UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101494 / October 31, 2024

INVESTMENT ADVISERS ACT OF 1940
Release No. 6759 / October 31, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22278

In the Matter of **J.P. MORGAN SECURITIES LLC** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS 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 Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against J.P. Morgan Securities LLC ("Respondent").

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 Respondent 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 Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e) and 203(k) of the Investment Advisers 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. This matter arises from disclosure violations by J.P. Morgan Securities LLC ("JP Morgan Securities"), a dually registered investment adviser and broker-dealer, in connection with its advisory program known as the Portfolio Manager Program ("PM Program"). Since at least July 2017 until October 11, 2024 (the "Relevant Period"), JP Morgan Securities failed to fully and fairly disclose the financial incentive of itself and certain of its financial advisors[2] to recommend the PM Program over advisory programs offered by JP Morgan Securities that use third-party managers. JP Morgan Securities also failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with the disclosure of conflicts of interest presented by the fee structure of the advisory programs for itself and its financial advisors.

Respondent

2. **JP Morgan Securities** is a Delaware limited liability company with its principal place of business in New York, New York. It 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 ("AUM"). JP Morgan Securities is a wholly owned subsidiary of JPMorgan Chase & Co., a global financial services firm incorporated in Delaware and headquartered in New York, New York.

JP Morgan Securities' Discretionary Wrap Fee Programs

3. Discretionary wrap fee programs are advisory programs in which clients pay JP Morgan Securities an asset-based fee for asset management, and JP Morgan Securities agrees not to charge clients any transaction-based fees for the purchase or sale of securities in client accounts. The term "discretionary" refers to the ability of portfolio managers to make buy and sell decisions on behalf of their clients without first proposing each trade to the client for approval. JP Morgan Securities offers discretionary wrap fee programs including the PM Program, in which approved financial advisors serve as portfolio managers, and programs that offer investment strategies managed by third-party portfolio managers, such as the Strategic Investment Services Program

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[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.

[2] JP Morgan Securities used a number of terms to refer to its financial advisors during the Relevant Period; in 2017-2018 they were called Advisory Representatives, in 2019-2020 they were called Financial Advisors, and starting in 2021 they are called Wealth Advisors. In addition to being investment advisory representatives, financial advisors are also registered representatives of the broker-dealer.

(“STRATIS”), Unified Managed Account Program (“UMA”), and Investment Counseling Service Program (“ICS”) (together, “Third-Party Manager Programs” or “TPM Programs”). The PM Program and TPM Programs described below are offered by JP Morgan Securities through its sales channel known as J.P. Morgan Advisors.

4. The PM Program is a discretionary wrap fee program in which an approved JP Morgan Securities financial advisor constructs client portfolios based on a set of investment strategies that JP Morgan Securities has approved for each eligible financial advisor. During the Relevant Period, there were approximately 190 financial advisors in the PM Program with 750 total strategies. Most PM Program strategies are similar to strategies offered by other investment advisers available through the TPM Programs. However, the PM Program strategies are different in that the PM Program financial advisor is also the portfolio manager for the investment strategy, clients have direct access to the person selecting individual securities, and can request portfolio modifications based on their individual circumstances (*e.g.*, tax considerations).

5. Since the end of 2016, AUM in the PM Program grew from approximately $10.5 billion to more than $30 billion in 2022.

6. The TPM Programs are advisory programs in which financial advisors identify and advise clients to invest in strategies managed by third-party advisory firms. Similar to the PM Program, strategies run by the third-party advisory firms typically invest in equity, fixed income, or balanced strategies. The client works with their JP Morgan Securities financial advisor to select TPM Program strategies that meet their investment goals. Unlike the PM Program, clients do not have direct access to the TPM Program portfolio managers and have limited ability to request portfolio modifications.

7. JP Morgan Securities financial advisors have the ability to recommend that clients invest in strategies offered in the TPM Programs, but only approved financial advisors are permitted to offer their own PM Program strategies.

JP Morgan Securities’ Financial Incentive to Recommend the PM Program

8. As described further below, the fee structures of the PM Program and TPM Programs and the minimum AUM requirement for PM Program financial advisors create an incentive for JP Morgan Securities and financial advisors to recommend the PM Program over the TPM Programs.

9. For both the PM Program and TPM Programs JP Morgan Securities charges a wrap fee that is capped at 2% of client assets in the account, but the wrap fee is negotiable and financial advisors have discretion to lower the percentage fee charged, including at the request of clients. In practice, most financial advisors charge a wrap fee of far less than the 2% maximum.

10. In addition to the JP Morgan Securities wrap fee, clients in the TPM Programs pay a separate fee to the third-party manager (“TPM Fee”), which cannot be negotiated by financial advisors. For STRATIS and UMA, JP Morgan Securities collects the TPM Fee and pays it to the third-party manager. For ICS, because the program is dual-contract, the client separately pays a

wrap fee to JP Morgan Securities and another fee to the third-party manager. This additional fee is not applicable in the PM Program because JP Morgan Securities financial advisors manage the strategies.

11. Clients typically pay a lower overall fee when using the PM Program as compared to the TPM Programs. However, financial advisors approved for the PM Program typically charge a higher JP Morgan Securities wrap fee to PM Program accounts (where the FA provides additional portfolio management services) than those financial advisors charge to TPM Program accounts.

12. Financial advisors are compensated in accordance with the fees they generate for JP Morgan Securities and based on a compensation grid, which dictates the percentage split of the fees between JP Morgan Securities and the financial advisor. For example, during the Relevant Period, financial advisors generating at least $500,000 in fees for JP Morgan Securities received 40-50% of that amount. The rest was retained by JP Morgan Securities.

13. For the PM Program, JP Morgan Securities and its financial advisors keep 100% of the wrap fee paid by the client. As a result, 100% of the fee is credited to the compensation grid for purposes of calculating the financial advisor's compensation. When clients are invested in the TPM Programs, the client pays both a wrap fee to JP Morgan Securities and a separate fee to the third-party managers, typically resulting in a higher overall fee to the client. JP Morgan Securities and its financial advisors keep 100% of the wrap fee for the TPM Programs, which is credited to the grid. However, the financial advisor does not receive any part of the TPM Fee.

14. In part because clients do not pay a separate third-party fee when invested in PM Program strategies, JP Morgan Securities and its financial advisors are able to charge a higher wrap fee for the PM Program, while maintaining a lower overall fee for the client. The opportunity to charge a higher wrap fee for PM Program strategies creates a financial incentive for JP Morgan Securities and its financial advisors to recommend the PM Program over the TPM Programs. Prior to August 2021, there was no disclosure concerning this financial incentive for financial advisors, and prior to October 11, 2024, there was no disclosure regarding this financial incentive for JP Morgan Securities.

15. PM Program financial advisors who do not maintain at least $20 million in AUM after two years within the PM Program generally lose their eligibility to participate in that program. This creates an additional incentive for approved financial advisors to recommend that clients put and keep their assets in the PM Program strategies rather than TPM Programs. Neither the $20 million minimum AUM, nor the fact that financial advisors could lose their ability to offer PM Program strategies if they fall below that amount, nor the resulting incentive to place client assets in the PM Program, was disclosed to clients until October 11, 2024.

JP Morgan Securities Failed to Adequately Disclose its and its PM Program Financial Advisors' Financial Incentives to Recommend the PM Program

16. During the Relevant Period, JP Morgan Securities did not adequately disclose all material facts concerning the incentives to recommend the PM Program over the TPM Programs. The PM Program's ADV brochure dated June 9, 2017, stated that:

> [JP Morgan Securities] typically pays a portion of the Wrap Fee and any Incentive Fee it receives from each client in the [PM Program] to the Advisory Representative for that client. The exact portion of such fees . . . is most commonly within a range from 40% to 50%. Because the amount received by an Advisory Representative as a result of a client's participation in the [PM Program] may be more than the Advisory Representative would receive if the client participated in another J.P. Morgan Securities investment advisory program or paid separately for investment advice, brokerage and other services covered by the Wrap Fee, the Advisory Representative may have a financial incentive to recommend the [PM Program] over other programs or services.

17. This PM Program disclosure did not provide full and fair disclosure as to the conflict created by the differences in the fee structure between the PM Program and TPM Programs, and specifically the opportunity to charge a higher wrap fee for PM Program strategies. Indeed, JP Morgan Securities used the same language in describing the TPM Programs in its ADV brochure for the TPM Programs, even though those programs typically provide JP Morgan Securities and its financial advisors with *less* compensation than the PM Program.[3]

18. As a result, the PM Program brochure disclosure used until August 2021 did not disclose the conflicts of interest that PM Program financial advisors have when recommending that clients invest through the PM Program over the TPM Programs, particularly the fact that financial advisors most often negotiate a higher JP Morgan Securities fee when clients participate in the PM Program, which has no separate portfolio manager fee, instead of in TPM Programs where clients also pay a separate portfolio manager fee. The disclosure was also unclear because in addition to

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[3] The TPM Programs' brochure disclosure stated that:

> A portion of [JP Morgan Securities' component of the Fee] is generally paid to the J.P. Morgan Securities Advisory Representative servicing the client's [TPM Program] accounts[(s)], who also may have recommended that the client participate in [the TPM Program]. Because the amount received by an Advisory Representative as a result of a client's participation in [the TPM Program] may be more than the Advisory Representative would receive if the client participated in another J.P. Morgan Securities investment advisory program or paid separately for investment advice, brokerage and other services covered by the Fee, the Advisory Representative may have a financial incentive to recommend [the TPM Program] over other programs or services.

comparing the PM Program to other wrap fee programs, it also compared non wrap-fee program services provided by JP Morgan Securities, making it difficult for a client to understand what exactly is being disclosed. Until October 11, 2024, the disclosure also did not mention JP Morgan Securities' conflict of interest, which is separate from the financial advisor's conflict. Until October 11, 2024, there was no disclosure regarding JP Morgan Securities' financial incentive to recommend that clients invest through the PM Program over the TPM Programs.

19. Furthermore, until October 11, 2024, the brochure made no disclosure regarding the incentive for financial advisors to put and keep client assets in PM Program strategies to help the financial advisor maintain the required minimum AUM in the PM Program. JP Morgan Securities did not disclose that financial advisors approved for the PM Program were required to maintain a minimum PM Program AUM after two years, nor that financial advisors who do not maintain that minimum AUM in the PM Program could be removed from the program. JP Morgan Securities described a number of other factors that could lead to a financial advisor being removed from the PM Program.

JP Morgan Securities Failed to Implement Written Policies and Procedures Reasonably Designed to Prevent Violations of the Advisers Act and the Rules Thereunder

20. During the Relevant Period, JP Morgan Securities failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with the disclosure of conflicts of interest presented by the fee structure for its advisory programs or the compensation to its financial advisors. Other than generalized statements that conflicts of interest should be disclosed, JP Morgan Securities' policies and procedures did not contain any specific guidance regarding the disclosure of conflicts of interest.

Violations

21. As a result of the conduct described above, JP Morgan Securities willfully[4] violated Section 206(2) of the Advisers Act, which prohibits an investment adviser, directly or indirectly, from engaging "in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client." Scienter is not required to establish a violation of Section 206(2), which may rest on a finding of simple negligence. *SEC v. Steadman*, 967 F.2d

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[4] "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act and 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). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 194-95 (1963)).

22. As a result of the conduct described above, JP Morgan Securities willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which requires investment advisers registered or required to be registered with the Commission to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder.

IV.

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

Accordingly, pursuant to Section 15(b) of the Exchange Act and Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. JP Morgan Securities cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

B. JP Morgan Securities is censured.

C. JP Morgan Securities shall, within 21 days of the entry of this Order, pay a civil monetary penalty in the amount of $45 million 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 Securities 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 Virginia Rosado Desilets, Assistant Director, Securities and Exchange Commission, Division of Enforcement, 100 F St., NE, Washington, DC 20549-5012.

Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties 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