

**NYSE ARCA, INC.**  
**LETTER OF ACCEPTANCE, WAIVER, AND CONSENT**  
**NO. 2020-10-00074**

TO: NYSE Arca, Inc.

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

**J.P. Morgan Securities, LLC violated: NYSE Arca Rule 6.49-O(b) by effecting equity transactions in underlying securities after gaining knowledge of undisclosed terms and conditions of customer options orders on January 14, 2020 and October 21, 2020 (“Anticipatory Hedging”); and NYSE Arca Rule 11.18(b) by failing to establish and maintain a supervisory system reasonably designed to ensure compliance with NYSE Arca Rule 6.49-O(b) from at least August 2019 through October 2022 (the “Relevant Period”). Consent to a censure and a \$75,000 fine (resolved simultaneously with similar matters for a total fine of \$230,000).<sup>1</sup>**

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Pursuant to Rule 10.9216 of the NYSE Arca, Inc. (“NYSE Arca” 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 Arca 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 Arca, or to which NYSE Arca 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 Arca:

**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 Options Trading Permit (“OTP”) Firm with NYSE Arca since July 8, 2010. Among other services, JPM acts an agency broker-dealer and options market maker.

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<sup>1</sup> Those matters were brought by NYSE American LLC and Nasdaq ISE, LLC.

## VIOLATIONS

### *Violations of NYSE Arca Rule 6.49-O(b) (Anticipatory Hedging)*

2. NYSE Arca Rule 6.49-O(b) provides the following:

It will be considered conduct inconsistent with just and equitable principles of trade for any OTP Holder or OTP Firm or person associated with a OTP Holder or OTP Firm, 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 OTP Holder or OTP Firm or person associated with the OTP Holder or OTP Firm 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 OTP Firm 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 Arca Rule 6.49-O(b), such conduct is considered inconsistent with just and equitable principles of trade.
5. In addition, NYSE Arca Regulatory Bulletin RBO-14-02 (“Anticipatory Hedging and Frontrunning of Floor Orders,” dated February 14, 2014), states that:

OTP 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 systematized<sup>2</sup> 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. OTP 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 been represented in the trading

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

crowd, would not be considered an acceptable procedure.

6. Thus, as RBO-14-02 states:

An OTP Holder may be deemed to have violated NYSE Arca Rule 6.49-O(b) if the OTP 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.

January 14, 2020 Trading Activity

7. On January 14, 2020, 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.
8. Specifically, on January 14, 2020, the JPM trader received a customer order to sell and buy puts and to buy calls in Symbol 1. The JPM trader agreed to facilitate the trade.
9. At approximately 11:20:53 a.m., the JPM trader instructed that the order be crossed on the NYSE Arca trading floor. At 11:21:18 a.m., the JPM trader entered JPM's hedging equity order to sell 160,000 shares of the underlying security (and approximately 155,000 shares executed by 11:21:22 a.m.). However, the JPM trader was not informed that the customer's options order was announced until 11:21:43 a.m.<sup>3</sup>
10. By entering a hedging order to sell the underlying security before being informed that the terms and conditions of the customer options order had been disclosed to the NYSE Arca trading crowd, JPM violated NYSE Arca Rule 6.49-O(b).

October 21, 2020 Trading Activity

11. On October 21, 2020, 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.

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<sup>3</sup> The options order was systematized on NYSE Arca at 11:21:47 a.m., released at 11:21:54 a.m., and the execution printed at 11:23:40 a.m.

12. Specifically, on October 21, 2020, the JPM trader received a customer order to sell 2,000 calls and buy 2,000 calls in Symbol 2 (the “call spreads”). The JPM trader agreed to facilitate the trade at 2:46:16 p.m.
13. At 2:48:02 p.m., the JPM trader routed and executed an electronic facilitation for 500 of the 2,000 call spreads on Nasdaq ISE. As the facilitating contra side, JPM needed to sell approximately 15,000 shares of the underlying security to hedge its facilitation trade. Instead, however, at 2:48:14 p.m., the JPM trader entered an order to sell 25,000 shares of the underlying security, which executed between 2:48:14 p.m. and 2:49:51 p.m. By doing so, JPM overhedged the portion of the customer options order that had been disclosed to the market by approximately 10,000 shares.
14. At 2:50:10 p.m., the JPM trader routed and executed an electronic facilitation for an additional 500 of the 1,500 remaining call spreads on Nasdaq ISE. As the facilitating contra side, JPM again needed to sell approximately 15,000 shares of the underlying security to hedge its second facilitation trade. Instead, at 2:50:47 p.m., the JPM trader entered an order to sell 20,000 shares of the underlying security, resulting in JPM selling 9,800 shares between 2:50:47 p.m. and 2:51:49 p.m. By doing so, JPM again overhedged the portion of the customer options order that had been disclosed to the market by approximately 5,000 shares.
15. At 2:51:02 p.m., the JPM trader routed and executed, as agency on behalf of JPM’s client, 500 of the 1,000 remaining call spreads. At 2:51:15 p.m., the JPM trader then instructed an unaffiliated NYSE Arca options floor broker to cross the remaining 500 call spreads on the NYSE Arca trading floor. At 2:51:49 p.m., the floor broker informed the JPM trader that the order had been represented in the crowd, and at 2:52:01 p.m., the JPM trader sold an additional 10,200 shares of Symbol 2 (from the earlier order to sell 20,000 shares entered at 2:50:47 p.m.).
16. By entering hedging orders to sell a total of 45,000 shares of the underlying security between 2:48:14 p.m. and 2:50:47 p.m., JPM improperly overhedged the disclosed portions of the facilitated customer options order by approximately 15,000 shares. As a result, JPM violated NYSE Arca Rule 6.49-O(b).

*Violations of NYSE Arca Rule 11.18(b) (Supervision)*

17. NYSE Arca Rule 11.18(b) requires that a firm must “establish and maintain a system to supervise the activities of its associated persons and the operations of its business” that is “reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca 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. 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 Arca Rule 6.49-O(b) because of the above issues. JPM remediated both issues in July 2022.

19. Accordingly, JPM violated NYSE Arca Rule 11.18(b).

### **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 a fine in the amount of \$75,000 (resolved simultaneously with similar matters for a total fine of \$230,000)<sup>4</sup>**

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 Arca 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

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<sup>4</sup> Those matters were brought by NYSE American LLC and Nasdaq ISE, LLC.

- 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.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer of NYSE Arca; 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 Arca employee; or any Regulatory Staff as defined in Rule 10.9120 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 10.9143 or the separation of functions prohibitions of Rule 10.9144, 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 Arca pursuant to NYSE Arca Rule 10.9216;
- 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 Arca Rule 10.9310(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 Arca shall publish a copy of the AWC on its website in accordance with NYSE Arca Rule 10.8313;
  - 4. NYSE Arca may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Arca Rule 10.8313; 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  
McGuireWoods LLP  
888 16th Street N.W.  
Suite 500  
Black Lives Matter Plaza  
Washington, DC 20006  
(202) 828-2818  
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 Arca, Inc., by  
delegated authority from its Chief  
Regulatory Officer