Press Release

JPMorgan to Pay More Than $135 Million for Improper Handling of ADRs

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Washington D.C., Dec. 26, 2018 — The Securities and Exchange Commission today announced that JPMorgan Chase Bank N.A. will pay more than $135 million to settle charges of improper handling of "pre-released" American Depositary Receipts (ADRs).

ADRs – U.S. securities that represent foreign shares of a foreign company – require a corresponding number of foreign shares to be held in custody at a depositary bank. The practice of "pre-release" allows ADRs to be issued without the deposit of foreign shares, provided brokers receiving them have an agreement with a depositary bank and the broker or its customer owns the number of foreign shares that corresponds to the number of shares the ADR represents.

The SEC's order found that JPMorgan improperly provided ADRs to brokers in thousands of pre-release transactions when neither the broker nor its customers had the foreign shares needed to support those new ADRs. Such practices resulted in inflating the total number of a foreign issuer's tradeable securities, which resulted in abusive practices like inappropriate short selling and dividend arbitrage that should not have been occurring.

This is the eighth action against a bank or broker, and fourth action against a depositary bank, resulting from the SEC's ongoing investigation into abusive ADR pre-release practices. Information about ADRs is available in an SEC Investor Bulletin.

"With these charges against JPMorgan, the SEC has now held all four depositary banks accountable for their fraudulent issuances of ADRs into an unsuspecting market," said Sanjay Wadhwa, Senior Associate Director of the SEC's New York Regional Office. "Our investigation continues into brokerage firms that profited by making use of these improperly issued ADRs."

Without admitting or denying the SEC's findings, JPMorgan agreed to pay disgorgement of more than $71 million in ill-gotten gains plus $14.4 million in prejudgment interest and a $49.7 million penalty for total monetary relief of more than $135 million. The SEC's order acknowledges JPMorgan's cooperation in the investigation and remedial acts.

The SEC's continuing investigation is being conducted by Philip A. Fortino, William Martin, Andrew Dean, Elzbieta Wraga, Joseph P. Ceglio, Richard Hong, and Adam Grace of the New York Regional Office, and is being supervised by Mr. Wadhwa.

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