

**THE NASDAQ OPTIONS MARKET LLC  
NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: J.P. Morgan Securities LLC  
Mr. William Freilich  
Managing Director  
383 Madison Avenue  
New York, NY 10179**

**FROM: The NASDAQ Options Market LLC ("Nasdaq")  
c/o Financial Industry Regulatory Authority ("FINRA")  
Department of Market Regulation  
9509 Key West Avenue  
Rockville, MD 20850**

**DATE: June 28, 2017**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20120348296-07**

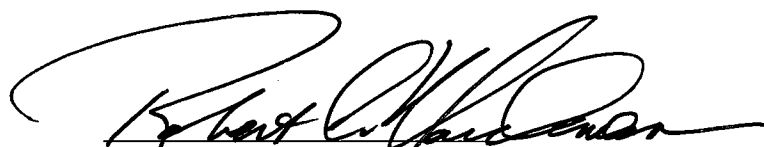
**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **June 28, 2017** by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or Nasdaq if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions, and Nasdaq's Finance Department will send you an invoice regarding the payment of any fine.

J.P. Morgan Securities LLC  
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If you have any questions concerning this matter, please contact Jacqueline Gorham, Senior Counsel,  
at (646) 430-7044.



Robert A. Marchman  
Executive Vice President, Legal Section  
Department of Market Regulation

Signed on behalf of NASDAQ

Enclosure

FINRA District 10 – New York  
Michael Solomon  
Senior Vice President and Regional Director  
(Via email)

Bruce H. Newman  
WilmerHale  
7 World Trade Center  
250 Greenwich Street  
New York, NY 10007  
Counsel for Respondent

**THE NASDAQ OPTIONS MARKET LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20120348296-07**

TO: The NASDAQ Options Market LLC  
c/o Department of Market Regulation  
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC ("Nasdaq")<sup>1</sup> Code of Procedure, J.P. Morgan Securities LLC, (CRD No. 79) ("JPMS" 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, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The Firm 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

**BACKGROUND**

1. JPMS, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. The Firm provides services to corporate and broker-dealer clients and institutional investors, provides wealth management and brokerage services to individuals, and acts as an agency broker-dealer, providing market access and execution services to market participants ("Market Access Clients") for a wide variety of products.
2. The Firm has been registered as a member of The NASDAQ Options Market LLC ("NOM" or the "Exchange") since March 12, 2008, and with FINRA since December 17, 1936. Its registrations remain in effect. The Firm does not have a relevant disciplinary history.

**Summary**

3. In Matter No. 20140411208, the Options Regulation Section of FINRA's Department of Market Regulation ("Market Regulation") reviewed cancel-replace and buy-sell

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<sup>1</sup> All NASDAQ Options Market LLC disciplinary matters are governed by the Nasdaq Code of Procedure.

looping of orders on multiple occasions, which caused high levels of options message traffic during various periods in 2014, and the Firm's risk management controls and supervisory procedures for compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").

4. The above matter, as well as Matter No. 20120348296, was part of several investigations conducted by Market Regulation on behalf of the Exchange and other self-regulatory organizations, including NYSE Arca Equities, Inc., New York Stock Exchange, Inc., The NASDAQ Stock Market LLC, Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., NYSE Arca Options, Inc., and NASDAQ PHLX LLC (collectively, the "SROs"), to review the Firm's compliance with the Market Access Rule and the supervisory rules of the relevant SROs, including Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A, during the period of May 2012 through at least April 2016 (the "Review Period").
5. As a result of Market Regulation's investigations, it was determined that, during the Review Period, JPMS failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
6. Specifically, during the Review Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A.

### **Violative Conduct**

#### **Applicable Rules**

7. During the Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.<sup>2</sup>
8. During the Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.

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<sup>2</sup> Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010); see 17 C.F.R. § 240.15c3-5.

9. Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).<sup>3</sup> The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
10. During the Review Period, Chapter III, Section 1 of the NOM Rules required, among other things, that every Options Participant supervise persons associated with the Participant to assure compliance therewith, and Chapter III, Sections 2(a) and 2(a)(i) of the NOM Rules required, among other things, that each Options Participant comply with the Options Participant’s and associated persons’ obligations under the Rules of the Exchange and any other relevant laws, rules, interpretations and obligations.
11. During the Review Period, Nasdaq Rule 3010(a) required, among other things, that each member firm to “establish and maintain a system to supervise the activities of each . . . associated person[.]” and that such system must be “reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq Rules.”
12. During the Review Period, Nasdaq Rule 2010A provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

#### **Overview of JPMS’s Market Access Systems**

13. During the Review Period, JPMS was a significant market access provider, acting as the gateway to U.S. securities markets and executing tens of millions of trades per day for its Market Access Clients.
14. During the Review Period, JPMS had a number of different Divisions through which orders were sent to various markets, and each Division had a number of different Desks (*i.e.*, areas of operation).<sup>4</sup> These Divisions included the Firm’s Global Wealth Management Division, and the Institutional Equities Division.
15. During the Review Period, JPMS used a variety of systems (*e.g.*, order management systems, algorithms, etc.) through which its Market Access Clients and traders entered orders for routing to and execution on various U.S. securities markets,

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<sup>3</sup> See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. See 17 C.F.R. § 240.17a-4(e)(7).

<sup>4</sup> For the Firm’s options business, this also included the Firm’s Electronic Market Making (“EMM”) desk that was used by the Firm to enter quotes.

including the SROs.<sup>5</sup> Several of those systems contained controls and filters to which the orders submitted were subjected. In addition, JPMS assigned and applied various controls to individual Market Access Clients and traders to which orders submitted by those clients and traders were subjected before submission to the various markets.

**Inadequate Options Pre-Trade Order Controls for Messaging Activity**

16. During the Review Period, JPMS failed to have reasonable risk management controls to prevent Firm programs and algorithms from submitting cancel-replace and buy-sell looping of orders on multiple occasions, which caused high levels of options message traffic on the Exchange, NYSE Arca Options, Inc., and NASDAQ PHLX LLC (the "Options SROs").
17. During the period of January 2014 through July 2014, a system design, specifically the manner in which the system responded to market data given the inherent latency between message entry and acknowledgement from an exchange and the time it was reflected in market data, caused the Firm's EMM desk via its Options EMM system to engage in the above looping activity for messages entered by the Firm on the Options SROs.<sup>6</sup>
18. During the period of January 2014 through July 2014, the EMM system had the ability to withdraw all quotes from the market, if necessary, and the Firm had a T+1 report to review for high message counts. Although the Firm also had a real-time surveillance designed to monitor for high message entries, it did not prevent the looping activity that occurred on the Options SROs between January 2014 and July 2014.
19. While the Firm's post-trade surveillance did flag the activity at issue on the Options SROs and the Firm was aware of the system design issue that was causing the activity by January 2014, the Firm failed to resolve the issue until August 2014, and thus caused repeated entry of unintended elevated messaging activity into the markets for the Options SROs.<sup>7</sup>
20. The acts, practices, and conduct described above in paragraphs 16 through 19 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and Chapter III, Sections 1, 2(a) and 2(a)(i) of the NOM Rules, and Nasdaq Rules 3010 and 2010A.

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

1. A censure; and
2. A fine in the amount of \$800,000, of which \$20,000 is payable to NOM.<sup>8</sup>

<sup>5</sup> For the Firm's options business, this also included the Firm's EMM system.

<sup>6</sup> As of November 28, 2014, the EMM desk was dissolved and thus ceased operating.

<sup>7</sup> JPMS did not, however, receive any executions in any option in which the messages were entered.

<sup>8</sup> The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between JPMS and each of the following self-regulatory organizations: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, New York Stock Exchange, LLC, NYSE Arca Equities, Inc., NYSE Arca Options, Inc., and NASDAQ PHLX LLC.

The Firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

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 FINRA staff.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under Nasdaq's 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 Nasdaq Review Council 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, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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 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 and accepted by FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq 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. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the Firm;
  - 2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
  - 3. 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 Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. 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. This Statement does not constitute factual or legal findings by Nasdaq, nor does it reflect the views of Nasdaq or its staff.



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.

6/9/17  
Date

J.P. Morgan Securities, LLC, Respondent

By: William Freid  
Name: William Freid  
Title: Managing Director

Reviewed by:  
Bruce H. Newman  
Bruce H. Newman  
WilmerHale  
7 World Trade Center  
250 Greenwich Street  
New York, NY 10007  
(212) 230-8835

Counsel for Respondent

Accepted by The NASDAQ Options Market LLC:

6/28/17  
Date

Robert A. Marchman  
Robert A. Marchman,  
Executive Vice President, Legal Section  
Department of Market Regulation

Signed on behalf of The NASDAQ Options Market  
LLC, by delegated authority from the Director of  
ODA

**ELECTION OF PAYMENT FORM**

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount
- Wire transfer

Respectfully submitted,

Respondent  
J.P. Morgan Securities, LLC

June 12, 2017

Date

By: Judith Romaine

Name: JUDITH ROMAINE

Title: EXECUTIVE DIRECTOR  
ASSISTANT GENERAL COUNSEL

**Billing and Payment Contact**

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. *Please DO NOT submit payment until Nasdaq has sent you an invoice.*

Billing Contact Name: Judith Romaine

Billing Contact Address: 383 Madison Ave, Floor 32, NY NY 10179

Billing Contact Email: judith.bm.romaine@jpmchase.com

Billing Contact Phone Number: 212-272-4431