

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

J.P. MORGAN SECURITIES, LLC

Respondent.

Proceeding No. 20150452814-01¹

May 4, 2018

J.P. Morgan Securities, LLC violated: (i) SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1 and 2010, by failing to establish, maintain, and enforce written policies and procedures pertaining to the handling of intermarket sweep orders; and (ii) SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1, 6.18 and 2010, by failing to establish and maintain a supervisory system reasonably designed to achieve compliance with SEC Rules 611(a) and (c). Consent to a censure, a fine of \$30,000, and an undertaking.

Appearances

For the Complainant: Joel S. Vengrin, Esq., Justin Chretien, Esq., and Robert A. Marchman, Esq., FINRA Department of Market Regulation.

For the Respondent: Patricia E. Keating, Esq., J.P. Morgan Chase & Co.

DECISION

J.P. Morgan Securities, LLC (“J.P. Morgan” or “Firm”) and NYSE Arca, Inc. entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying any

¹ Includes Proceeding Nos. 20160487794 and 201605195722.

allegations or findings referred to in the offer of settlement.² The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. J.P. Morgan became registered as an Equities Trading Permit (“ETP”) Holder with NYSE Arca, Inc. (the “Exchange”) on September 22, 1965, and became registered with FINRA or its predecessor in 1936, and its registrations remain in effect.
2. This matter involves reviews of J.P. Morgan’s compliance with Rule 611 of the Securities and Exchange Commission Regulation NMS (“SEC Rule 611”) and related Exchange rules pertaining to the handling of intermarket sweep orders (“ISOs”), as well as related supervisory requirements conducted by FINRA’s Department of Market Regulation staff on behalf of FINRA and/or various exchanges. During the period between January 2009 through May 2017 (the “Review Period”), the firm sent ISOs that traded through protected quotations.
3. In a letter dated June 6, 2017, which J.P. Morgan received, FINRA, on behalf of the Exchange, notified the Firm that it was investigating whether the Firm had complied with SEC Rule 611.

Overview

4. During the Review Period, due to various proprietary system flaws and deficiencies, J.P. Morgan on numerous occasions routed ISOs through protected quotations. As further described below, the Firm violated SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1, 6.18, and 2010.

Violations

5. SEC Rule 611(a) requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent trade-throughs on that trading center of protected quotations in NMS stocks. The rule also requires that, if a trading center relies on an exception, it has written supervisory procedures reasonably designed to assure compliance with the terms of the exception. One of those exceptions is set forth in SEC Rule 611(b)(6), which exempts a transaction effected by a trading center that simultaneously routed an ISO to execute against the full displayed size of a protected quotation in the NMS stock that was traded through.

² FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC, and FINRA.

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent. Prior to August 17, 2017, the rules involved in this matter were called NYSE Arca Equities rules.

6. SEC Rule 611(c) requires trading centers and broker-dealers to take reasonable steps to establish that ISOs meet the requirements as set forth in the definition of an ISO in SEC Rule 600(b)(30). SEC Rule 600(b)(30) requires that simultaneously with the routing of a limit order identified as an ISO, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the NMS stock with a price that is superior to the limit price of the limit order identified as an ISO. In structuring their ISO routing arrangements, trading centers and broker-dealers should reasonably address the potential for systemic problems.
7. NYSE Arca Equities Rule 7.31-E(e)(3) defines an ISO as a Limit Order that does not route and meets the requirements of SEC Rule 600(b)(30).
8. During the Review Period, in some instances, J.P. Morgan failed to simultaneously send ISOs to execute against the full displayed size of certain protected quotations, which led to trade-throughs of such protected quotations. The Firm attributed this to various flaws and deficiencies in its systems.
9. From January 1, 2009 to May 31, 2017, J.P. Morgan's order management did not imbed an ISO indicator with the orders it routed to one of the national securities exchanges. Accordingly, the Firm sent non-ISO immediate-or-cancel orders to the Exchange instead of ISOs, resulting in the Firm trading through protected quotations.
10. As a consequence of the above conduct, J.P. Morgan failed to establish, maintain, and enforce written policies and procedures that were reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that do not fall within any applicable exception, and if relying on an exception, are reasonably designed to assure compliance with the terms of the exception. In addition, the firm failed to take reasonable steps to establish that the ISOs it routed met the definitional requirements set forth in SEC Rule 600(b)(30). The conduct described in this paragraph constitutes violations of SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1 (for conduct before June 30, 2011) and 2010 (for conduct on or after June 30, 2011).
11. During the Review Period, J.P. Morgan's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rules 611(a) and (c) and NYSE Arca Equities Rule 7.31-E(e)(3). Specifically, the firm's supervisory systems were not adequately configured to detect and prevent the systemic issues that caused the aforementioned violations. The conduct described in this paragraph constitutes violations of SEC Rules 611(a) and (c), NYSE Arca Equities Rule 6.18, and NYSE Arca Equities Rules 6.1 (for conduct before June 30, 2011) and 2010 (for conduct on or after June 30, 2011).

ORDER

J.P. Morgan Securities, LLC violated: (i) SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1 and 2010, by failing to establish, maintain, and enforce written policies and procedures reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that do not fall within any applicable exception, and if relying on an exception, are reasonably designed to assure compliance with the terms of the exception, and by failing to take reasonable steps to establish that the ISOs it routed met the definitional requirements set forth in SEC Rule 600(b)(30); and (ii) SEC Rules 611(a) and (c), and NYSE Arca Equities Rules 6.1, 6.18 and 2010, by failing to establish and maintain a supervisory system reasonably designed to achieve compliance with SEC Rules 611(a) and (c) during the Review Period.

SANCTIONS

J.P. Morgan Securities, LLC is censured and fined \$30,000.⁴

J.P. Morgan shall revise the firm's written supervisory procedures with respect to the areas described in paragraphs 8 through 11 above. Within 30 business days of the issuance of this Decision, a registered principal who is also a senior executive officer of J.P. Morgan shall submit to the Compliance Assistant, Enforcement Department, 9509 Key West Avenue, Rockville, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the Firm has revised its written supervisory procedures to address the deficiencies described in paragraphs 8 through 11; and (3) the date the revised procedures were implemented. Upon written request showing good cause, FINRA staff, on behalf of the Exchange, may extend the deadline.

These sanctions are effective immediately.



Matthew Campbell
Hearing Officer

⁴ Under the Offer of Settlement and Consent, J.P. Morgan Securities, LLC agreed to pay a total fine of \$345,000, of which \$30,000 shall be paid to NYSE Arca, Inc., and the remaining amount to Cboe BZX Exchange, Inc., Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., Investors Exchange LLC, New York Stock Exchange LLC, NYSE American LLC, and FINRA.