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10
11 BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
12 OF THE STATE OF CALIFORNIA

13
14 In the Matter of) Case No. 20147
15 **J. P. MORGAN SECURITIES, LLC,**) **ADMINISTRATIVE CONSENT ORDER**
16 Respondent.)
17)
18)

19 WHEREAS, J. P. Morgan Securities, LLC. (“JPMS”) is a broker-dealer registered in the
20 state of California, with a Central Registration Depository number of 79; and

21 State securities regulators from multiple jurisdictions have conducted an investigation into
22 the registration of JPMS sales assistants (“SAs”) and JPMS’s supervisory systems with respect to
23 the registration of SAs; and

24 JPMS has cooperated with regulators by responding to inquiries, providing documentary
25 evidence and other materials, and providing regulators with access to facts relating to the
26 investigations; and

27 JPMS has advised regulators of its agreement to resolve the multi-state investigation
28 pursuant to the terms specified in this Consent Order (“Order”); and

1 JPMS agrees to make, and already has made, certain remedial changes to its registration
2 policies, supervisory procedures, and order entry systems, and agrees to make certain payments in
3 accordance with the terms of this Order; and

4 JPMS elects to permanently waive any right to a hearing and appeal under sections 25252
5 and 25532 of the Corporate Securities Law of 1968 (“CSL”), with respect to this Order; and

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

8 Solely for the purposes of terminating the multi-state investigations, and in settlement of the
9 issues contained in this Order, JPMS, without admitting or denying the findings of fact or
10 conclusions of law contained in this Order, consents to the entry of this Order.

11 NOW, THEREFORE, the Commissioner of Business Oversight (“Commissioner”), as
12 administrator of the CSL, hereby enters this Order:

13 **I.**

14 **STATEMENT OF FACTS**

15 1. JPMS admits the jurisdiction of the Department of Business Oversight in this matter.

16 Relevant JPMS Business Units

17 2. JPMS’s legacy wealth management business unit was referred to as Private Bank
18 within JPMS. A review of Private Bank SAs was included in the scope of this investigation.

19 3. In July of 2006, Bank One Securities Corporation merged into JPMS and the
20 business unit was referred to as Private Wealth Management (“PWM”) within JPMS. A review of
21 PWM SAs was included in the scope of this investigation.

22 4. In October of 2008, Bear Stearns & Co. Inc. merged into JPMS and the business unit
23 was referred to as Private Client Services (“PCS”) within JPMS. A review of PCS SAs was
24 included in the scope of this investigation.

25 Sales Assistant Registration Policies

26 5. For JPMS’s legacy Private Bank, PWM, and PCS business units, SAs provided
27 administrative and sales support to one or more JPMS brokers. Many SAs, as part of their support
28 function to brokers, directly accepted and entered orders from clients.

1 Private Bank

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

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

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

10 Private Wealth Management

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

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

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

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

20 Private Client Services

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

23 14. PCS SAs' primary role was to support one or more brokers in all facets of the daily
24 business of PCS, including extensive client contacts, reviewing account activity, and accepting
25 orders from clients.

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

1 PCS SAs that were authorized to accept client orders but not registered in the same state as the
2 broker(s) they supported.

3 Unlicensed Sales Assistants

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

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

9 Failure to Comply with Books & Records Requirements

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

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

15 20. Prior to February of 2011, TOPAZ did not specifically record the identity of the
16 order acceptor (as distinct from the order enterer) and JPMS did not in all instances maintain a
17 separate record to identify the order acceptor for equity or mutual fund trades. Furthermore, prior
18 to June of 2011, TOPAZ did not specifically record the identity of the order acceptor (as distinct
19 from the order enterer) and JPMS did not in all instances maintain a separate record to identify the
20 order acceptor for fixed income and structured product trades.

21 21. California Corporations Code section 25241, and the rules promulgated under
22 section 25241, in Title 10, California Code of Regulations, section 260.241, require registered
23 broker-dealers to comply with applicable SEC regulations. To that end, a registered broker-dealer
24 is required to comply with SEC Rule 17a-3.a.(6)(i), which requires each broker-dealer to make and
25 maintain a memorandum of each brokerage order. In addition to other information, this
26 memorandum is required to show the identity of any person, other than the employee responsible
27 for the account, who accepted a client order. The memorandum need not show the identity of any
28 person, other than the agent responsible for the account, who entered or accepted the order if the

1 order is entered into an electronic system that generates the memorandum and if that system is not
2 capable of receiving an entry of the identity of any person other than the responsible agent; in that
3 circumstance, the dealer shall maintain a separate record that identifies each other person.

4 Remedial Efforts

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

8 23. JPMS has further enhanced its registration, compliance training, and written
9 compliance policies.

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

12 25. JPMS provided substantial cooperation in connection with this regulatory
13 investigation.

14 **II.**

15 **CONCLUSIONS OF LAW**

16 1. The Department of Business Oversight has jurisdiction over this matter pursuant to
17 CSL section 25210(b).

18 2. JPMS failed to establish an adequate supervisory system to monitor the registration
19 status of persons accepting client orders, which constitutes grounds to impose sanctions/discipline
20 under CSL section 25217, and the rules promulgated thereunder.

21 3. JPMS's failure to ensure its SAs were registered in accordance with JPMS's written
22 procedures constitutes a failure to enforce its established written procedures, and is a basis for the
23 issuance of an Order assessing a penalty against JPMS.

24 4. JPMS's acceptance of orders in California through SAs who were not properly
25 registered in California constitutes violations of CSL section 25210(b) for use/employment of
26 unregistered agents/sales representatives.

27 5. JPMS's failures, in certain instances, to record the identity of the person accepting
28 client orders entered through the TOPAZ system until June of 2011 constitute violations of CSL

1 section 25241.

2 6. Pursuant to CSL section 25252, the violations described above constitute basis for
3 the assessment of an administrative penalty against JPMS.

4 7. The Department of Business Oversight finds the following relief appropriate and in
5 the public interest.

6 **III.**

7 **ORDER**

8 On the basis of the Statement of Facts, Conclusions of Law, and JPMS's consent to the
9 entry of this Order,

10 **IT IS HEREBY ORDERED:**

11 1. This Order concludes the investigation by the Department of Business Oversight and
12 any other action that the Department of Business Oversight could commence against JPMS under
13 applicable California law on behalf of California as it relates to unregistered activity in California
14 by JPMS's SAs and JPMS's supervision of SAs' registration status during the period from January
15 1, 2004 through December 31, 2011.

16 2. This Order is entered into solely for the purposes of resolving the referenced
17 multistate investigation, and is not intended to be used for any other purpose. For any person or
18 entity not a party to the Order, this Order does not limit or create any private rights or remedies
19 against JPMS including, limit or create liability of JPMS, or limit or create defenses of JPMS, to
20 any claims.

21 3. JPMS is hereby ordered to pay the sum of forty-seven thousand five hundred and
22 fifty dollars (\$47,550) to the Department of Business Oversight within ten days of the date of this
23 Order.

24 4. This Order is not intended by the Department of Business Oversight to subject any
25 Covered Person to any disqualifications under the laws of the United States, any state, the District
26 of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any
27 securities or commodities regulator or self-regulatory organization, including, without limitation,
28 any disqualification from relying upon the state or federal registration exemptions or safe harbor

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provisions. “Covered Person” means JPMS or any of its affiliates and their current or former officers, directors, employees, or other persons that could otherwise be disqualified as a result of the Orders (as defined in paragraph 5 below).

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

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

Dated this 25 day of June, 2014.

JAN LYNN OWEN
Commissioner of Business Oversight

By: _____
MARY ANN SMITH
Deputy Commissioner

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 jurisdiction of the Department of Business Oversight, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Department of Business Oversight 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 2nd day of June, 2014.

J.P. MORGAN SECURITIES, LLC

By: Jeffrey M. Lipman

Title: Senior Vice President

SUBSCRIBED AND SWORN TO before me this 2nd day of June, 2014.

[Affix seal]

Deborah Badagliacca
Notary Public for the state of [State]

My Commission Expires: April 11, 2017