

## News Release

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# FINRA Fines J.P. Morgan Securities LLC \$2.8 Million for Customer Protection Rule Violations and Supervisory Failures

WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has fined J.P. Morgan Securities \$2.8 million for violating the Securities and Exchange Commission’s (SEC) Customer Protection Rule and for related supervisory failures. The SEC rule creates requirements to protect customers' funds and securities.

To ensure that customers could recover their assets in the event of the broker-dealer's insolvency, the Customer Protection Rule requires a broker-dealer, which maintains custody of customer securities, to obtain and maintain physical possession or control over certain of those securities. These securities must be segregated in a “control location” and be free of liens or any other encumbrance that could prevent customers from taking possession of their securities. A firm cannot use segregated securities for its own purposes.

FINRA found that from March 2008 to June 2016, J.P. Morgan Clearing Corp. did not have reasonable processes in place to ensure that its possession or control systems were operating properly. Shares that should have been segregated were available for the firm’s use, due to systemic coding and design flaws, recurring and unresolved deficits and unreasonable supervision. By failing to move and maintain securities in good control locations, the firm created deficits in foreign and domestic securities valued at hundreds of millions of dollars. For example, J.P. Morgan failed to move Italian securities to a good control location for nearly two years, and on one sample day, created a deficit in 81 Italian securities worth approximately \$146 million.

“Firms have a fundamental responsibility to safeguard the securities of their customers,” said Susan Schroeder, Executive Vice President of FINRA’s Department of Enforcement. “The Customer Protection Rule is an important component of investor protection, and member firms must have reasonably designed and maintained systems and procedures to comply with the possession and control requirements.”

In determining the appropriate monetary sanction, FINRA considered J.P. Morgan’s cooperation in undertaking a plan to address the violations and that it over-reserved cash deposits in an effort to protect customers from its failed segregation of securities. In settling this matter, J.P. Morgan neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

Investors can obtain more information about, and the disciplinary record of, any FINRA-registered broker or brokerage firm by using FINRA's BrokerCheck. FINRA makes BrokerCheck available at no charge. In 2016, members of the public used this service to conduct 111 million reviews of broker or firm records. Investors can access BrokerCheck at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or by calling (800) 289-9999. Investors may find copies of this disciplinary action as well as other disciplinary documents in [FINRA's Disciplinary Actions Online database](#). Investors can also call [FINRA's Securities Helpline for Seniors](#) at **(844) 57-HELPS** for assistance or to raise concerns about issues they have with their brokerage accounts and investments.

FINRA is dedicated to investor protection and market integrity. It regulates one critical part of the securities industry – brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities

and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit [www.finra.org](http://www.finra.org).

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