UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6761 / October 31, 2024

INVESTMENT COMPANY ACT OF 1940
Release No. 35374 / October 31, 2024

ADMINISTRATIVE PROCEEDING
File No. 3 22282

In the Matter of **J.P. Morgan Investment Management Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940 AND SECTION 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against J.P. Morgan Investment Management Inc. ("Respondent" or "JP Morgan IM").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Section 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that

Summary

1. From July 2019 until March 2021 ("Relevant Period"), JP Morgan IM, a registered investment adviser, engaged in or caused 65 prohibited principal trades with a combined notional value of approximately $8.2 billion and which included approximately $22,000 in spreads. To conduct these trades, a JP Morgan IM portfolio manager directed an unaffiliated broker-dealer to buy commercial paper or similar short-term fixed income securities from an affiliate, J.P. Morgan Securities LLC ("JP Morgan Securities"). JP Morgan IM then purchased the paper from the broker-dealer on behalf of one of its clients. Fifteen of these trades involved money market funds that were registered investment companies ("RICs") advised by JP Morgan IM, despite the prohibition in Section 17(a)(1) of the Investment Company Act. Though the Commission granted JP Morgan IM exemptive relief years before the Relevant Period that permits JP Morgan IM to trade with JP Morgan Securities provided that certain conditions were met, JP Morgan IM did not comply with those conditions for any of these 15 trades involving RICs. As a result, JP Morgan IM caused JP Morgan Securities to violate Section 17(a)(1) of the Investment Company Act. The remaining 50 trades involved five non-RIC JP Morgan IM clients, which included pooled investment vehicles and an institutional client. Because JP Morgan IM neither provided the required client disclosures nor obtained client consent for any of these 50 trades, JP Morgan IM violated Section 206(3) of the Advisers Act.

2. In addition, JP Morgan IM failed to adopt and implement adequate policies and procedures to prevent unlawful principal trades by its investment professionals during the Relevant Period and until March 2024. During this period, JP Morgan IM approved certain broker-dealers as counterparties, some which also had direct electronic access to the commercial paper offerings of JP Morgan Securities. However, despite the exemptive relief, JP Morgan IM did not have reasonably designed policies and procedures to prevent its personnel from conducting prohibited principal trades. As a result, JP Morgan IM violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, and caused its RIC clients to violate Rule 38a-1 of the Investment Company Act.

Respondent

3. **JP Morgan IM**, incorporated in Delaware, has been an investment adviser registered with the Commission since 1984. JP Morgan IM's principal place of business is in New York, New York. JP Morgan IM has regulatory assets under management of $2.5 trillion as of December 31, 2023. Among other things, JP Morgan IM provides advisory services to registered investment companies that operate as U.S. money market mutual funds, foreign money market funds, and institutional clients. JP Morgan IM is a wholly owned subsidiary of JPMorgan Chase &

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Co. ("JP Morgan"), a global financial services firm incorporated in Delaware and headquartered in New York, New York.

Other Relevant Entity

4. **JP Morgan Securities** is a Delaware limited liability company with its principal place of business in New York, New York. A wholly owned subsidiary of JP Morgan, JP Morgan Securities has been dually registered with the Commission as a broker-dealer and investment adviser since December 13, 1985, and April 3, 1965, respectively. In its Form ADV dated March 28, 2024, JP Morgan Securities reports that it has approximately $249.7 billion in regulatory assets under management.

The Investment Company Act Principal Trade Prohibitions and JP Morgan IM's Exemptive Order

5. Section 17(a)(1) of the Investment Company Act generally prohibits any affiliated person of a registered investment company or any affiliated person of such affiliated person, acting as principal, from knowingly selling a security to the registered investment company—referred to here as principal trades—unless the person first obtains an exemptive order from the Commission under Section 17(b). Under Section 17(b), an investment adviser "may file with the Commission an application for an order exempting a proposed transaction of the applicant from one or more provisions" of Section 17. The Commission may issue such exemptive orders when three enumerated conditions are met: (a) the terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned; (b) the proposed transaction is consistent with the policy of each registered investment company concerned, as recited in its registration statement and reports; and (c) the proposed transaction is consistent with the general purposes of Section 17.

6. Section 48(a) of the Investment Company Act prohibits "any person, directly or indirectly, to cause to be done any act or thing through or by means of any other person which it would be unlawful for such person to do" under the Investment Company Act or the rules promulgated thereunder. The interpositioning of a broker-dealer in a transaction that, in absence of such party, otherwise represents a principal trade does not remove the prohibition of such transactions under Section 17(a).

7. In 2002, JP Morgan IM obtained exemptive relief pursuant to Sections 6(c) and 17(b) of the Investment Company Act. *See J.P. Morgan Fleming Asset Management (USA), Inc.*, Investment Company Act Rel. No. 25574 (May 15, 2002) ("Exemptive Order"). The relief granted by the Exemptive Order is subject to conditions, including, but not limited to: (a) JP Morgan IM must make a determination "that the price available from [JP Morgan Securities] is at least as favorable as that available from other sources"; (b) preparation of guidelines for personnel to follow the requirements of the Exemptive Order; (c) periodic compliance monitoring of such transactions; and (d) provision, at least on an annual basis, of information to the RIC's board concerning such transactions.

JP Morgan Securities Grants Access to its Securities Offerings to Broker-Dealer A

8. During the Relevant Period, JP Morgan Securities' business included dealing certain securities for sale, including issuances of commercial paper. Commercial paper is a form of unsecured promissory note issued by corporations and other vehicles to fund short-term liabilities that is sold to a purchaser at a discount to par. The purchaser receives the full value of the commercial paper when it matures, which can be as short as one day or up to 397 days. Commercial paper can also be sold on an interest at maturity basis. Broker-dealers play a role in this market by facilitating commercial paper issuances and secondary trading.

9. With respect to certain broker-dealer counterparties, JP Morgan Securities provided direct electronic access to its then-current offers of commercial paper, including both the CUSIPs and amount of the securities available for sale, to other broker-dealer counterparties. This access to its commercial paper offers allowed these broker-dealers to acquire and resell the securities JP Morgan Securities offers to their respective customers. Such arrangements allowed JP Morgan Securities to more widely distribute its offers of securities, such as new commercial paper issuances, to a greater number of buyers. At various times during the Relevant Period, JP Morgan Securities entered into such arrangements with respect to its commercial paper offers with certain broker-dealers, including Broker-Dealer A.

10. In March 2019, JP Morgan Securities provided Broker-Dealer A with direct electronic access to its offers of commercial paper issuances as well as other securities.

11. The direct electronic access that JP Morgan Securities granted to broker-dealers like Broker-Dealer A allowed traders at these broker-dealers to view JP Morgan Securities' offers of commercial paper and to purchase any available security. Once acquired, broker-dealers like Broker-Dealer A could resell the security to any investor counterparty and earn a spread.

JP Morgan IM Places Broker-Dealer A on its Approved List

12. JP Morgan IM's Global Liquidity Group ("Global Liquidity") purchased and sold various short-term fixed income securities, such as commercial paper, for registered money market mutual funds, foreign money market funds, and institutional clients. JP Morgan IM maintained an approved list of broker-dealers from which the portfolio managers and traders in Global Liquidity could buy securities, on behalf of JP Morgan IM clients. Broker-Dealer A was on the approved list beginning in December 2012.

13. Through a conversation with a Broker-Dealer A trader around the summer of 2019, one Global Liquidity portfolio manager ("PM A") learned that Broker-Dealer A had direct access to JP Morgan Securities' offers of commercial paper issuances. After the Commission issued the Exemptive Order, JP Morgan IM authorized certain Global Liquidity investment professionals to view securities that were being offered for sale by JP Morgan Securities on electronic trading platforms. These professionals, which included PM A, could both trade directly with JP Morgan Securities as well as observe the offered prices for securities, comparing them against other broker-dealers whose offers they were permitted to access.

JP Morgan IM's Prohibited Principal Trades with RIC Clients

14. During the Relevant Period, Global Liquidity traders, including PM A, purchased commercial paper from Broker-Dealer A on behalf of JP Morgan IM clients, including U.S. money market funds registered as RICs. In 15 such transactions by PM A, involving nearly $2.2 billion in notional value, Broker-Dealer A acquired the securities from JP Morgan Securities through Broker-Dealer A's direct access to JP Morgan Securities' offers and then sold the securities to JP Morgan IM RIC clients later the same day. Broker-Dealer A earned commissions on these principal trades in the form of spreads totaling approximately $10,300.

15. In communications with Broker-Dealer A, PM A indicated that the securities PM A was interested in purchasing for JP Morgan IM clients were held at JP Morgan Securities.

16. JP Morgan IM failed to comply with the conditions set forth in the Exemptive Order for these 15 principal trades because, among other things, no favorable price determination was made concerning the transactions and the transactions were not reported to the RICs' board of trustees.

JP Morgan IM's Prohibited Principal Trades with Non-RIC Clients

17. Section 206(3) of the Advisers Act prohibits an investment adviser, directly or indirectly, "[to] knowingly . . . sell any security to or purchase any security from a client, . . . without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction."

18. During the Relevant Period, JP Morgan IM also engaged in principal trades with non-RIC clients that were structured in the same manner as the principal trades involving its RIC clients that are described in the prior subsection. Specifically, JP Morgan IM engaged in 50 such transactions with five non-RIC clients, which included a pooled retirement investment vehicle, an institutional client, and foreign funds. These trades were also executed by PM A using Broker-Dealer A. The notional value of those trades was approximately $6 billion and accrued $11,200 in spreads for Broker-Dealer A.

19. JP Morgan IM did not provide any prior written disclosure to, or receive consents from, its clients who were parties to any of these 50 prohibited principal trades.

JP Morgan IM Failed to Adopt and Implement, and Caused Its RIC Clients to Fail to Implement, Reasonably Designed Policies and Procedures

20. JP Morgan IM failed to adopt and implement, and caused its RIC clients to fail to implement, reasonably designed policies and procedures to address the Section 17(a) prohibition on principal trades involving RICs and compliance with the Exemptive Order, as well as principal trades under Section 206(3) of the Advisers Act. Although JP Morgan IM obtained the Exemptive Order and had policies and procedures concerning principal trades, it did not have reasonably designed policies and procedures to prevent its personnel from conducting prohibited principal trades. For example, JP Morgan IM failed to provide adequate guidance and training to its investment professionals concerning such transactions.

Violations

21. As a result of the conduct described above, JP Morgan IM caused JP Morgan Securities to violate Section 17(a)(1) of the Investment Company Act, which makes it unlawful for any affiliated person or promoter of or principal underwriter for a registered investment company, or any affiliated person of such a person, promoter, or principal underwriter, acting as principal knowingly to sell any security or other property to such registered investment company or to any company controlled by such registered investment company or from any company controlled by such registered investment company, any security or other property, unless the affiliate obtains an exemptive order under Section 17(b) of the Investment Company Act. Although JP Morgan IM obtained the Exemptive Order, it did not comply with it.

22. As a result of the conduct described above, JP Morgan IM willfully violated Section 206(3) of the Advisers Act, which prohibits an investment adviser, acting as principal for its own account, from knowingly selling securities to or purchasing securities from the adviser's clients without disclosing to such clients in writing before the completion of such transactions in the capacity in which the adviser is acting and obtaining the consent of the clients to such transactions.[2] Here, trades occurred between JP Morgan Securities, an affiliate under common control with JP Morgan IM which dealt commercial paper on behalf of certain issuers, and other non-RIC advisory clients of JP Morgan IM. Therefore, JP Morgan IM was acting as principal for trades involving those clients. However, JP Morgan IM did not provide prior notification or obtain prior consent from the other advisory clients and, therefore, violated Section 206(3) of the Advisers Act.

23. As a result of the conduct described above, JP Morgan IM willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require, among other things, that registered investment advisers adopt and implement written policies and procedures reasonably designed to prevent violations, by the investment adviser and its supervised persons, of the Advisers Act and the rules thereunder.

24. As a result of the conduct described above, JP Morgan IM caused the RICs to violate Rule 38a-1 under the Investment Company Act, which requires a registered investment company to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws.

JP Morgan IM's Cooperation and Remedial Efforts

25. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff. Upon

[2] "Willfully," for purposes of imposing relief under Section 203(e) of the Advisers Act, "'means no more than that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

learning about the principal trades, JP Morgan IM notified Enforcement staff, promptly provided documents, communications, and other information on an ongoing, voluntary basis, made presentations and written submissions to assist the staff, provided additional training to Global Liquidity investment professionals, and updated its policies and procedures.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent JP Morgan IM's Offer.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, and Section 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent JP Morgan IM cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Investment Company Act and Rule 38a-1 thereunder, and Sections 206(3) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

B. Respondent JP Morgan IM is censured.

C. JP Morgan IM shall, within twenty-one days of the entry of this Order, pay a civil money penalty in the amount of $1,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717..

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying JP Morgan IM as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lee A. Greenwood, Assistant

Regional Director, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY 10004.

D. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalty ordered in this proceeding, the amount ordered to be paid as a civil money penalty pursuant to this Order shall be treated as a penalty paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action, and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary