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UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:	)	
J.P. Morgan Securities LLC,	)	
	)	**CFTC Docket No. 14 – 19**
Respondent.	)	

ORDER INSTITUTING PROCEEDINGS PURSUANT TO SECTIONS 6(c) and 6(d) OF THE COMMODITY EXCHANGE ACT, MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS

I.

The Commodity Futures Trading Commission ("Commission") has reason to believe that J.P. Morgan Securities LLC ("JPMS") violated the Commodity Exchange Act ("Act") and Commission Regulations ("Regulations"). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether JPMS has engaged in the violations as set forth herein and to determine whether any order should be issued imposing remedial sanctions.

II.

In anticipation of the institution of this administrative proceeding, JPMS has submitted an Offer of Settlement ("Offer"), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, JPMS consents to the entry of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, Making Findings and Imposing Remedial Sanctions ("Order") and acknowledges service of this Order.[1]

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[1] JPMS consents to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that JPMS does not consent to the use of the Offer, or the findings or conclusions in this Order consented to in the Offer, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor does JPMS consent to the use of the Offer or this Order, or the findings or conclusions in this Order consented to in the Offer, by any other party in any other proceeding.

III.

The Commission finds the following:

A. Summary

JPMS is registered with the Commission as a futures commission merchant ("FCM"). Pursuant to Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Regulation 15.01(b), 17 C.F.R. § 15.01(b) (2013), JPMS as an FCM is required to submit certain reports to the Commission. In particular, FCMs are required to submit a report for each business day with respect to "all special accounts carried by" the FCM that shows "each futures position, separately for each reporting market and each future" and the "quantity of exchanges for futures for commodities or for derivatives positions and the number of delivery notices issued for each such account by the clearing organization of a reporting market and the number stopped by the account." 17 C.F.R. § 17.00(a)(1) (2013). These reports, known as the "large trader" reports, are used by the Commission in order to evaluate potential market risks and monitor compliance with Commission requirements.

Since at least 2012, the Commission began notifying JPMS about errors in its large trader reports, which increased in frequency throughout the year. In December 2012, JPMS was notified by the Commission that the on-going problems were unacceptable. JPMS used a third-party vendor for the preparation of its large trader reports. JPMS, relying on that third-party vendor, assured Commission staff that the problem, which JPMS understood at the time to be related to average price transactions, would be resolved on or before the end of January 2013. However, JPMS did not resolve all of its reporting issues and continued to submit large trader reports that contained hundreds of errors throughout the period from February 1, 2013 to February 2014 (the "Relevant Period"). During the Relevant Period, JPMS's large trader reports failed on multiple occasions to report the actual number of delivery notices issued and stopped and inaccurately reported the number of exchanges for related positions ("EFRPs") bought and sold. JPMS failed to fully and timely correct the reporting errors during the Relevant Period.

B. Respondent

J.P. Morgan Securities LLC (JPMS) is a wholly-owned subsidiary of JPMorgan Chase & Co., a leading global financial services firm that engages in a wide variety of financial services, including banking, mortgage lending, securities, credit card issuance, commodities trading, and asset management. JPMS has been registered with the Commission as an FCM since 1982.

C. Facts

1. Statutory Background

The Commission operates a comprehensive large trader reporting system by which it collects information on market participants as part of its market surveillance responsibilities. FCMs, clearing members and foreign brokers ("Firms") are required to submit a report for each business day for each special account carried by the Firm. 17 C.F.R. § 17.00(a) (2013). Specifically, Regulation 17.00(a)(1) requires each Firm to:

> submit a report to the Commission for each business day with respect to all special accounts carried by the [Firm] . . . . The report shall show each futures position, separately for each reporting market and for each future, and each put and call options position separately for each reporting market, expiration and strike price in each special account as of the close of market on the day covered by the report and, in addition, the quantity of exchanges of futures for commodities or for derivatives positions and the number of delivery notices issued for each such account by the clearing organization of a reporting market and the number stopped by the account. The report shall also show all positions in all contract months and option expirations of that same commodity on the same reporting market for which the special account is reportable.

17 C.F.R. § 17.00(a)(1) (2013). Therefore, for each special account, each Firm must report, *inter alia*, the number of open futures or options positions, the number of delivery notices issued or stopped, and the number of EFRPs. *Id.*

Special accounts are those commodity futures or options accounts with reportable positions. 17 C.F.R. § 15.01(r) (2013). For the purposes of the reporting requirements set forth in Part 17 of the Commission Regulations, a reportable position is any open contract position that at the close of the market on any business day equals or exceeds the quantity set forth in Commission Regulation 15.03, 17 C.F.R. §15.03(b) (2013). *See* 17 C.F.R. § 15.00(p)(1) (2013) (defining a "reportable position" for Part 17 reporting purposes as "any open contract position that at the close of the market on any business day equals or exceeds the quantity specified in § 15.03 of this part in either: (i) Any one futures of any commodity on any one reporting market, excluding futures contracts against which notices of delivery have been stopped by a trader or issued by the clearing organization of a reporting market; or (ii) Long or short put or call options that exercise into the same future of any commodity, or other long or short put or call commodity options that have identical expirations and exercise into the same commodity, on any one reporting market."). In order to determine which traders currently hold positions above the level set by the Commission for purposes of large trader reporting, Firms must aggregate accounts that are under common ownership or trading control. 17 C.F.R. §17.00(b) (2013).

The Commission uses the reported information for a variety of purposes, including assessing individual traders' activities and potential market power and risk, as well as monitoring compliance with Commission or exchange speculative position limit rules, among other purposes. The Commission's market surveillance system depends on Firms properly reporting because, *inter alia*, a Firm's failure to accurately report positions may allow traders to hold positions in excess of speculative limits and to exercise market power without detection. In addition, the Commission publishes aggregated data concerning large trader reported positions in its weekly Commitment of

Trader's Report ("COT Report") and monthly Bank Participation Report ("BPR"). Consequently, it is critical that large trader position reports from the industry are accurate for the public as well.

2. JPMS's Large Trader Reporting Errors

Beginning as early as 2012, Commission staff identified a series of errors in JPMS's large trader reports. Each time, Commission staff contacted JPMS and JPMS manually submitted corrected data. JPMS, like many other FCMs, relied on a third-party vendor for the software used to aggregate and summarize the data from its special accounts. By the end of 2012, certain types of errors were occurring on a frequent basis. For example, JPMS was routinely overstating the EFRPs for special accounts it carried due to an issue with its third-party software not properly calculating for reporting purposes EFRPs that were processed using an average-price system.

On December 11, 2012, Commission staff notified JPMS that the repeated errors related to the reporting of EFRPs were unacceptable. Commission staff also identified errors related to the reporting of delivery notices. JPMS responded on December 18, 2012. It represented that it was working with its third-party vendor to correct the problem, which it understood at that time was caused by the processing of average price transactions, and estimated that the problem would likely be resolved by the end of January 2013.

JPMS continued to submit its large trader reports with errors after January 2013. While the average pricing error appears to have been remedied, other errors persisted. For example, EFRPs that were transacted in an omnibus account were frequently incorrectly double reported – once for the omnibus account and then a second time for the individual customer's account. Similarly, customer transfers between accounts were also often inaccurately reported a second time, as if it were a new transaction. For the period February 1, 2013, through February 2014, JPMS submitted large trader reports that contained hundreds of errors with respect to the reporting of EFRPs and delivery notices. As a result, the Commission could not rely on JPMS's large trader reports for accurate market information.

IV. LEGAL DISCUSSION

JPMS violated Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a), 17 C.F.R. § 17.00(a) (2013), when it submitted inaccurate reports during the Relevant Period. Section 4g(a) of the Act requires FCMs to provide large trader reports to the Commission and provides, in pertinent part:

> Every person registered ... as a futures commission merchant ... shall make such reports as are required by the Commission regarding the transactions and positions of such person, and the transactions and positions of the customer thereof, in commodities for future delivery on any board of trade in the United States or elsewhere, and in any significant price discovery contract traded or

> executed on an electronic trading facility or any agreement, contract, or transaction that is treated by a derivatives clearing organization, whether registered or not registered, as fungible with a significant price discovery contract. . . .

7 U.S.C. § 6g(a). Promulgated pursuant to Section 4g of the Act, Commission Regulation 17.00(a) requires each FCM to submit a daily report to the Commission for all "special accounts" carried by the FCM, including a report of delivery notices issued and stopped, and EFRPs bought or sold. 17 C.F.R. § 17.00(a)(1) (2013). Inherent in these requirements is the fundamental notion that all reports made to the Commission pursuant to Section 4g(a) must be accurate. *See In re Bielfeldt*, CFTC No. 96-1, 1999 WL 68636, at *8 (CFTC Feb. 12, 1999). The accuracy of the reports is critical to the mission of the Commission for numerous reasons, including surveillance of the markets to detect disruptions to market integrity, enforcement and calculating statistics that the Commission publishes to enhance market transparency. *See, e.g., In re Newedge USA, LLC*, CFTC No. 12-06 (Jan. 9, 2012); *In re Interactive Brokers LLC*, CFTC No. 12-27 (July 25, 2012).

During the Relevant Period, JPMS failed to accurately report the actual "quantity of exchanges for futures for commodities or for derivatives positions" and the actual "number of delivery notices issued for each such account by the clearing organization of a reporting market and the number stopped by the account" as required. Instead, JPMS's large trader reports submitted during the Relevant Period contained hundreds of errors with respect to delivery notices and EFRPs. Therefore, JPMS violated Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a), 17 C.F.R. § 17.00(a) (2013).

V. FINDINGS OF VIOLATION

Based on the foregoing, the Commission finds that, during the Relevant Period, JPMS violated Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013).

VI. OFFER OF SETTLEMENT

JPMS has submitted the Offer in which it, without admitting or denying the findings and conclusions herein:

A. Acknowledges receipt of service of this Order;

B. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;

C. Waives:

1. the filing and service of a complaint and notice of hearing;

2. a hearing;

3. all post-hearing procedures;

4. judicial review by any court;

5. any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;

6. any and all claims that it may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2012) and 28 U.S.C. § 2412 (2012), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Commission's Regulations, 17 C.F.R. §§ 148.1-30 (2013), relating to, or arising from, this proceeding;

7. any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, §§ 201-253, 110 Stat. 847, 857-868 (1996), as amended by Pub. L. No. 110-28, § 8302, 121 Stat. 112, 204-205 (2007), relating to, or arising from, this proceeding; and

8. any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief;

D. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which JPMS has consented in the Offer;

E. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:

1. makes findings by the Commission that JPMS violated Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013), when it submitted large trader reports that incorrectly reported the number of delivery notices issued and stopped and the number of EFRPs bought and sold;

2. orders JPMS to cease and desist from violating Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013), with respect to its large trader reporting of delivery notices and EFRPs in connection with futures positions;

3. orders JPMS to pay a civil monetary penalty in the amount of six-

hundred fifty thousand dollars ($650,000) within ten (10) business days of the date of entry of this Order, plus post-judgment interest; and

4. orders JPMS, and its successors and assigns, to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VII of this Order.

Upon consideration, the Commission has determined to accept the Offer.

VII. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

A. JPMS shall cease and desist from violating Section 4g(a) of the Act, 7 U.S.C. § 6g(a) (2012), and Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013) with respect to its large trader reporting of delivery notices and EFRPs in connection with futures positions;

B. JPMS shall pay a civil monetary penalty in the amount of six hundred fifty thousand dollars ($650,000) within ten (10) business days of the date of the entry of this Order (the "CMP Obligation"). If the CMP Obligation is not paid in full within ten (10) business days of the date of entry of this Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961 (2012). JPMS shall pay the CMP Obligation by electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made by other than electronic funds transfer, the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

Commodity Futures Trading Commission
Division of Enforcement
Attn: Accounts Receivables – AMZ 340
E-mail Box: 9-AMC-AMZ-AR-CFTC
DOT/FAA/MMAC
6500 S. MacArthur Blvd.
Oklahoma City, OK 73169
Telephone: (405) 954-7262

If payment by electronic funds transfer is chosen, JPMS shall contact Nikki Gibson or her successor at the above address to receive payment instructions and shall fully comply with those instructions. JPMS shall accompany payment of the CMP Obligation with a cover letter that identifies JPMS and the name and docket number of this proceeding. JPMS shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity

Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

C. Certified Statement of Compliance: JPMS and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer: JPMS shall provide a sworn statement signed by an officer or director of JPMS to the Division of Enforcement within one hundred twenty (120) days of entry of this Order affirming that (i) JPMS has completed enhancements to its systems / procedures related to reporting of special accounts pursuant to Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013), and specifically reporting of delivery notices and EFRPs, and (ii) JPMS has tested those systems / procedures and has determined, to the best of JPMS's knowledge, that they enable JPMS to comply with Section 4g of the Act and Commission Regulation 17.00(a)(1), 17 C.F.R. § 17.00(a)(1) (2013).

D. Public Statements: JPMS agrees that neither it nor any of its successors and assigns, agents or employees under its authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect JPMS's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. JPMS and its successors and assigns shall undertake all reasonable steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.

E. Partial Satisfaction: JPMS understands and agrees that any acceptance by the Commission of partial payment of JPMS's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this Order, and shall not be deemed a waiver of the Commission's right to seek to compel payment of any remaining balance.

F. Change of Address/Phone: Until such time as JPMS satisfies in full its CMP Obligation as set forth in this Order, JPMS shall provide written notice to the Commission by certified mail of any change to its telephone number and mailing address within ten (10) calendar days of the change.

The provisions of this Order shall be effective on this date.

By the Commission

Christopher J. Kirkpatrick
Acting Secretary of the Commission
Commodity Futures Trading Commission

Dated: July 29, 2014