

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10001 / January 6, 2016

SECURITIES EXCHANGE ACT OF 1934
Release No. 76839 / January 6, 2016

INVESTMENT ADVISERS ACT OF 1940
Release No. 4306 / January 6, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17036

In the Matter of

J.P. Morgan Securities LLC,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933,
SECTION 15(b) OF THE SECURITIES
EXCHANGE ACT OF 1934, AND
SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF
1940, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against J.P. Morgan Securities LLC (“JPMS” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these

proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 15(b) of the Securities Exchange Act of 1934, and Section 203(e) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

This matter arises from false and misleading statements in certain JPMS marketing materials regarding how JPMS compensated registered representatives in its U.S. Private Bank (“JPM Private Bank”). Between 2009 and 2012, JPMS made false and misleading statements in certain marketing materials distributed to its private banking customers concerning the factors JPMS used to determine compensation for its JPM Private Bank registered representatives, also known at JPMS as “advisors” (“Advisors”). On its private banking website and in certain other JPM Private Bank marketing materials distributed to current and prospective customers, JPMS stated that Advisor compensation was based solely on the performance of the investments in customer accounts. Specifically, JPMS stated that it “compensate[s] our advisors based on our clients’ performance; no one is paid on commission” (“Compensation Misstatement”). Although JPMS did not pay JPM Private Bank Advisors commissions, contrary to JPMS’ representations, Advisor compensation was not “based on clients’ performance” but was instead comprised of salary and a discretionary bonus that took into consideration a number of other factors.

Between March 2009 and February 2011, the Compensation Misstatement was identified by JPMS employees as inaccurate on four occasions but JPMS failed to correct the misstatement.

Respondent

1. **JPMS**, a wholly-owned subsidiary of JPMorgan Chase & Co., is a Delaware limited liability company headquartered in New York, New York. JPMS is registered with the Commission as a broker-dealer since 1985 and as an investment adviser since 1965.

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Other Relevant Entities

2. **JPMorgan Chase Bank, N.A. (“JPMCB”)**, a wholly-owned subsidiary of JPMorgan, is a nationally-chartered bank, incorporated in 1824, and headquartered in New York, New York. JPMCB acts as the investment manager and bank for JPM Private Bank, the marketing name for JPMorgan’s business unit that provides banking and investment services to high net worth and ultra-high net worth customers. JPMCB is not registered under the Advisers Act, as it is excluded pursuant to Section 202(a)(11)(A) of the Advisers Act.

3. **JPMorgan Chase & Co. (“JPMorgan”)** is a Delaware corporation headquartered in New York, New York. JPMorgan is a global financial services firm and bank with \$2.6 trillion in assets as of December 31, 2014. JPMorgan’s stock is traded on the New York Stock Exchange (ticker symbol JPM).

4. **J.P. Morgan Private Bank (“JPM Private Bank”)** is the marketing name of a business unit within JPMorgan that provides banking and investment services in the U.S. to high net worth and ultra-high net worth customers. JPM Private Bank provides brokerage services through JPMS.

Background

5. The JPM Private Bank caters to the investment and banking needs of high net worth and ultra-high net worth customers. The JPM Private Bank offers a broad range of services beyond that of a traditional brokerage, such as investment management (investment advisory), lending, trust and estate services, and wealth advisory (tax efficient wealth transfer advice). These services are conducted through a team assigned to each customer, including a primary relationship manager known as a “Banker” and another registered representative on the account who handles the investment needs of the customer known as an “Investor.” Collectively, during the relevant time period the Banker and Investor in the JPM Private Bank were sometimes referred to as Advisors.

Facts

JPMS’ Misleading Marketing Materials Concerning Advisor Compensation

6. JPM Private Bank Advisors were not paid commissions but instead were paid a salary plus a discretionary bonus that took into consideration a number of factors. None of the factors JPMS used to determine the discretionary bonus were tied to portfolio performance as advisor compensation was not based on the performance of the investments in customer accounts.

7. The Compensation Misstatement appeared in several marketing pieces prepared for current and prospective customers: (i) a prospecting card; (ii) JPMS’ private banking website; (iii) a private banking website for JPMS’ Tampa regional office; (iv) a pitch book; and (v) a marketing letter.

A. Prospecting Card

8. In March 2009 the Compensation Misstatement appeared in a JPM Private Bank document known as the U.S. Private Bank About Global Wealth Management prospecting card (“Prospecting Card”). The Prospecting Card was an index-sized card containing key points about the JPM Private Bank which was disseminated to Advisors within the JPM Private Bank to be used with current and prospective customers. The Prospecting Card was part of a wallet kit which could fit a handful of index-sized marketing materials, including a trust and estates card, an investments card, and the Prospecting Card.

9. The Prospecting Card was a new concept developed and launched by JPMS in March 2009 during the financial crisis. The Prospecting Card was considered a “big deal” at JPMS as it was a marketing tool that could be distributed by Advisors to current and prospective customers during a time of financial market instability. The Prospecting Card was widely disseminated internally at JPMS as part of its preparation and internal review. Despite this internal review, the Compensation Misstatement was not corrected even after identified by an employee.

10. During the relevant time period, JPM Private Bank Compliance and Supervisory Manager (“SM”) review and approval was required for marketing materials prior to mass distribution to the public, which JPM Private Bank policy defined as 12 or more individuals. The individual submitting the marketing materials for approval was required to ensure the accuracy of the information included in the materials. JPM Private Bank policy did not require Compliance and SMs to verify the accuracy of the information included in the materials; such review and approval was required for all customer-facing marketing materials to ensure the materials were fair, balanced, and that all appropriate disclosures were made.

11. The concept of the Prospecting Card came about in and around February 2009 through the Latin American unit of J.P. Morgan’s Private Bank. With respect to compensation, that unit’s prospecting card stated “conduct[s] a fee-based business.”

12. One month later, in March 2009, the Private Wealth Management (“PWM”) regional marketing manager (“Marketing Manager”) submitted for Compliance and SM approval a Prospecting Card modifying the language of the Latin America Private Bank prospecting card. The Prospecting Card was modified to include the Compensation Misstatement. On March 11, 2009, Compliance and SM approved the Prospecting Card with the Compensation Misstatement.

13. After receiving the mandatory internal compliance and SM review and approval, the marketing department disseminated the Prospecting Card to personnel throughout the JPM Private Bank. The Prospecting Card was also discussed at a mandatory meeting for all employees of the JPM Private Bank and PWM teams.

14. After the review and comment process, more than 50,000 wallet kits were mailed to the various regional offices of the JPM Private Bank for distribution to current and prospective

customers. At their discretion, Advisors distributed the Prospecting Card that contained the Compensation Misstatement to their current and prospective customers.

15. The Compensation Misstatement continued to appear in various versions of the Prospecting Card until at least May 2012.

B. JPMS' Private Bank Webpage

16. In June 2010, JPMS made revisions to its national website that included, among other things, the launch of a JPM Private Bank "About Us" webpage ("JPM Private Bank Webpage"). The JPM Private Bank Webpage consisted of a one page bullet point description of the JPM Private Bank. Primarily designed for prospective customers to get an overview of the JPM Private Bank, it provided a general description of the Firm and its capabilities. At the direction of the JPM Private Bank's global head of marketing, the language on the JPM Private Bank Webpage was lifted from the Prospecting Card. Once the change to the JPM Private Bank Webpage was made, the Prospecting Card and the JPM Private Bank Webpage contained the identical Compensation Misstatement.

17. Prior to the change being implemented to the JPM Private Bank Webpage, the JPM Private Bank's marketing department received the required review and approval from Compliance. The already approved language from the Prospecting Card used in the JPM Private Bank Webpage was not again reviewed by Compliance prior to approval.

18. From June 2010 to May 2012, the JPM Private Bank Webpage received over 57,000 hits.

19. On May 3, 2012, almost two years after the Compensation Misstatement first appeared on the JPM Private Bank Webpage, JPMS corrected the JPM Private Bank Webpage to read "Our professionals at J.P. Morgan Private Bank are not paid on commission."

C. Tampa Webpage

20. The Compensation Misstatement also appeared on the JPM Private Bank's Tampa branch office webpage ("Tampa Webpage"). In February 2011, the Firm launched an online marketing project to create a separate Tampa office webpage which could be accessed either from J.P. Morgan's website or when an individual entered applicable search terms on Google. This was a pilot program and the Tampa office was the only branch office of the JPM Private Bank to have its own webpage at the time.

21. JPMS used certain information from the JPM Private Bank Webpage to create the Tampa Webpage, including the Compensation Misstatement. The content for the Tampa Webpage was approved by Compliance and was available for the viewing public from March 9, 2011 until November 8, 2012.

22. In November 2012, JPMS corrected the Tampa Webpage to read "Our professionals at J.P. Morgan Private Bank are not paid on commission." This correction, made

only after Commission staff brought it to JPMS' attention, was made six months after JPMS removed the Compensation Misstatement from the JPM Private Bank Webpage.

D. Pitch Books

23. In March 2009, the Marketing Manager worked on a pitch book for the JPM Private Bank using previously prepared and approved pitch books as a guide. The 29-page pitch book ("Pitch Book") consisted of PowerPoint slides designed to be used by Advisors in the JPM Private Bank when they made introductory presentations to current and prospective customers regarding the JPM Private Bank's capabilities and services. One of the slides in the Pitch Book contained the Compensation Misstatement.

24. After the Marketing Manager completed a draft, the Pitch Book was disseminated internally for review and discussion. The marketing department also distributed the Pitch Book to eight to ten Advisors in the JPM Private Bank for feedback prior to using it with current and prospective customers.

E. Marketing Letter

25. In November 2009, an Advisor included the Compensation Misstatement in a marketing letter which he submitted for approval to send to his contact list of current and prospective customers.

26. JPM Private Bank Compliance and a SM reviewed and approved the marketing letter for distribution to current and prospective customers.

JPMS' Failure to Correct the Compensation Misstatement

27. From March 2009 through February 2011, the Compensation Misstatement was identified by JPMS employees as inaccurate on four occasions but JPMS failed to correct the misstatement.

A. March 2009

28. Prior to publicly disseminating the Prospecting Card, on March 10, 2009, a Vice President of the JPM Private Bank ("VP-PWM") sent an email to the Marketing Manager concerning the Compensation Misstatement that appeared in a Pitch Book the Marketing Manager had circulated internally for comment. The VP-PWM's wrote:

"Why not be blunt and say "paid on salary and bonus"; technically, I do not see any compensation based on the client's performance."

29. Although the VP-PWM flagged the Compensation Misstatement for correction, the Pitch Book was not corrected. The next day, March 11, 2009, the same Marketing Manager submitted the Prospecting Card for Compliance and SM review and approval with the

Compensation Misstatement uncorrected. Such approval was granted that same day. The Prospecting Card contained the same Compensation Misstatement the VP-PWM had unsuccessfully attempted to correct.

B. May 2009

30. On May 5, 2009, one of JPMS' compliance officers for the JPM Private Bank ("Compliance Officer") also raised concerns about the accuracy of the Compensation Misstatement. While the Compliance Officer had previously approved marketing materials containing the Compensation Misstatement, this time when reviewing a Pitch Book the Compliance Officer noted in an email to a member of the marketing department:

"Give objective, candid advice, delivered by teams whose compensation is based on your success--this sounds strange and can be misinterpreted. This is also repeated on the 4th bullet, slide 10--this is not necessarily accurate--bonuses and compensation are based on far more than [sic] a single client's performance."

31. Despite this comment, the language was not completely corrected in the Pitch Book. The Compensation Misstatement was corrected in one slide in the Pitch Book, but remained in the other. Moreover, this same Compliance Officer approved marketing materials containing the Compensation Misstatement on three occasions during the subsequent 16 months.

C. August 2010

32. Almost 16 months after first identifying the Compensation Misstatement as inaccurate, the Compliance Officer once again noted the error. On August 30, 2010, an individual in the JPM Private Bank submitted a Pitch Book to the Compliance Officer for review and compliance approval. The Compliance Officer wrote in an email:

"She can make the statement that our advisors are paid a salary with discretionary bonus and are not paid by commission. But her statement is not exactly accurate."

33. Despite the Compliance Officer noting for a second time that the Pitch Book contained the Compensation Misstatement, the Compensation Misstatement remained unchanged.

D. February 2011

34. In February 2011, a JPM Private Bank Advisor submitted marketing slides to the Marketing Manager for comment. On February 8, 2011, the Marketing Manager responded by email:

“I would caution you on two of the statements as I do not believe they are based in fact.

...

JPM advisors are compensated based on our clients performance. While its [sic] true that our advisors are not paid commissions...; stating “paid on client performance” could be misleading. Perhaps lead with “not paid on commissions.”

35. Notably, the Marketing Manager did not recommend amending the Compensation Misstatement. She merely suggested reversing the order of the statement so as not to lead with the Compensation Misstatement.

36. As discussed above, although the Compensation Misstatement was identified by JPMS employees as inaccurate on four occasions between March 2009 and February 2011, JPMS failed to correct the Compensation Misstatement on each of these occasions. It was not until May 2012, more than three years after the Compensation Misstatement first appeared in certain of JPMS’ marketing materials, that JPMS corrected the Compensation Misstatement on some of its marketing materials.

Violations

Section 17(a)(2) of the Securities Act

37. Section 17(a)(2) of the Securities Act prohibits any person, in the offer or sale of any security, from obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Section 17(a)(2) of the Securities Act does not require a showing of scienter. *Aaron v. SEC*, 466 U.S. 680 (1980). A showing of negligence is sufficient to establish violations of these provisions. *Id.* at 701-702.

38. As a result of the conduct described above, Respondent JPMS willfully² violated Section 17(a)(2) of the Securities Act which prohibits fraudulent conduct in the offer or sale of securities.

JPMS’ Remedial Efforts

39. In determining to accept JPMS’ Offer, the Commission considered remedial acts undertaken by Respondent.

² A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest, to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Section 15(b) of the Exchange Act, and Section 203(e) of the Advisers Act, it is hereby ORDERED that:

A. Respondent JPMS cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

B. Respondent JPMS is censured.

C. Respondent JPMS shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$4,000,000 to the Securities and Exchange Commission for transfer to the general fund of United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

(1) Respondent JPMS may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent JPMS may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

(3) Respondent JPMS may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying J.P. Morgan Securities LLC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Glenn S. Gordon, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, Miami Regional Office, 801 Brickell Avenue, Suite 1800, Miami, FL 33131.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To

preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary