



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
File No. USRI-8346-05
J.P. Morgan Securities LLC

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rules

- BZX Rule 3.2 – Violations Prohibited
- Rule 15c3-5 - Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Securities Exchange Act of 1934, as amended.

Sanction

A censure and a monetary fine in the amount of \$44,450.

Effective Date

November 24, 2021

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
File No. USRI-8346-05¹

In the Matter of:

J.P. Morgan Securities LLC
1111 Polaris Parkway
Floor 2J
Columbus, OH 43240

Subject

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3 - Expedited Proceeding, J.P. Morgan Securities LLC (“JPMS” or the “Firm”) submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of rules (“SEC Rules”) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) or rules of the Exchange (“Exchange Rules”) have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, the Firm was registered as a broker-dealer with the Securities and Exchange Commission and was an Exchange Member registered to conduct business on the Exchange. The Firm’s registrations remain in effect.
2. This matter originated as a result of erroneous order events from orders the Firm entered on BZX on August 7, 2018 and December 19, 2019 (the “Review Period”). As a result, Exchange Regulatory Staff and FINRA’s Market Analysis group conducted investigations of the Firm’s risk management controls and procedures relating to market access.²

¹This matter is associated with STAR Nos. 20190641009 and 20190649563.

² In addition to the Exchange, the resulting investigations were conducted on behalf of Cboe EDGX Exchange, Inc. (“EDGX”), Cboe BYX Exchange, Inc. (“BYX”), and Cboe EDGA Exchange, Inc. (“EDGA”).

VIOLATIVE CONDUCT

Applicable Rules

3. During the Review Period, the following SEC and Exchange Rules were in full force and effect: SEC Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Exchange Act (“Rule 15c3-5” or the “Market Access Rule”) and Exchange Rule 3.2 – Violations Prohibited.
4. Rule 15c3-5(b) stated that “a broker-dealer with market access, or that provides a customer or any other person with access to an exchange or alternative trading system through use of its market participant identifier or otherwise, shall establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity....”
5. Rule 15c3-5(c)(1)(ii) required that such “risk management controls and supervisory procedures be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to: . . . (ii) [p]revent 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.”
6. Exchange Rule 3.2 stated “[n]o Member shall engage in conduct in violation of the [Securities Exchange Act of 1934], the rules or regulations thereunder, the By-Laws, Exchange Rules or any policy or written interpretation of the By-Laws or Exchange Rules by the Board or an appropriate Exchange committee” and that “[e]very Member shall so supervise persons associated with the Member as to assure compliance with those requirements.”

Market Access Rule Violations

7. During the Review Period, the Firm maintained a system of size controls on an order-by-order basis on a third-party order management system (the “OMS”). The OMS included a Single Order Quantity (“SOQ”) Control which utilized, for the erroneous orders noted above, a 1,000,000 or 5,000,000 share static threshold parameter to trigger a hard block. The orders were also subject to an Average Daily Volume (“ADV”) Control within the OMS. This control was triggered when a single order exceeded a certain threshold of the average daily volume in the relevant security. For the erroneous orders noted above, the ADV Control utilized parameters of 25% or 50%, respectively, of the relevant security’s

average daily volume. The ADV Control applied to inbound orders and functioned as a soft block, which paused an order and triggered an alert to the relevant JPMS trader. After review of the alert, the trader had to elect to proceed with routing the order to one or more market centers.

8. In addition to Rule 15c3-5 size controls that applied in the OMS, the Firm had supplemental financial risk management controls that were applied by downstream systems. One of these supplemental controls was the Modified Spread Control that applied to pairs orders displayed in a proprietary Firm desktop application used to enter pairs order instructions (the “desktop application”). This Modified Spread Control triggered an alert when the spread limit for a pairs order was modified at a level greater or equal to a 100% deviation from the last spread limit entered.

SEP Order Event

9. On August 7, 2018, a trader on the Firm’s Block Trading Desk entered a PAIRS algorithmic order, one side of which involved the sale of 198,000 shares of Spectra Energy Partners, L.P., symbol SEP. The trader had entered the order into the Firm’s desktop application, and then modified the spread associated with the order, intending to amend it from \$1.399168 to \$1.35. However, due to a technical issue within the desktop application, additional zeroes were added, resulting in the spread being \$10,000.35.
10. The modification to the spread triggered the Firm’s Modified Spread Control. The triggered control generated an alert on the desktop application. However, the trader’s desktop application was not configured to display such alerts and, therefore, the trader was not warned to take corrective action prior to the completion of the SEP order. The order was then routed through the Firm’s systems to the Exchange resulting in the sale of 18,865 shares on BZX. These erroneous orders contributed to a 7.96% reduction in the execution price for SEP.

DHR Order Event

11. On December 19, 2019, a trader on the Firm’s Equity Finance Trading Desk intended to enter a Limit-On-Close order to buy 230,000 shares of Danaher Corporation, symbol DHR, with a limit price of \$154.17. However, the trader inadvertently entered a limit order to buy 230,000 shares of DHR with a limit price of \$154.17 into the Firm’s OMS.
12. For this particular order, the Firm’s OMS employed a static SOQ control with a parameter of 5,000,000 shares, which could trigger a hard block. This SOQ

control did not take into consideration the individual characteristics of a security. Further, the Firm's ADV Control utilized a percentage threshold of 25% for orders that were not entered as algorithmic orders. Neither of these controls were triggered during the DHR Order Event.

13. Although the SOQ and ADV Controls were not triggered, the Firm's Price Tolerance soft block control was triggered. The trader received an alert that the order price was more than 3% away from the NBBO. Because the trader believed he had entered a Limit-On-Close order, the trader overrode the alert and allowed the order to proceed downstream to the market for execution, resulting in 41 erroneous orders being routed to BZX for execution. The erroneous orders contributed to the highest execution price of DHR increasing to 3.17% above the prior execution price.

Unreasonably Designed Controls

14. The Firm size controls on an order-by-order basis were not reasonably designed. First, the SOQ Control in place for the Firm's OMS failed to consider the individual characteristics of the security and used a threshold parameter too high to be effective. Second, the Firm's ADV Control used percentage thresholds of 25% or 50% of average daily volume in a security that were too high to be effective. Further, the Firm was unable to provide documentation of empirical analysis to justify these threshold parameters.
15. The Firm's price controls were not reasonably designed. Specifically, the supplemental risk management Modified Spread Control used an unreasonably high parameter of a 100% deviation from the last spread limit. This control was also unreasonably designed as the Firm was unable to provide documentation of empirical analysis to justify the high parameter.
16. The Firm's procedures for soft block reviews were not reasonably designed in that, during the Review Period, the Firm did not maintain any Written Supervisory Procedures ("WSPs") regarding the review and release of orders paused by soft blocks for the Block Trading and Equity Finance Trading desks. Due to the lack of WSPs, the Firm did not maintain documentation surrounding the review and/or rationale for the release of certain orders into the market, thus rendering the soft block controls themselves unreasonable.
17. The acts, practices, and conduct described in paragraphs 7 through 16 constitute violations of Rule 15c3-5 and BZX Rule 3.2 in that the Firm's financial risk management controls were not reasonably designed to prevent the entry of

erroneous orders on BZX, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis.

SANCTIONS

18. The Firm has prior relevant disciplinary history specifically related to the market access controls alleged to have been unreasonable in this matter. Specifically, in July 2017, JPMS signed a Letter of Consent, paid a \$175,000 fine to the Cboe EDGX, Cboe BZX, and Cboe BYX Exchanges, and undertook certain remedial measures to address Rule 15c3-5 deficiencies identified during the review. The Firm, from May 2012 through April 2016, failed to establish, document, and maintain a system of risk management controls and supervisory procedures that were reasonably designed to manage the financial, regulatory, and other risks of its market access business and 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 exceeded appropriate price or size parameters, or that indicated duplicative orders.
19. In light of the alleged rule violations described above, and the Firm's prior disciplinary history, the Firm consents to the imposition of the following sanctions:
 - a. A censure; and
 - b. A monetary fine of \$44,450.³

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudice of the Chief Regulatory Officer ("CRO") in connection with the CRO's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. The Firm further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

³ This matter relates to other matters resolved on behalf of Cboe EDGX Exchange, Inc. (\$34,730), Cboe BYX Exchange, Inc. (\$12,690), and Cboe EDGA Exchange, Inc. (\$28,130).

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are due and payable. 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 Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future rule violations. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange 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 Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.

Date: 11/23/21

J.P. Morgan Securities LLC

By: [REDACTED]

Name: William H. Freilich

Title: Managing Director