Securities Regulation Daily Wrap Up, WHISTLEBLOWER NEWS—J.P Morgan pays $18 million to settle whistleblower protection charges, (Jan 16, 2024)

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Confidentiality agreements kept clients from contacting the SEC with evidence of wrongdoing.

J.P. Morgan Securities LLC will pay $18 million to settle SEC charges that it violated the whistleblower protection rule. According to the Commission, J.P. Morgan asked clients to sign confidential release agreements if they had been issued a credit or settlement of over $1,000. While the clients could respond to inquiries, they were not permitted to contact the Commission on their own. The Commission found that J.P Morgan, by impeding clients from communicating with the agency, violated the whistleblower protection rule (*In the Matter of J.P. Morgan Securities LLC,* Release No. 34-99344, January 16, 2024).

Respondent J.P. Morgan Securities is a dually-registered investment adviser and broker dealer. The company is a wholly-owned subsidiary of global financial services firm JPMorgan Chase & Co.

Release agreement. From 2020 through July 2023, J.P. Morgan requested that clients sign a release if they received a credit or settlement of over $1,000. The release provided a release of liability and said that the client promised not to "sue or solicit others to institute any action or proceeding" against J.P. Morgan. The release also stated that the client was required to keep the agreement confidential.

While J.P. Morgan in some instances reported the underlying dispute to FINRA, as required by FINRA rules, this did not mitigate the language impeding clients from reporting to the Commission, the order said. In sum, the agreement impeded clients from affirmatively reporting potential securities law violations to the Commission or other regulators, but did not restrict them from responding to inquiries from regulators.

"Whether it's in your employment contracts, settlement agreements or elsewhere, you simply cannot include provisions that prevent individuals from contacting the SEC with evidence of wrongdoing," said Gurbir S. Grewal, Director of the SEC's Division of Enforcement. "But that's exactly what we allege J.P. Morgan did here. For several years, it forced certain clients into the untenable position of choosing between receiving settlements or credits from the firm and reporting potential securities law violations to the SEC. This either-or proposition not only undermined critical investor protections and placed investors at risk, but was also illegal."

Violations. The Commission found that J.P. Morgan willfully violated Exchange Act Rule 21F-17(a), which prohibits impeding anyone from communicating directly with the SEC about a securities law violation. The order notes that when the company was informed of the violation, it revised the release to affirmatively advise clients that they are not prohibited from contacting any governmental or regulatory authority. And, clients who had received the release were informed that they were no longer prohibited from communicating with regulators. To settle the charges, J.P. Morgan agreed to a cease-and-desist order, a censure, and to pay an $18 million civil money penalty.

The release is No. 34-99344.

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