

**NYSE AMERICAN LLC
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020-10-00074**

TO: NYSE AMERICAN LLC

RE: J.P. Morgan Securities, LLC, Respondent
CRD No. 79

J.P. Morgan Securities, LLC violated: NYSE American Rule 995NY(c) by effecting equity transactions in underlying securities after gaining knowledge of undisclosed terms and conditions of customer options orders on August 2, 2019 and October 11, 2022 (“Anticipatory Hedging”); and NYSE American Rule 320(e) by failing to establish and maintain a supervisory system reasonably designed to ensure compliance with NYSE American Rule 995NY(c) from at least August 2019 through October 2022 (the “Relevant Period”). Consent to a censure and a \$65,000 fine (resolved simultaneously with similar matters for a total fine of \$230,000).¹

* * *

Pursuant to Rule 9216 of the NYSE American LLC (“NYSE American” or the “Exchange”) Code of Procedure, J.P. Morgan Securities, LLC (“JPM” 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, NYSE American will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. JPM 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 NYSE American, or to which NYSE American 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 NYSE American:

BACKGROUND AND JURISDICTION

1. JPM, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company, headquartered in New York, New York. JPM has been registered as an AmEx Trading Permit (“ATP”) Holder with NYSE American since 1988. Among other services, JPM acts an agency broker-dealer and options market maker.

¹ Those matters were brought by NYSE Arca LLC and Nasdaq ISE, LLC.

VIOLATIONS

Violations of NYSE American Rule 995NY(c) (Anticipatory Hedging)

2. NYSE American Rule 995NY(c) provides the following:

It will be considered conduct inconsistent with just and equitable principles of trade for any ATP Holder or person associated with an ATP Holder, who has knowledge of all material terms and conditions of an originating order, a solicited order, or a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument until either: (1) All the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the ATP Holder or person associated with the ATP Holder has knowledge are disclosed to the trading crowd, or (2) The trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

3. When an ATP Holder engages in improper anticipatory hedging or otherwise uses undisclosed information about an imminent option transaction to trade the relevant option(s) or a related instrument (including the underlying security on which the options are based), it can potentially alter the market for either or both the subject option(s) or the underlying security.
4. As a result, the party submitting the options order could receive an inferior price and other market participants could be disadvantaged by changing their trading activity based on the price movement arising from the improper hedging activity. Therefore, as set forth in NYSE American Rule 995NY(c), such conduct is considered inconsistent with just and equitable principles of trade.
5. In addition, NYSE American Regulatory Bulletin RBO-AMEX 14-01 (“Anticipatory Hedging and Frontrunning of Floor Orders,” dated February 14, 2014), states that:

ATP Holders that send orders to the Floor for execution should have procedures whereby they can reasonably assure themselves that that [sic] an order has been systematized² and represented before they enter another order in the same or a related instrument for hedging or other purposes, based on the knowledge of the yet to be represented order. ATP Holders are cautioned that simply relying upon the passage of time from when an order is transmitted to the Floor, to make an assumption that the order has actually

² Systematization refers to an options Floor broker’s entry of an order into an electronic format.

been represented in the trading crowd, would not be considered an acceptable procedure.

6. Thus, as RBO-AMEX 14-01 states:

An ATP Holder may be deemed to have violated NYSE American Rule 995NY(c) if the ATP Holder, having knowledge of all material terms and conditions of an order, the execution of which is imminent, enters an order to buy or sell an option on a security underlying any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument, prior to the systemization and representation of such order.

August 2, 2019 Trading Activity

7. On August 2, 2019, a JPM trader ("JPM Trader A"), having knowledge of the material terms and conditions of a customer options order, instructed another JPM trader on a different desk ("JPM Trader B") to effect hedging transactions in the underlying security prior to the terms and conditions of the customer options order being disclosed.
8. Specifically, on August 2, 2019, JPM Trader A received a customer order to sell and buy spread contracts in Symbol 1. JPM Trader A agreed to facilitate the trade.
9. At approximately 11:10:17 a.m., JPM Trader A entered the entire customer options order (27,450 spread contracts) for electronic execution on Nasdaq ISE. JPM Trader A received a reject message cancelling the order almost instantaneously from Nasdaq ISE. Nonetheless, at 11:10:21 a.m., JPM Trader A instructed JPM Trader B to enter JPM's hedging equity order to buy the underlying security. As a result, at 11:10:21 a.m., JPM Trader B entered and executed an order to buy 83,280 shares of Symbol 1 to partially hedge JPM's facilitation of the customer options order.³
10. At 11:10:33 a.m., after JPM's hedging order had been executed, JPM Trader A routed and executed an electronic facilitation for part of the customer options order (14,000 spread contracts) on Nasdaq ISE. At 11:10:51 a.m., JPM Trader A instructed an unaffiliated NYSE American options floor broker to cross the balance of the customer options order (13,450 spread contracts) on the NYSE American trading floor. The order was systematized at 11:11:39 a.m. and executed at 11:11:51 a.m., with JPM facilitating 12,000 spread contracts.
11. By entering a hedging order to buy the underlying security before the terms and conditions of the customer options order had been disclosed to the market, JPM

³ JPM, as facilitating contra party, needed to buy approximately 582,000 shares of the underlying security in order to fully hedge the customer options order, the balance of which came from the desk's existing inventory.

violated NYSE American Rule 995NY(c).

October 11, 2022 Trading Activity

12. On October 11, 2022, a JPM trader, having knowledge of the material terms and conditions of a customer options order, effected hedging transactions in the underlying security prior to the terms and conditions of the customer options order being disclosed.
13. Specifically, on October 11, 2022, at 10:12:42 a.m., an interdealer broker messaged two JPM traders (“JPM Trader C” and “JPM Trader D”) with an order to buy 5,000 put contracts in Symbol 2 on behalf of a customer. At 10:15:52 a.m., JPM Trader C offered to sell all 5,000 contracts at a specified price. At 10:17:04 a.m., the interdealer broker agreed to the price, “subj[ect] to cross.” Two seconds later, at 10:17:06 a.m., JPM Trader C asked whether the option trade was, “All me right?” to which the interdealer broker replied “Yes” at 10:17:12 a.m.
14. Based on the above communications, JPM Trader D incorrectly understood that JPM was the only participant on this trade and that the facilitation order had been disclosed to the NYSE American trading crowd. As a result, at 10:17:58 a.m., JPM Trader D entered and executed JPM’s hedging equity order to sell approximately 30,000 shares of the underlying security. At 10:19:30 a.m., JPM Trader D realized that the facilitation order in fact had not been represented in the trading crowd, after JPM’s hedging order already had been entered and executed.
15. By entering a hedging order to sell the underlying security before the terms and conditions of the customer options order had been represented on the NYSE American trading floor, JPM violated NYSE American Rule 995NY(c).
16. JPM self-identified and self-reported this trading activity to Enforcement in the course of this investigation.

Violations of NYSE American Rule 320(e) (Supervision)

17. NYSE American Rule 320(e) requires that a firm must “establish, maintain, enforce and keep current a system of compliance and supervisory controls, reasonably designed to achieve compliance with applicable securities laws and regulations and Exchange rules.”
18. Although JPM had daily monitoring in place to flag potential Anticipatory Hedging or front running of customer orders, the Firm did not conduct reviews of transactions across different aggregation units, and thus did not identify certain potential Anticipatory Hedging activity, including the violative trading activity on August 2, 2019. In addition, due to a coding issue, the Firm’s monitoring logic failed to identify potential Anticipatory Hedging activity in connection with facilitation trades for multi-leg customer options orders for approximately two years. As a result, although the Firm maintained a supervisory system to identify potential Anticipatory Hedging

activity, the Firm's supervisory system was not reasonably designed to ensure compliance with NYSE American Rule 995NY(c) because of the above issues. JPM remediated both issues in July 2022.

19. Accordingly, JPM violated NYSE American Rule 320(e).

RELEVANT PRIOR DISCIPLINARY HISTORY

20. On November 8, 2017, JPM settled with NYSE Arca for \$25,000 for one instance of Anticipatory Hedging in violation of NYSE Arca Rule 6.49-O(b). *See* NYSE Arca Matter No. 2017-03-00042.

SANCTIONS

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

Censure and fine in the amount of \$65,000 (resolved simultaneously with similar matters for a total fine of \$230,000)⁴

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will pay the fine imposed.

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 NYSE Regulation staff.

II. WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under the NYSE American 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
- D. To appeal any such decision to the Exchange's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

⁴ Those matters were brought by NYSE American LLC and Nasdaq ISE, LLC.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer of NYSE American; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE American employee; or any Regulatory Staff as defined in Rule 9120 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 communication 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 by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE American pursuant to NYSE American 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. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 10 days after it is sent to each Director and each member of the Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE American Rule 9310(a)(1)(B);
 2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange, or any other regulator against the Firm;
 3. NYSE American shall publish a copy of the AWC on its website in accordance with NYSE American Rule 8313;
 4. NYSE American may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE American Rule 8313; and
 5. 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 the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.

- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. 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. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.

The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of the document productions.


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.

3/16/23
Date

J.P. Morgan Securities, LLC,
Respondent

By: 
Michael Kurd
Managing Director


Reviewed by:


Elizabeth Hogan
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Counsel for Respondent

Accepted by NYSE Regulation

March 21, 2023
Date

Catherine Lifeso

Catherine Lifeso
Deputy Head of Enforcement
NYSE Regulation

Signed on behalf of NYSE American LLC,
by delegated authority from its Chief
Regulatory Officer