

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 92285 / June 29, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20375

In the Matter of

NEOVEST, INC.

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT
OF 1934, 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 Sections 15(b), and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Neovest, Inc. (“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 Sections 15(b) and 21C of the Securities Exchange Act of 1934, 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 finds that:

Summary

1. This proceeding involves violations of the broker-dealer registration requirements by Neovest, Inc. (“Neovest”), a company that provides an order and execution management system (“OEMS”) and real-time market data to mostly institutional investors and asset managers.

2. The regulatory regime applicable to broker-dealers is a cornerstone of the U.S. federal securities laws and provides important safeguards to investors and market participants. Registered broker-dealers are subject to comprehensive regulation under the Exchange Act and under the rules of each self-regulatory organization (“SRO”) of which the broker-dealer is a member, including recordkeeping, reporting, and supervisory obligations, Commission and SRO inspection and examination, as well as general and specific requirements aimed at addressing certain conflicts of interest, and requiring policies and procedures reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules, including, without limitation, safeguarding customer information and preventing identity theft, all of which are critical to the fair and orderly functioning of the securities markets.

3. From March 1996 through December 2006, Neovest was registered as a broker-dealer with the Commission and the Financial Industry Regulatory Authority (“FINRA”). After JPMorgan Chase & Co. (“JPMorgan Chase”) acquired Neovest in September 2005, Neovest deregistered with the Commission and FINRA in December 2006. Nonetheless, Neovest continued to operate as a broker-dealer by engaging in the business of effecting securities transactions for others through the receipt of transaction-based compensation for its OEMS services and its solicitation of customers for those services. By engaging in these activities without being registered as a broker-dealer with the Commission, Neovest violated Section 15(a) of the Exchange Act.

Respondent

4. Neovest, headquartered in Orem, Utah, is a subsidiary of JPMorgan Chase & Co. Neovest markets itself as “the premier broker-neutral electronic trading solution,” consisting of an order and execution management system and several other complementary products and functionalities, including access to real-time market data. From March 1996 through December 2006, Neovest was registered as a broker-dealer with the Commission and FINRA.

Other Relevant Entities

5. JPMorgan Chase is a Delaware corporation whose common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is listed on the NYSE. JPMorgan Chase is a global financial services company operating in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management.

6. JPMorgan Securities Holdings LLC (“JPMorgan Holdings”) is a Delaware corporation and the nonregistered parent company of Neovest. JPMorgan Holdings is a wholly-owned subsidiary of JPMorgan Chase Holdings, LLC, which, in turn, is a wholly-owned subsidiary of JPMorgan Chase.

7. J.P. Morgan Securities LLC (“J.P. Morgan Securities”) is a broker-dealer subsidiary of JPMorgan Chase registered with the Commission pursuant to Section 15(b) of the Exchange Act and is a member of the New York Stock Exchange (“NYSE”) and FINRA. As an independent affiliate of Neovest, J.P. Morgan Securities did not exercise any control or supervision of Neovest during the relevant time period.

Facts

Neovest’s Business

8. Neovest markets itself as “the premier broker-neutral electronic trading solution,” consisting of the OEMS platform (the “OEMS Platform”) and several other complementary products and functionalities, including access to real-time market data (the “Market Data Platform”). The OEMS Platform has been Neovest’s primary product, allowing customers to directly route their orders to buy and sell equities and options to more than 360 customer-selected broker-dealers (“Destination Brokers”) for execution.

9. Prior to its acquisition by JPMorgan Chase, Neovest provided its OEMS services via the OEMS Platform through its registered broker-dealer Neovest Trading, Inc. (“Neovest Trading”). In exchange for those services, Neovest charged Destination Brokers transaction fees per executed share and per executed contract pursuant to broker connection agreements that it entered into with those Destination Brokers. Neovest understood that those fees were transaction-based compensation. Accordingly, as per the broker connection agreements, those Destination Brokers paid the fees directly to Neovest Trading, a registered broker-dealer at the time.

10. JPMorgan Chase acquired Neovest on September 1, 2005, and subsequently withdrew Neovest Trading’s broker-dealer registration, effective December 15, 2006. Neovest Trading dissolved as an entity shortly thereafter with Neovest continuing to provide the OEMS Platform and complementary services as a wholly-owned subsidiary of JPMorgan Holdings, a subsidiary of JPMorgan Chase.

Neovest’s Continued Receipt of Transaction-Based Compensation After Deregistration

11. Neovest continued to receive the same transaction fees from Destination Brokers for executed equity and option orders routed through the OEMS Platform. Given Neovest Trading’s dissolution and the nature of these fees, those Destination Brokers were instructed by Neovest to instead pay the transaction fees directly to J.P. Morgan Securities, an affiliated registered broker-dealer.

12. Neovest told the Destination Brokers at this time that Neovest Trading “will close, but continue as [the Neovest Trading] Division of [J.P. Morgan Securities]. Among other things, the Neovest Trading Division of [J.P. Morgan Securities] will bill for executions via Neovest’s software. The infrastructure and technology used in these trades will remain with Neovest. This change solely affects the billing entity. It will not affect the service level or anonymity you have enjoyed through Neovest, Inc. and Neovest Trading.” The Neovest Trading Division of J.P. Morgan Securities does not refer to a formal legal entity or an actual business division of J.P. Morgan Securities.

13. J.P. Morgan Securities in turn transferred all the transaction fees it received from the Destination Brokers to Neovest. Through this payment structure, Neovest continued collecting transaction-based compensation for its OEMS Platform after Neovest Trading deregistered, until August 2018.

Neovest’s Solicitation Efforts

14. Neovest has approximately 550 customers, mostly institutional investors and asset managers, which actively use the OEMS Platform to route their orders to Destination Brokers for execution. Those Destination Brokers paid transaction-based compensation for orders received via the OEMS Platform. Neovest obtained many of these customers, including the Destination Brokers who paid transaction-based compensation, as a result of various sales and marketing efforts, including direct outreach by Neovest employees at trade shows and industry conferences, direct marketing by Neovest employees, direct marketing by Neovest-licensed resellers, referrals from existing customers and Destination Brokers, and Neovest’s own website. Neovest’s solicitation efforts were consistent with the company branding itself as an OEMS provider that is independent from any specific executing broker-dealer.

Neovest’s Replication of its Authentication Database

15. From 2004 to April 2018, Neovest replicated an internal database containing customer authentication information from a server used to log customers onto the Market Data Platform to a server set up locally at one of Neovest’s most active and longstanding customers, which allowed that customer to log on to the OEMS Platform without having to connect through Neovest’s server. The replicated authentication database contained customer user names, passwords, email addresses, answers to security questions, and dashboard layout preferences.

16. The replication was a “merge replication” such that both Neovest and the customer had “administrator read/write” authority to access, alter, or delete information, including access logs, stored on their respective databases with any changes on one database immediately synced and reflected on the other. Neovest did not exercise any supervision or otherwise oversee that customer’s use, modification, and/or alteration of the replicated authentication database.

17. Neovest terminated the replication in April 2018. This replication was unknown to other Neovest customers – many of which used the same login credentials for access to the OEMS Platform – until the company disclosed it to them in May 2018, along with a new policy requiring

customer passwords to meet specified length-and-character criteria and be updated every 90 days. Because Neovest was not registered as a broker-dealer for more than a decade while the replication was in place, these customers were deprived of the protections of registration such as, among other things, (1) greater supervision; (2) requirements concerning written policies and procedures related to the safeguarding of customer information and the prevention of identity theft; and (3) inspection or examination by the Commission or an SRO.

Violations

18. As a result of the conduct described above, Neovest willfully violated Section 15(a) of the Exchange Act, which makes it unlawful for any broker or dealer “to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security” unless such broker or dealer is registered in accordance with Section 15(b) of the Exchange Act.

IV.

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Neovest cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.

C. Respondent Neovest is censured.

B. Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$2,750,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to 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 may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent 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 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 Neovest, Inc. 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 Joseph G. Sansone, Market Abuse Unit Chief, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281.

N. 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.

Vanessa A. Countryman
Secretary