

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:)
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J.P. Morgan Securities LLC)
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Respondent.)
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_____)

CFTC Docket No. 24-07

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Office of Proceedings
Proceedings Clerk
4:46 pm, May 23, 2024

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

I. INTRODUCTION

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from 2014 through 2023 (“Relevant Period”), J.P. Morgan Securities LLC (“JPM” or “Respondent”) violated Commission Regulation (“Regulation”) 166.3, 17 C.F.R. § 166.3 (2023). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Respondent admits the facts set forth in Sections II.C.2 and 3, acknowledges that its conduct set forth in those Sections violated the Regulations, and otherwise neither admits nor denies the findings of fact. Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.¹

¹ Respondent consents to the use of all the findings of fact and conclusions of law in this Order in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party or claimant, and agrees that they shall be taken as true and correct and be given preclusive effect therein, without further proof. Respondent does not consent, however, to the use of the findings or conclusions herein that are not admitted herein, as the sole basis for any other proceeding brought by the Commission or to which the Commission is a party or claimant,

II. FINDINGS

The Commission finds the following:

A. SUMMARY

In 2021, in the course of onboarding a new trading exchange, JPM discovered that its surveillance of trading on multiple venues and trading systems was not operating correctly, resulting in meaningful gaps in JPM's trade surveillance on these venues. After subsequently conducting a global review of its surveillance processes, JPM determined that data gaps of varying degrees impacted surveillance of trading on at least 30 global trading venues, several of which are subject to the jurisdiction of the Commission, and began to remediate these gaps. These surveillance gaps, some of which had stretched back at least as far as 2014, had numerous causes and affected the surveillance of trading in multiple products. Some of the surveillance gaps arose from configuration issues that resulted in JPM failing to ingest direct-from-exchange order and trade data into a third-party surveillance system that JPM began using to conduct futures trade surveillance in approximately 2014. For example, for many years, JPM failed to capture in its surveillance systems *billions* of orders on a particular venue. Most of the missed order activity related to trades conducted on a U.S. designated contract market and certain registered foreign boards of trade open to trading by U.S. customers.

In 2020, JPM resolved charges that it had, from 2008 to 2016, engaged in spoofing and manipulation in the precious metals and U.S. Treasuries futures markets and failed diligently to supervise its business as a registrant. As part of that resolution, JPM made representations to the Commission concerning improvements that JPM had made to its compliance program since 2014 designed to improve JPM's ability to detect spoofing.

JPM disclosed the data gaps to the Commission in 2021. JPM has represented that it had been unaware of the gaps until that time, and they therefore were not discussed with the Commission previously when it reached a resolution with JPM in the prior 2020 spoofing matter. As a result, at the time JPM resolved the prior spoofing matter with the Commission, JPM was not surveilling certain order messages.

Based on these failures of trade surveillance, JPM failed to diligently supervise its business as a Commission registrant, in violation of Regulation 166.3, 17 C.F.R. § 166.3 (2023).

other than: a proceeding in bankruptcy or receivership; or a proceeding to enforce the terms of this Order, in which both admitted and non-admitted findings and conclusions can be used. Respondent also does not consent to the use of any findings or conclusions, use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

B. RESPONDENT

J.P. Morgan Securities LLC is a financial services firm with its headquarters in New York City. JPM is registered with the Commission as a Futures Commission Merchant and Swap Dealer.

C. FACTS

1. The 2020 Spoofing Settlement

In September 2020, JPM entered into a settlement with the Commission to resolve allegations of spoofing, attempted manipulation of the trading of precious metals and U.S. Treasury futures contracts, and failure to supervise its trade surveillance system.² In connection with that settlement, JPM represented that it was “[r]evising its trade . . . surveillance programs, for example JPM’s systems now surveil trades on over . . . 40 futures and options exchanges” and that “JPM also continues to refine its spoofing surveillance, modifying its spoofing parameters in response to lessons learned . . . and currently uses three primary alert types within SMARTS [a third-party trade surveillance system] to detect potential spoofing and layering.”³

2. Scope of Surveillance Data Gaps

In June 2021, while onboarding a new trading exchange, JPM discovered significant gaps in its surveillance of order and trade data. In some instances, these gaps dated back to at least 2014. The gaps affected at least 30 global trading venues—several of which are subject to the jurisdiction of the Commission—and involved surveillance of multiple products. Most of the missed order activity implicated a U.S. designated contract market (referred to as “DCM-1”) and certain registered foreign boards of trade open to trading by U.S. customers. JPM has represented that the gaps were fully remediated by 2023.

The magnitude of the gaps in JPM’s surveillance was large: On DCM-1, for example, JPM failed to ingest into its surveillance systems—and thus failed to surveil—billions of order messages from 2014 through 2021. Accordingly, JPM failed to surveil more than 99% of order messages on DCM-1 during that time period, which, according to JPM, largely consisted of sponsored access trading activity for three significant algorithmic trading firms.

JPM disclosed the data gaps to the Commission in 2021. JPM has represented that it was not aware of the gaps until that time, and so they were not discussed with the Commission previously when reaching a resolution of the 2020 spoofing matter. As a result, at the time JPM resolved the prior spoofing matter with the Commission, JPM was not surveilling certain order messages.

² *In re JPMorgan Chase & Co.*, CFTC No. 20-69, 2020 WL 5876730 (Sept. 29, 2020) (the “CFTC Spoofing Order”).

³ *Id.* at *11.

3. Causes of Surveillance Data Gaps

The surveillance gaps that occurred with respect to JPM and its clients' trading on the trading venues, including DCM-1, stemmed from a failure to ingest data into JPM's surveillance systems. These surveillance gaps resulted from JPM's failure to configure certain data feeds to ensure that complete trade and order data were being ingested by JPM's surveillance tools.

Moreover, while JPM had in place a quarterly reconciliation process designed to ensure the completeness of some order and trade data ingested into certain surveillance systems, JPM did not subject direct-from-exchange data feeds to that reconciliation process, based on an erroneous assumption that data directly from an exchange was from a "golden source" and thus did not need to be tested.

III. LEGAL DISCUSSION

A. JPM's Failure to Diligently Supervise in Violation of Regulation 166.3

Regulation 166.3 states:

Each Commission registrant, except an associated person who has no supervisory duties, must diligently supervise the handling by its partners, officers, employees and agents (or persons occupying a similar status or performing a similar function) of all commodity interest accounts carried, operated, advised or introduced by the registrant and all other activities of its partners, officers, employees and agents (or persons occupying a similar status or performing a similar function) relating to its business as a Commission registrant.

17 C.F.R. § 166.3 (2023).

A violation under Regulation 166.3 is an independent violation for which no underlying violation is necessary. *See In re Collins*, CFTC No. 94-13, 1997 WL 761927, at *10 (Dec. 10, 1997). A violation of Regulation 166.3 is demonstrated by showing either that: (1) the registrant's supervisory system was generally inadequate; or (2) the registrant failed to perform its supervisory duties diligently. *In re Murlas Commodities, Inc.*, CFTC No. 85-29, 1995 WL 523563, at *9 (Sept. 1, 1995) (consent order); *Sansom Refining Co. v. Drexel Burnham Lambert, Inc.*, CFTC No. 82-R448, 1990 WL 282783, at *11 (Feb. 16, 1990) (noting that, under Regulation 166.3, registrants have "duty to develop procedures for the detection and deterrence of possible wrongdoing by [their] agents" (internal quotation omitted)); *In re GNP Commodities, Inc.*, CFTC No. 89-1, 1992 WL 201158, at *17-19 (Aug. 11, 1992) (providing that, even if an adequate supervisory system is in place, Regulation 166.3 can still be violated if the supervisory system is not diligently administered); *see also In re Rosenthal Collins Grp., LLC*, CFTC No. 12-18, 2012 WL 1242406, at *6 (Apr. 12, 2012) (consent order) (respondent failed to perform supervisory duties diligently by not following its compliance procedures that were in place). Evidence of violations that "should be detected by a diligent system of supervision, either because of the nature of the violations or because the violations have occurred repeatedly" is probative of a failure to diligently supervise. *In re Paragon Futures Ass'n*, CFTC No. 88-18, 1992 WL 74261, at *14 (Apr. 1, 1992) ("The focus of any proceeding to determine whether Rule

166.3 has been violated will be on whether [a] review [has] occurred and, if it did, whether it was ‘diligent.’”). A company’s “failing to ensure that [it] followed its procedures for surveillance” and “failing to ensure that its customers’ order and execution data was processed for surveillance for disruptive trading” constitutes a violation of Regulation 166.3. *In re Advantage Futures LLC*, CFTC No. 23-45, 2023 WL 6194819, at *4 (Sept. 20, 2023) (consent order).

Here, JPM failed to diligently supervise its business as a Commission registrant in light of the identified surveillance data gaps. The inadequacy of JPM’s supervisory systems is demonstrated by the volume and proportion of order messages on certain trading venues, including DCM-1, that were not surveilled; that the surveillance of activity on other trading venues was affected by data gaps of varying degrees; that the gaps concerned surveillance of multiple products; and that JPM did not take steps to test that complete trade and order data direct from exchanges were being ingested into its surveillance systems. By this conduct, JPM failed to supervise diligently in violation of Regulation 166.3.

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the Relevant Period, JPM violated Regulation 166.3, 17 C.F.R. § 166.3 (2023).

V. OFFER OF SETTLEMENT

Respondent has submitted the Offer in which it:

- A. Acknowledges 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. Admits the facts described in Sections II.C.2 and 3 above and acknowledges that this conduct violated Regulation 166.3;
- D. Otherwise neither admits nor denies the findings set forth herein;
- E. 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, and 28 U.S.C. § 2412, and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2023), 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, tit. II, §§ 201–253, 110 Stat. 847, 857–74 (codified as amended at 28 U.S.C. § 2412 and in scattered sections of 5 U.S.C. and 15 U.S.C.), 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, including this Order;
- F. Agrees, for purposes of the waiver of any and all rights under the Equal Access to Justice Act specified in paragraph 6 above, that the Commission is the prevailing party in this action;
- G. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;
- H. Consents, solely on the basis of the Offer, to the Commission’s entry of this Order that:
1. Makes findings by the Commission that JPM violated Regulation 166.3, 17 C.F.R. § 166.3 (2023);
 2. Orders JPM to cease and desist from violating Regulation 166.3;
 3. Orders Respondent to pay a civil monetary penalty in the amount of two hundred million US dollars (\$200,000,000), which constitutes a payment of \$100,000,000 to the Commission and credits payments made to other federal agencies as set forth in Section VI.B, plus post-judgment interest within ten days of the date of entry of this Order, as set forth in Section VI.B; and
 4. Orders Respondent and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order; and
- I. Represents that Respondent has instituted a program of remediation.

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

VI. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. JPM and its successors and assigns shall cease and desist from violating Regulation 166.3, 17 C.F.R. § 166.3 (2023).
- B. Respondent shall pay a civil monetary penalty in the amount of two hundred million US dollars (\$200,000,000) (“CMP Obligation”), within ten days of the date of the entry of this Order; provided, however, that the CMP Obligation will be offset by \$50 million US dollars (\$50,000,000) of any payment made pursuant to the resolution with JPMorgan Chase Bank, N.A. concerning surveillance gaps by the Office of the Comptroller of the Currency (the “OCC Action”) dated March 14, 2024, and by \$50 million US dollars (\$50,000,000) of any payment made pursuant to the resolution with JPMorgan Chase & Co. concerning surveillance gaps by the Board of Governors of the Federal Reserve System (the “Board of Governors Action”) dated March 8, 2024. If the CMP Obligation is not paid in full within ten 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.

Respondent shall pay the CMP Obligation and any post-judgment interest 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 other than by electronic funds transfer, then the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

MMAC/ESC/AMK326
Commodity Futures Trading Commission
6500 S. MacArthur Blvd.
HQ Room 266
Oklahoma City, OK 73169
9-AMZ-AR-CFTC@faa.gov

If payment is to be made by electronic funds transfer, JPM shall contact the Federal Aviation Administration at the above email address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. The paying Respondent 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. The Commission deems it appropriate here to require the appointment of an Independent Compliance Consultant (“Consultant”) with the responsibilities set forth below to ensure the effective remediation of Respondent’s conduct relating to the CFTC regulated markets.

D. Respondent and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:

1. Review of Trading Activities: Within one hundred and twenty (120) days of the date of this Order, Respondent shall (i) complete its review of Respondent's trading activities during the Relevant Period to ensure the identification of instances where data deficiencies prevented the performance of effective trade surveillance; and (ii) provide a written report ("Respondent's Report") to the Commission documenting the affected trading venue and trading activities, including the time period of non-surveillance, the volume of non-surveilled trading activity, and any related instances of market misconduct.
2. Independent Compliance Consultant: Within ninety (90) days of the date of this Order, Respondent will select and retain a Consultant for the purpose of conducting the review described in paragraph 3 below.
3. Consultant's Report: The Consultant shall conduct a review of the Respondent's policies, procedures, and controls relating to trade surveillance and prepare a written report, to be submitted to the Division of Enforcement within one hundred and twenty (120) calendar days of commencing the review, setting forth the Consultant's assessment and, if necessary, making recommendations reasonably designed to improve the effectiveness of Respondent's trade surveillance program. The review shall include an assessment of at least the following items: (i) policies and procedures for effective surveillance of the trading activities conducted by or through Respondent, as a principal trader or on behalf of customers; (ii) controls for maintaining accurate and complete inventories and risk assessments of all trading venues on which Respondent engages in or facilitates trading activities; (iii) effective automated data reconciliation processes, and effective compensating controls where automation is unavailable, sufficient to assess the effectiveness and comprehensiveness of the trade surveillance program on a routine basis; (iv) measures to ensure trade surveillance scenarios and parameters are reasonably designed and calibrated to detect market misconduct; (v) measures to ensure routine and annual monitoring, testing, and assessments of the trade surveillance program; and (vi) measures to address the instances of non-surveilled trading activity identified in Respondent's Report. All documentation associated with the Consultant's review and Report shall be made available to the Commission at the time that the Report is provided.
4. Remediation Plan: Within ninety (90) days of the Division of Enforcement's receipt of the Consultant's Report, Respondent shall submit to the Division of Enforcement a written plan that fully addresses the findings and recommendations in the Consultant's Report and describes the specific actions that Respondent will take to strengthen its surveillance program.
5. Progress Reports: Within forty-five (45) days after the end of the first full calendar quarter following the date of submission of the Remediation Plan required in paragraph 4 above and each quarter thereafter, Respondent shall submit to the

Division of Enforcement written progress reports detailing (i) steps taken to address the findings and recommendations in the Consultant's Report; (ii) steps taken to implement the Remediation Plan required in paragraph 4 above; (iii) the status of Respondent's remediation; and (iv) a timetable and schedule for the completion of the Remediation Plan. This requirement will terminate only upon Respondent's provision, and the Commission's Division of Enforcement's acceptance, of the Certification of Completion described in paragraph 6 below.

6. Certification of Completion: Upon Respondent's completion of all steps taken to address the findings and recommendations in the Consultant's Report and its completion of the Remediation Plan, Respondent shall submit a certification, signed by Respondent's Chief Compliance Officer and another relevant senior business executive, to the Commission, through submission to the Division, describing what steps have been taken to implement the recommendations; and, to the extent any recommendation has not been fully implemented, describing the Respondent's reasons for not fully implementing the recommendations and what alternate steps have been taken to address the underlying issue.
7. Deadlines: For good cause shown, the Division of Enforcement may extend any of the procedural dates relating to the undertakings. Unless otherwise specified, deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.
8. Public Statements: Respondent 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 Respondent's: (1) testimonial obligations; or (2) right to take legal positions in other proceedings to which the Commission is not a party. Respondent and its successors and assigns shall comply with this agreement, and shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.
9. Cooperation, in General: Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, in this action, and in any current or future Commission investigation or action related thereto. Respondent shall also cooperate in any investigation, civil litigation, or administrative matter related to, or arising from, the subject matter of this action.
10. Partial Satisfaction: Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of their obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.

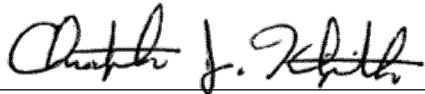
11. Change of Address/Phone: Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Order, Respondent shall provide written notice to the Commission by certified mail of any change to its telephone numbers and mailing addresses within ten calendar days of the change.

Until such time as Respondent satisfies in full its CMP Obligation, upon the commencement by or against Respondent of insolvency, receivership or bankruptcy proceedings or any other proceedings for the settlement of Respondent's debts, all notices to creditors required to be furnished to the Commission under Title 11 of the United States Code or other applicable law with respect to such insolvency, receivership bankruptcy or other proceedings, shall be sent to the address below:

Secretary of the Commission
Office of General Counsel
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, DC 20581

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

By the Commission.



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

Dated: May 23, 2024