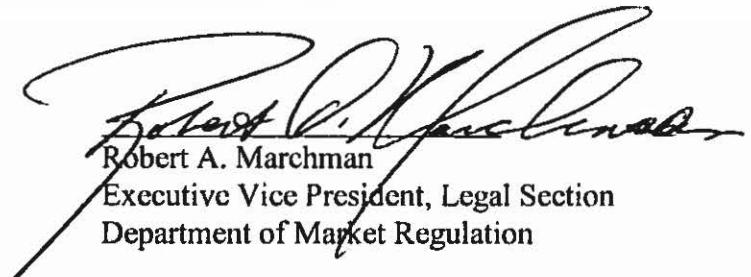
Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **August 22, 2016** by the Nasdaq Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy 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, and Nasdaq's Finance Department will send you an invoice regarding the payment of any fine.

J.P. Morgan Securities LLC
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If you have any questions concerning this matter, please contact John Hewson, Counsel,
at (646) 430-7041.



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

Paul S. Mishkin
Counsel for Respondent
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017

THE NASDAQ STOCK MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130374348-04

TO: The NASDAQ Options 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”)¹ Code of Procedure, J.P. Morgan Securities LLC (“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

JPMS has been a member of FINRA since 1936 and its registration remains in effect. JPMS was approved for The NASDAQ Options Market LLC (“NOM”) membership on March 12, 2008 and its registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

JPMS does not have any relevant disciplinary history.

SUMMARY

1. FINRA’s Trading and Financial Compliance Examinations Section (“TFCE”) of the Department of Market Regulation (the “Staff”), on behalf of NOM and various

¹ All NASDAQ Options Market disciplinary matters are governed by the Nasdaq Code of Procedure.

other securities exchanges, conducted a review of the Firm's compliance with Section 17(a) of the Securities and Exchange Act of 1934, as amended ("Exchange Act") and Rules 17a-3 and 17a-4 thereunder, in addition to NOM Chapter III Section 2, Chapter V Section 7(a), Chapter IX Section 1 and Chapter XI Section 8(a) during the period between January 2012 and continuing through 2014 (the "Review Period").

2. This matter is the result of multiple examinations - a 2012 Cycle Examination, a 2013 Cause Examination and a 2014 Cycle Examination - that identified failures by the Firm across multiple desks to maintain accurate books and records of manual options orders placed on NOM, NYSE MKT LLC ("NYSE MKT"), BOX Options Exchange LLC ("BOX"), International Securities Exchange, LLC ("ISE"), NYSE Arca, Inc. ("NYSE Arca") and NASDAQ OMX PHLX LLC ("PHLX") (collectively the "covered exchanges").²
3. As a result of its review of transactions within the examinations, the Staff determined that the Firm did not maintain accurate books and records of thousands of options orders handled by the Firm during the Review Period, primarily during 2012-2013, in violation of Exchange Act Rule 17a-3(a) and Chapter IX Section 1 of the NOM Rules.
4. Specifically, for thousands of options orders, the Firm failed to record one or more of the following: accurate order receipt time; accurate time of entry; modifications, cancellations, and/or conditions.
5. Additionally, based on its review, Staff determined that the Firm failed to accurately make, keep current, and preserve in an easily accessible place thousands of records of options orders in violation of Exchange Act Rule 17a-4(b).
6. Finally, Staff concluded that the Firm violated Chapter III Section 2(a)(i) and Chapter XI, Section 8(a) of the NOM Rules and NASDAQ Exchange Rules 2110 (for the period prior to November 21, 2012), and 2010A (for the period after November 20, 2012) and 3010 during the Review Period because its supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws and regulations and Exchange rules pertaining to recordkeeping requirements for manual options orders.

Order Tickets and Recordkeeping Requirements

7. The policy underlying the recordkeeping provisions is to ensure that regulators have access to certain basic information about securities transactions to allow them to adequately police the securities markets. Access to transaction records such as order tickets therefore serve as an essential component of the surveillance and examination of broker-dealers by self-regulatory bodies.

² The 2014 Cycle Examination's findings identified deficiencies in certain paper order tickets used by only one line of business within the Firm.

Applicable Rules

8. Exchange Act Rule 17a-3(a)(6) requires broker-dealers to create a brokerage order ticket of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. In relevant part, this rule requires the brokerage order ticket to show the terms and conditions of the order or instructions and of any modification or cancellation thereof; the time the order was received; the time of entry;³ and the time of execution or cancellation.
9. Exchange Act Rule 17a-3(a)(7) requires broker-dealers to create a dealer ticket for each purchase and sale for the account of the broker-dealer showing the price and, to the extent feasible, the time of execution. In addition, where the purchase or sale is with a customer other than a broker-dealer, this rule requires dealer tickets to reflect each order received showing, *inter alia*, “the time of receipt; the terms and conditions of the order and of any modification thereof...”⁴
10. Exchange Act Rule 17a-4(b) requires all records made pursuant to Exchange Act Rules 17a-3(a)(6) and (a)(7) to be preserved for a period of not less than three years, the first two years in an “easily accessible place.”⁵
11. Chapter V Section 7(a) requires, *inter alia*, that each options order received from a customer for execution on NOM is recorded on an order ticket and time-stamped immediately. The order ticket must also be time-stamped again on execution and also at the time of any modification or cancellation of the order by the Customer
12. Chapter IX Section 1(a) of the NOM Rules requires members to make, keep current, and preserve such books and records as may be prescribed by NOM and as may be prescribed by the Exchange Act and the rules and regulations thereunder.
13. Chapter XI Section 8(a) of the NOM Rules requires an exchange member that conducts a public customer options business ensure that its written supervisory system policies and procedures adequately address the member's public customer options business.
14. Chapter III Section 2(a) of the NOM Rules requires members to maintain reasonable supervisory systems and controls.

³ The term “time of entry” means “the time when the member, broker or dealer transmits the order or instruction for execution.” 17 C.F.R. § 240.17a-3(a)(6).

⁴ 17 C.F.R. § 240.17a-3(a)(7).

⁵ 17 C.F.R. § 240.17a-4(b).

15. Nasdaq Rule 3010 requires that members establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq rules.
16. Nasdaq Rule 2110 (for the period prior to November 21, 2012), and 2010A (for the period after November 20, 2012) requires that a member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade

Facts and Violative Conduct

17. During the Review Period, JPMS had three business lines that received manual options orders. These included the Firm's Private Client Services ("PCS") which handled orders for wealth management clients from branch offices; the Institutional Equities desk which serviced the Firm's institutional clients; and Broker Dealer Services ("BDS") which served J.P. Morgan Clearing's correspondent broker dealer clients.
18. Depending on business line, the Firm recorded the details of options orders and executions in multiple ways including the use of paper tickets and various order management systems. Certain options order information was also maintained by the Firm within a centralized data repository system.
19. JPMS handled manual options orders differently depending on business line: PCS representatives generally received orders at branches and transmitted orders to its Global Wealth Management ("GWM") traders for execution via floor brokers; BDS traders received orders over the phone and transmitted them to floor brokers directly; and Institutional Equities sales traders received orders over the phone and transmitted them to Institutional Equities position traders for execution via floor brokers.
20. The examinations revealed that the Firm failed to reconcile and accurately capture books and records data across multiple data systems and paper tickets. The examinations found that thousands of order tickets handled manually by the Firm contained some combination of incorrect or missing data in violation of Exchange Act Rule 17a-3.
21. Specifically, the deficient data resulted from flaws in data capture, such as sales traders neglecting to record order receipt times, systems/tickets reflecting receipt times conflicting with exchange data, or traders neglecting to record correct transmission times in order management systems via broker transmission timestamps. With respect to conditions of orders, there did not appear to be a vehicle during at least part of the Review Period for the Firm to electronically identify orders as spreads. As to modifications, paper tickets did not always show modifications, even if the Firm's databases did.

22. The flaws in data capture impacted thousands of options order tickets handled by the Firm during the Review Period, primarily during 2012-2013.
23. The examinations further showed that the Firm failed to store books and records in an easily accessible place as required by Exchange Act Rule 17a-4.
24. Over the course of the examinations, the Firm was only able to produce tickets in a piecemeal fashion. The Firm maintained a centralized data repository from which it was initially able to produce certain but not all required order details. After Staff found significant deficiencies in the data provided, the Firm supplemented its responses with further data from additional sources. However, this data often conflicted with originally produced order details and exchange data.
25. Moreover, it often took the Firm months and multiple attempts to complete the order ticket details for sampled orders. In reviewing the Firm's original responses to Staff order details requests, Staff determined that the majority of sampled orders from the original submissions were missing detail or contained data that conflicted with data subsequently submitted by the Firm after a labor intensive and time consuming process.
26. The conduct described in paragraphs 20 through 25 constitutes a violation of Exchange Act Rules 17a-3(a) and 17a-4(b), Chapter V Section 7(a) and Chapter IX Section 1(a) of the NOM Rules.

Supervision

27. During the Review Period, the Firm's WSPs included supervisory reviews that were inadequately designed to ensure the accuracy of its manual options order tickets.
28. Additionally, the Firm failed to maintain and enforce a system reasonably designed to supervise the operations of its business and ensure compliance with applicable federal securities laws and NOM Rules pertaining to books and records for manual options orders.
29. The conduct described in paragraphs 27 and 28 constitutes a violation of Chapter III Section 2(a) and Chapter XI Section 8(a) of the NOM Rules and NASDAQ Exchange Rules 3010, 2110 (for the period prior to November 21, 2012), and 2010A (for the period after November 20, 2012).

Other Factors Considered

30. In resolving this matter, Legal has taken into consideration that the Firm has represented that it has undertaken corrective action and remedial steps to address the issues cited above. The Firm has represented that, among other remedial

measures, it has decreased its reliance on manual options orders; developed controls surrounding broker transmission timestamps; linked various records within its centralized data repository to increase data accessibility; and developed enhanced connectivity between systems to automatically capture and record relevant order information. In addition, the Firm's WSPs have been enhanced to provide greater detail surrounding the supervisory reviews for the issues described above.

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

1. A censure;
2. An aggregate fine of \$450,000, of which \$56,250 shall be paid to NOM;⁶ and
3. 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: BOX Options Exchange LLC, International Securities Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC and NASDAQ OMX PHLX LLC. The aggregate settlement amount across all markets is \$450,000.

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.

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 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

⁶ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

- 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 pre-judgment 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. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;
 - 3. Nasdaq may make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 - 4. 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.

6/21/16
Date

J.P. Morgan Securities LLC
Respondent

By: 

Name: William H. Freilich
Managing Director

Title: _____

Reviewed by:


Paul S. Mishkin
Counsel for Respondent
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017
212-450-4292

Accepted by Nasdaq:

8/22/16
Date


Robert A. Marchman
Executive Vice President
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):

- A Firm check or bank check for the full amount;
- Wire transfer;
- The installment payment plan.⁷
 - Monthly
 - Quarterly

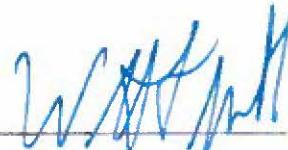
Respectfully submitted,

Respondent
J.P. Morgan Securities LLC

Date

6/21/14

By:



Name: William H. Freilich
Managing Director

Title: _____

⁷ The installment payment plan is only available for a fine of \$50,000 or more. Certain requirements apply.