

**INTERNATIONAL SECURITIES EXCHANGE, 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: International Securities Exchange, LLC ("ISE")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850**

DATE: August 23, 2016

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20130374348-03

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **August 18, 2016** by the ISE's Business Conduct Committee. 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 John Hewson, Counsel,
at (646) 430-7041.



Eric S. Brown
Chief Counsel, 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)

International Securities Exchange, LLC
Attn: John Zecca, Chief Regulatory Officer
60 Broad Street, 26th Floor
New York, NY 10004

Re: LETTER OF ACCEPTANCE, WAIVER AND CONSENT
File No. _____
J.P. Morgan Securities LLC (CRD No. 79)

Chief Regulatory Officer and Business Conduct Committee Members:

Pursuant to ISE Rule 1603, J.P. Morgan Securities LLC ("JPMS" or the "firm") submits this Letter of Acceptance, Waiver, and Consent ("AWC") to the International Securities Exchange, LLC ("ISE" or "Exchange") to propose a settlement of the alleged rule violations described in Section II below. This AWC is submitted to resolve this proceeding and on the condition that, if accepted, ISE will not bring any future actions against JPMS based on the same alleged violations.

JPMS understands that signing this AWC is a voluntary action on its part and that the AWC will not resolve this matter unless and until it has been reviewed and accepted by both the Chief Regulatory Officer ("CRO") and then the Business Conduct Committee ("BCC"), who must decide if it is appropriate in view of the facts and allegations involved. JPMS also understands that if either the CRO or the BCC decides to decline this AWC, it will not be used against JPMS to prove that any violations occurred.

JPMS understands that if this AWC is accepted by both the CRO and the BCC, it will become a part of its permanent disciplinary record and may be considered in any future actions brought by the ISE. JPMS also understands that its experience in the securities industry and any disciplinary history may be factors which the CRO and BCC will consider in deciding whether to accept this AWC. That experience and disciplinary history includes:

- JPMS has been a member of ISE since May 1, 2000. During the review period, JPMS was approved to conduct business on the Exchange as an Electronic Access Member ("EAM") and Competitive Market Maker ("CMM"). JPMS remains an EAM, but is no longer a CMM.
- JPMS has no relevant disciplinary history.

I. Waiver of Procedural Rights

JPMS is advised of, and specifically and voluntarily waives, the following rights which are granted by the ISE's disciplinary rules:

1. to have a Statement of Charges filed identifying the violations alleged in this matter;
2. to be notified of the Statement of Charges and have the opportunity to answer the allegations in writing;

3. to defend against the allegations in a hearing before a Panel consisting of a professional hearing officer and two members of the BCC and to be represented by an attorney at the hearing;
4. to have a written record of the hearing made and a written decision issued by the Panel;
5. to appeal any such decision to the ISE's Board of Directors, then to the U.S. Securities and Exchange Commission and to a U.S. Court of Appeals.

JPMS further waives any provision of the ISE's disciplinary and other rules that may be interpreted as prohibiting any ISE staff member from advising the CRO and BCC in their decision as to whether to accept this AWC.

II. Acceptance and Consent

Overview

FINRA's Trading and Financial Compliance Examinations Section ("TFCE") of the Department of Market Regulation (the "Staff"), on behalf of ISE and various 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 ISE Rules 401 and 1400 during the period between January 2012 and continuing through 2014 (the "Review Period").

JPMS hereby accepts and consents, without admitting or denying the allegations, to the entry of findings by the ISE of the following acts and violations:

1. 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 ISE, BOX Options Exchange LLC ("BOX"), NYSE Arca, Inc. ("NYSE Arca"), NYSE MKT LLC ("NYSE MKT"), NASDAQ OMX PHLX LLC ("PHLX") and The NASDAQ Options Market ("NOM").¹
2. 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 ISE Rule 1400.
3. 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.

¹ The 2014 Exam's findings identified deficiencies in certain paper order tickets used by only one line of business within the Firm.

4. 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).
5. Finally, Staff concluded that the Firm violated ISE Rule 401 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

6. 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.

Facts and Violative Conduct

7. 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.
8. 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.
9. 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.
10. 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.
11. 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.

12. The flaws in data capture impacted thousands of options order tickets handled by the Firm during the Review Period, primarily during 2012-2013.
13. 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.
14. 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.
15. 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.
16. The conduct described in paragraphs 10-15 constitutes a violation of Exchange Act Rules 17a-3(a) and 17a-4(b) and ISE Rule 1400.

JPMS' Supervisory Procedures

17. 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.
18. 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 ISE Rules pertaining to books and records for manual options orders.
19. The conduct described in paragraphs 17-18 constitutes a violation of ISE Rule 401.

Other Factors Considered

20. 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

JPMS hereby consents to the ISE imposing on it, at a maximum, the following sanctions:

A censure and a total fine of \$450,000, of which \$112,500 shall be payable to the Exchange.

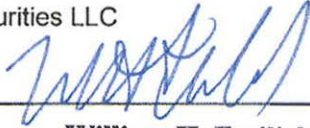
Acceptance of this AWC is conditioned upon acceptance of parallel settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: BOX Options Exchange LLC, NYSE MKT LLC, NYSE Arca, Inc., NASDAQ Options Market LLC, and NASDAQ OMX PHLX LLC. The balance of the \$450,000 fine shall be paid to these self-regulatory organizations.

III. Corrective Action and Other Matters

1. If this AWC is accepted by the BCC, ISE will take no further action against JPMS respecting the matters that are the subject of this AWC. If this AWC is rejected by the BCC, the matter shall proceed as though the letter had not been submitted. The BCC's decision to accept or reject this AWC shall be final, and JPMS may not seek review thereof.
2. JPMS may attach to this AWC any statement it wishes to have the CRO and BCC consider in deciding whether to accept it, although it may not deny the existence of the violations or make any other statements inconsistent with the AWC.
3. JPMS agrees to pay the monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable, and have attached the election form showing the method by which it proposes to pay any fine imposed.
4. JPMS understands that ISE will make such public announcement concerning this agreement and the subject matter thereof as ISE may deem appropriate.

JPMS certifies that it has read and understands all of the provisions of this AWC and has been given full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind has been made to induce JPMS to submit it.

J.P. Morgan Securities LLC

By: 
Name: William H. Freilich
Title: Managing Director
Date: 6/21/14

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THIS SECTION RESERVED FOR EXCHANGE-USE ONLY

Decision of the ISE Chief Regulatory Officer:

Accept Decline

8-18-16

Date



John Zecca
Chief Regulatory Officer

Decision of the ISE Business Conduct Committee:

Accept Decline

8-18-16

Date



By John Zecca
For the Business Conduct
Committee

LETTER OF ACCEPTANCE, WAIVER, AND CONSENT

File No. _____

Schedule A
Election of Payment Method

J.P. Morgan Securities LLC proposes to pay the fine as detailed in Part II, *Acceptance and Consent*, of the AWC by:

- Automatic Deduction from the firm's Options Clearing Corporation ("OCC") account
- A firm check or a bank check for the full amount
- Wire transfer for the full amount
- The installment payment plan* (if agreed between JPMS and Exchange staff, and approved by the BCC)

If the firm proposes to pay the fine by a firm check or a bank check for the full amount, or by wire transfer for the full amount, the Exchange must receive payment of the fine within 30 days of the AWC becoming final.

If the Exchange does not receive the firm check or a bank check for the full amount, or the wire transfer for the full amount, within 30 days of the AWC becoming final, the Exchange will deduct the fine from the firm's OCC account.

The Exchange will notify the firm by separate letter when the AWC is accepted and becomes final.

Respectfully submitted,

J.P. Morgan Securities LLC

By: _____
Name: _____
Title: **William H. Freilich**
Managing Director
Date: _____ 6/21/16

* Certain interest payments, minimum monthly payments and other requirements may apply. The Subject should discuss this fully with counsel before requesting this method of payment.