

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

IN THE MATTER OF:

J.P. MORGAN SECURITIES, LLC

Respondent.

ORDER NO. 14-714-S

ADMINISTRATIVE CONSENT ORDER

WHEREAS, J.P. Morgan Securities, LLC ("JPMS") is a broker-dealer registered in the State of Alaska, 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 system 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 (the "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 Alaska Statute (AS) 45.55.920(d) with respect to this Order; and

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

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

6 NOW, THEREFORE, the Department of Commerce, Community, and Economic
7 Development, Division of Banking and Securities ("Division"), through its Director,
8 Administrator of the Alaska Securities Act, AS 45.55 et seq., hereby enters this Order:

9 **I. FINDINGS OF FACT**

10 1. JPMS admits the jurisdiction of the Division in this matter.

11 Relevant JPMS Business Units

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

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

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

22 Sales Assistant Registration Policies

23 5. For JPMS's legacy Private Bank, PWM, and PCS business units, SAs provided
24 administrative and sales support to one or more JPMS brokers. Many SAs, as part of their

1 support function to brokers, directly accepted and entered orders from clients.

2 Private Bank

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

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

8 8. Notably, all Private Bank SAs authorized to accept orders must comply with a
9 50 state registration policy and compliance with this policy was confirmed prior to granting
10 access to the order entry system.

11 Private Wealth Management

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

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

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

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

21 Private Client Services

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

24 14. PCS SAs' primary role was to support one or more brokers in all facets of the

1 daily business of PCS, including extensive client contacts, reviewing account activity, and
2 accepting orders from clients.

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

8 Unlicensed Sales Assistants

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

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

15 Failure to Comply with Books & Records Requirements

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

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

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

1 prior to June of 2011, TOPAZ did not specifically record the identity of the order acceptor (as
2 distinct from the order enterer) and JPMS did not in all instances maintain a separate record to
3 identify the order acceptor for fixed income and structured product trades.

4 21. AS 45.55.050(a) requires registered broker-dealers to comply with applicable
5 SEC regulations. To that end, a registered broker-dealer is required to comply with SEC Rule
6 17a-3.a(6)(i), which requires each broker-dealer to make and maintain a memorandum of each
7 brokerage order. In addition to other information, this memorandum is required to show the
8 identity of any person, other than the employee responsible for the account, who accepted a
9 client order. The memorandum need not show the identity of any person, other than the agent
10 responsible for the account, who entered or accepted the order if the order is entered into an
11 electronic system that generates the memorandum and if that system is not capable of receiving
12 an entry of the identity of any person other than the responsible agent; in that circumstance, the
13 dealer shall maintain a separate record that identifies each other person.

14 Remedial Efforts

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

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

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

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

24 **II. CONCLUSIONS OF LAW**

1 1. The Division has jurisdiction over this matter pursuant to the Alaska Securities
2 Act.

3 2. JPMS failed to establish an adequate supervisory system to monitor the
4 registration status of persons accepting client orders, which constitutes grounds to impose
5 sanctions/discipline pursuant to AS 45.55.060(b)(1).

6 3. JPMS's failure to ensure its SAs were registered in accordance with JPMS's
7 written procedures constitutes a failure to enforce its established written procedures, and is a
8 violation of AS 45.55.060(b)(1).

9 4. JPMS's acceptance of orders in Alaska through SAs who were not properly
10 registered in Alaska constitutes a violation of AS 45.55.030(a).

11 5. JPMS's failures, in certain instances, to record the identity of the person
12 accepting client orders entered through the TOPAZ system until June of 2011 constitutes a
13 violation of 3 AAC 08.030(a)(2).

14 6. Pursuant to AS 45.55.920(c), the violations described above constitute bases for
15 the assessment of a civil penalty against JPMS.

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

17 **III. ORDER**

18 On the basis of the Findings of Fact, Conclusions of Law, and JPMS's consent to the
19 entry of this Order,

20 **IT IS HEREBY ORDERED:**

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

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

6 3. JPMS is hereby ordered to pay the sum of fifty-one thousand one hundred
7 twenty dollars (\$51,120) to the State of Alaska within ten days of the date of this Order.

8 4. This order is not intended by the Division to subject any Covered Person to any
9 disqualifications under the laws of the United States, any state, the District of Columbia, Puerto
10 Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or
11 commodities regulator or self-regulatory organization, including, without limitation, any
12 disqualification from relying upon the state or federal registration exemptions or safe harbor
13 provisions. "Covered Person" means JPMS or any of its affiliates and their current or former
14 officers, directors, employees, or other persons that would otherwise be disqualified as a result
15 of the Orders (as defined in paragraph 5 below).

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

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

SUSAN BELL, Commissioner,
Department of Commerce,
Community and Economic Development

9 August 15, 2014
10 Date

/s/ Kevin Anselm
Kevin Anselm, Director
Division of Banking and Securities

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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 the jurisdiction of the Division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to entry of this Order by the Division 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 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 22nd day of July, 2014.

J.P. Morgan Securities, LLC

By: /s/ Jeffrey M. Lipman
 Title: Senior Vice President

SUBSCRIBED AND SWORN TO before me this 22nd day of July, 2014.

/s/ Deborah Badagliacca
 Notary Public in and for the
 State of New York

My Commission expires: April 11, 2017