

STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION

IN THE MATTER OF DETERMINING  
whether there has been a violation  
of the Securities Act of Washington by:

Order Number S-09-196-09-CO01

CONSENT ORDER

JPMORGAN CHASE & CO.,

Respondent.

**INTRODUCTION**

WHEREAS, certain affiliates of JPMorgan Chase & Co. are dealers registered in the State of Washington; and

WHEREAS, an investigation into the activities of JPMorgan Chase & Co. and its subsidiaries and affiliates, including J.P. Morgan Securities Inc., Chase Investment Services Corporation, and Bear Stearns & Co. and affiliates, with the exception of WaMu Investments Inc., which JPMorgan acquired on September 25, 2008 (hereinafter "JPMorgan"), in connection with certain of its marketing and sale of auction rate securities practices during the period of approximately January 2006 through the present has been conducted under the auspices of a multistate task force; and

WHEREAS, JPMorgan has cooperated with regulators conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigation; and

WHEREAS, JPMorgan has advised regulators that it desires to settle and resolve the investigations without admitting or denying the allegations set forth below; and

CONSENT ORDER

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DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760

1 WHEREAS, JPMorgan agrees to take certain actions described herein and to make  
2 certain payments; and

3 WHEREAS, JPMorgan elects to permanently waive any right to a hearing and appeal  
4 under RCW 21.20.440 and RCW 34.05 with respect to this Administrative Consent Order (the  
5 “Consent Order”);

6 NOW, THEREFORE, the Securities Administrator, as administrator of the Securities Act  
7 of Washington, RCW 21.20, hereby enters this Consent Order.

8 **I.**

9 **FINDINGS OF FACT**

10 1. JPMorgan admits the jurisdiction of the Securities Division of the Washington  
11 State Department of Financial Institutions, neither admits nor denies the Findings of Fact and  
12 Conclusions of Law contained in this Consent Order, and consents to the entry of this Consent  
13 Order by the Securities Division of the Washington State Department of Financial Institutions.

14 2. Auction rate securities are financial instruments that include auction preferred  
15 shares of closed-end funds, municipal auction rate bonds, and student loan-backed auction rate  
16 bonds (collectively referred to herein as “ARS”). While ARS are all long-term instruments,  
17 one significant feature of ARS (which historically provided the potential for short-term  
18 liquidity) is the interest/dividend reset through periodic auctions. If an auction is successful  
19 (i.e., there are enough buyers for every ARS being offered for sale at the auction), investors are  
20 able to sell their ARS on a short-term basis. If, however, auctions “fail” (i.e., there are not  
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1 enough buyers for every ARS being offered for sale), investors may be required to hold all or  
2 some of their ARS until the next successful auction in order to liquidate their funds.

### 3 **Marketing and Sales of ARS to Investors**

4 3. Although JPMorgan was aware of increasing strains in areas of the ARS market  
5 during the approximate six (6) months prior to the mass failure, JPMorgan failed to ensure that  
6 all of its registered representatives made appropriate disclosures to customers regarding the  
7 nature and risks of auction rate securities. Certain JPMorgan employees stated that auction rate  
8 securities were liquid, safe, short-term investments and did not highlight the risk that, in the  
9 event of a failed auction, the securities might become illiquid.

10 4. JPMorgan used the proprietary name, M-Stars or Municipal Short Term Auction  
11 Rate Securities, in marketing ARS. This could have led certain investors to conclude that ARS  
12 were short-term instruments. In fact, ARS were not simply "short-term" instruments. For  
13 example, certain student loan MSTARs had maturities in the year 2039 and full liquidity was  
14 only available at an auction if the auction was successful.

15 5. Starting in the Fall of 2007, demand for certain auction rate securities continued  
16 to erode and JPMorgan's auction rate securities inventory grew significantly. JPMorgan did  
17 not discuss the increasing risks of owning or purchasing auction rate securities with all of its  
18 customers.

19 6. In February 2008, JPMorgan stopped uniformly supporting auctions for which it  
20 acted as the sole or lead broker. Without the benefit of support bids from broker-dealers, the  
21 auction rate securities market collapsed, leaving certain investors who had believed that these  
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1 securities were liquid, safe, short-term investments appropriate for managing short-term cash  
2 needs, holding long-term securities that could not be sold at par value.

3  
4 **Failure to Supervise Agents who Sold ARS**

5 7. JPMorgan did not provide all its sales or marketing staff with the training and  
6 information necessary to adequately explain these products or the mechanics of the auction  
7 process to their customers.

8 8. Not all of JPMorgan's registered associated persons were adequately educated in  
9 the ARS products they were selling.

10 9. JPMorgan failed to reasonably supervise all its employees, by among other things:

11 a. failing to provide adequate training to all its registered agents regarding

12 ARS by, among other things:

13 i. failing to provide to all of its registered agents timely and  
14 comprehensive sales and marketing literature regarding ARS and  
15 the mechanics of the auction process;

16 ii. failing to provide to all of its registered agents all pertinent  
17 information concerning the ARS product;

18 iii. failing to provide to all of its registered agents all pertinent  
19 information regarding the state of the market prior to the mass  
20 auction failures in mid-February, 2008; and  
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- 1                   b. failing to review ARS transactions in accounts of certain customers who  
2                   needed liquidity; and  
3                   c. failing to ensure that all its registered personnel were providing adequate  
4                   information regarding ARS to its customers.

5                   **II.**

6                   **CONCLUSIONS OF LAW**

7                   The Securities Division of the Washington State Department of Financial Institutions has  
8 jurisdiction over this matter pursuant to the Securities Act of Washington, RCW 21.20.

9                   1.       As described in the Findings of Fact above, JPMorgan failed to supervise all its  
10 agents and employees in violation of RCW 21.20.110(1)(j) and engaged in unethical practices  
11 within the meaning of RCW 21.20.110(1)(g)

12                   2.       As a result, the Securities Division of the Washington State Department of  
13 Financial Institutions finds this Consent Order and the following relief appropriate, in the  
14 public interest, and consistent with the Securities Act of Washington.  
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16                   **III.**

17                   **ORDER**

18                   On the basis of the Findings of Fact, Conclusions of Law, and JPMorgan's consent to the  
19 entry of this Consent Order,

20                   **IT IS HEREBY ORDERED:**

21                   1.       Entry of this Consent Order concludes the investigation by the Securities Division  
22 of the Washington State Department of Financial Institutions and any other action that the  
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1 Securities Division of the Washington State Department of Financial Institutions could  
2 commence under applicable Washington State law on behalf of the State of Washington as it  
3 relates to JPMorgan, relating to certain sale and marketing of auction rate securities at  
4 JPMorgan; provided, however, that excluded from and not covered by this paragraph are any  
5 claims by the Securities Division of the Washington State Department of Financial Institutions  
6 arising from or relating to violations of the provisions contained in this Consent Order.

7 2. This Consent Order is entered into solely for the purpose of resolving the  
8 referenced multistate investigation and is not intended to be used for any other purpose.

9 3. JPMorgan shall CEASE AND DESIST from violating the Securities Act of  
10 Washington and shall comply with the Securities Act of Washington.

11 4. Within ten days after the entry of this Consent Order, JPMorgan shall pay the sum  
12 of \$224,424.14 to the State of Washington as a civil monetary penalty pursuant to RCW  
13 21.20.110 and RCW 21.20.395, to be deposited in the Securities Prosecution Fund, RCW  
14 43.320.115, which amount constitutes the State of Washington's proportionate share of the  
15 state settlement amount of \$25 million dollars (\$25,000,000.00).  
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17 5. In the event another state securities regulator determines not to accept the  
18 recommendation of the NASAA Task Force and does not enter into a settlement with  
19 JPMorgan that follows the terms of the Settlement Term Sheet signed by JPMorgan, the North  
20 American Securities Administrators Association, Inc., and the state of Florida, Office of  
21 Financial Regulation, on August 14, 2008, the total amount of the State of Washington's  
22 payment shall not be affected, and shall remain at \$224,424.14.  
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1           6.       JPMorgan shall comply (and, to the extent the Settlement Term Sheet described  
2 herein required action to be taken prior to the date of this Consent Order, has already complied)  
3 with the requirements of the Settlement Term Sheet executed August 14, 2008, which  
4 provides:

5                   a.   Individual Investors

6                   As soon as practicable following the execution of the Settlement Term Sheet,  
7 JPMorgan will offer to buy back at par auction rate securities that since February 12, 2008,  
8 have not been auctioning from individual investors who purchased those auction rate securities  
9 from JPMorgan prior to February 12, 2008 (“Individual Investors”). For purposes of the  
10 Settlement, charities and small to medium-sized businesses with account values and household  
11 values up to \$10 million will also be treated as JPMorgan Individual Investors. The term  
12 Individual Investors does not include senior management of JPMorgan and its predecessors  
13 and JPMorgan financial advisors/registered representatives.  
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15                   The buybacks will be completed no later than November 12, 2008.

16                   JPMorgan will provide notice to customers of the settlement terms and  
17 JPMorgan will establish a dedicated telephone assistance line, with appropriate staff, to  
18 respond to questions from customers concerning the terms of the settlement.  
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20                   b.   Relief for Investors Who Sold Below Par

21                   No later than November 12, 2008, any JPMorgan Individual Investor that  
22 JPMorgan can reasonably identify who sold auction rate securities below par between  
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1 February 12, 2008, and announcement of the Settlement will be paid the difference between  
2 par and the price at which the investor sold the auction rate securities.

3 c. Consequential Damages Claims

4 No later than November 12, 2008, JPMorgan shall notify those JPMorgan  
5 clients who own auction rate securities, pursuant to the terms of the Settlement, that a public  
6 arbitrator (as defined by Section 12100(u) of the NASD Code of Arbitration Procedures for  
7 Customer Disputes, eff. April 16, 2007), under the auspices of FINRA, will be available for the  
8 exclusive purpose of arbitrating any JPMorgan Individual Investor's consequential-damages  
9 claim.  
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11 Arbitration shall be conducted by public arbitrators and JPMorgan will pay all  
12 applicable forum and filing fees. Any JPMorgan Individual Investors who choose to pursue  
13 such claims shall bear the burden of proving that they suffered consequential damages and that  
14 such damages were caused by investors' inability to access funds consisting of investors'  
15 auction rate securities holdings at JPMorgan. JPMorgan shall be able to defend itself against  
16 such claims; provided, however, that JPMorgan shall not contest in these arbitrations liability  
17 related to the sale of auction rate securities. Special or punitive damages shall not be available  
18 in the arbitration proceedings.  
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20 d. Institutional Investors

21 JPMorgan shall endeavor to continue to work with issuers and other interested  
22 parties, including regulatory and governmental entities, to expeditiously provide liquidity  
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1 solutions for institutional investors not covered by paragraph 6.a. above, that continue to hold  
2 auction rate securities purchased from JPMorgan (“Institutional Investors”).

3           Within 45 days of the end of each quarter beginning with a report covering the  
4 quarter ended December 31, 2008 (due on February 14, 2009), and continuing through and  
5 including a report covering the quarter ended December 31, 2009 (due on February 14, 2010),  
6 JPMorgan shall submit a quarterly written report detailing JPMorgan’s progress with respect to  
7 its obligations pursuant to this Consent Order and outlining the efforts in which JPMorgan has  
8 engaged and the results of those efforts with respect to JPMorgan’s Institutional Investors’  
9 holdings in auction rate securities. JPMorgan shall confer with William F. Reilly, Bureau  
10 Chief, Bureau of Securities Regulation, of the state of Florida, Office of Financial Regulation,  
11 as the lead NASAA member on behalf of all the states, on a quarterly basis to discuss  
12 JPMorgan’s progress to date. Such quarterly reports and conferences/meetings shall continue  
13 until the first quarter of 2010. Following every quarterly meeting, the state of Florida, Office  
14 of Financial Regulation, shall advise JPMorgan of any concerns regarding JPMorgan’s  
15 progress in providing liquidity solutions for Institutional Investors and, in response, JPMorgan  
16 shall detail the steps that JPMorgan plans to implement to address such concerns. The  
17 reporting or meeting deadlines set forth above may be amended with written permission from  
18 the state of Florida, Office of Financial Regulation.  
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21           e. Relief for Municipal Issuers  
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1 JPMorgan shall refund underwriting fees JPMorgan has received from  
2 municipal auction rate issuers that issued such securities through JPMorgan in the initial  
3 primary market between August 1, 2007, and February 12, 2008, and refinanced those  
4 securities through JPMorgan after February 12, 2008, through the date this Consent Order is  
5 executed by JPMorgan.

6 f. In consideration of the Settlement

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8 The Securities Division of the Washington State Department of Financial  
9 Institutions will:

10 i. Terminate its investigation with respect to JPMorgan's marketing  
11 and sale of auction rate securities to Individual Investors defined in paragraph 6.a. above.  
12 However, nothing herein limits the ability of the Securities Division of the Washington State  
13 Department of Financial Institutions in pursuing any investigation relating to any party other  
14 than JPMorgan.

15  
16 ii. Refrain from taking legal action, excluding entry of this Consent  
17 Order, against JPMorgan with respect to its Institutional Investors until November 12, 2008;  
18 the Securities Division of the Washington State Department of Financial Institutions shall issue  
19 continuances of that period as it deems appropriate; and

20 iii. Accept payment of \$224,424.14 as its portion of the above-  
21 mentioned \$25 million dollar penalty, to address all underlying conduct relating to the  
22 marketing and sale of auction rate securities. The Securities Division of the Washington State  
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1 Department of Financial Institutions will not seek additional monetary penalties from  
2 JPMorgan relating to such conduct.

3 7. If payment is not made by JPMorgan or if JPMorgan materially defaults in any of  
4 its obligations set forth in this Consent Order and fails to cure such a default reasonably after  
5 ten (10) days notice from the Securities Division of the Washington State Department of  
6 Financial Institutions, notwithstanding any other provision of Washington State law, the  
7 Securities Division of the Washington State Department of Financial Institutions may vacate  
8 this Consent Order at its sole discretion and without opportunity for administrative hearing.

9 8. This Consent Order is not intended to indicate that JPMorgan or any of its  
10 affiliates or current or former employees shall be subject to any disqualifications contained in  
11 the federal securities law, the rules and regulations thereunder, the rules and regulations of self  
12 regulatory organizations, or various states' securities laws including any disqualifications from  
13 relying upon the registration exemptions or safe harbor provisions. In addition, this Consent  
14 Order is not intended to form the basis for any such disqualifications.

15 9. Nothing herein shall preclude the State of Washington, its departments, agencies,  
16 boards, commissions, authorities, political subdivisions, and corporations (collectively "State  
17 Entities"), other than the Securities Division of the Washington State Department of Financial  
18 Institutions and only to the extent set forth in paragraph 1 above, and the officers, agents, or  
19 employees of State Entities from asserting any claims, causes of action, or applications for  
20 compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive  
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1 relief against JPMorgan in connection with certain marketing and sales practices of auction rate  
2 securities at JPMorgan.

3 10. Except in an action by the Securities Division of the Washington State  
4 Department of Financial Institutions to enforce the obligations of JPMorgan in this Consent  
5 Order, this Consent Order may neither be deemed nor used as an admission of or evidence of  
6 any alleged fault, omission, or liability of JPMorgan in any civil, criminal, arbitration, or  
7 administrative proceeding in any court, administrative agency, or tribunal. For any person or  
8 entity not a party to this Consent Order, this Consent Order does not limit or create any private  
9 rights or remedies against JPMorgan including, without limitation with respect to the use of  
10 any e-mails or other documents of JPMorgan or of others concerning the marketing and/or sale  
11 of auction rate securities, limit or create liability of JPMorgan, or limit or create defenses of  
12 JPMorgan to any claims.  
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14 11. This Consent Order shall not disqualify JPMorgan or any of its affiliates or  
15 current or former employees from any business that they otherwise are qualified or licensed to  
16 perform under applicable state law and is not intended to form the basis for any  
17 disqualification.

18 12. Any dispute related to this Consent Order shall be construed and enforced in  
19 accordance with, and governed by, the laws of the State of Washington without regard to any  
20 choice of law principles.  
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1           13. Respondent, JPMorgan, through its execution of the Consent to this Consent  
2 Order, voluntarily waives its right to a hearing on this matter and to judicial review of the  
3 Consent Order under RCW 21.20.440 and RCW 34.05.

4           14. Respondent, JPMorgan, enters into this Consent Order voluntarily and represents  
5 that no threats, offers, promises, or inducements of any kind have been made by the Securities  
6 Division of the Washington State Department of Financial Institutions or any member, officer,  
7 employee, agent, or representative of the Securities Division of the Washington State  
8 Department of Financial Institutions to induce JPMorgan to enter into this Consent Order other  
9 than as set forth in this Consent Order.

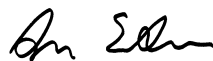
10           15. This Consent Order shall be binding upon JPMorgan and its successors and  
11 assigns as well as to successors and assigns of relevant affiliates with respect to all conduct  
12 subject to the provisions above and all future obligations, responsibilities, undertakings,  
13 commitments, limitations, restrictions, events, and conditions.

14  
15 Dated and Entered this 13th day of January, 2010.

16 By: 

17 \_\_\_\_\_  
18 MICHAEL E. STEVENSON  
19 Securities Administrator

20 Approved by:



21 \_\_\_\_\_  
22 Suzanne Sarason  
23 Chief of Enforcement

Presented by:



24 \_\_\_\_\_  
25 Bridgett Fisher  
26 Enforcement Attorney

**CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY JPMORGAN**

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3 1. JPMorgan hereby acknowledges that it has been served with a copy of the  
4 foregoing Consent Order, has read the foregoing, is aware of its right to a hearing and appeal in  
5 this matter, and has waived the same.

6 2. JPMorgan admits the jurisdiction of the Securities Division of the Washington  
7 State Department of Financial Institutions, neither admits nor denies the Findings of Fact and  
8 Conclusions of Law contained in the foregoing Consent Order, and consents to entry of this  
9 Consent Order by the Securities Division of the Washington State Department of Financial  
10 Institutions as settlement of the issues contained in the foregoing Consent Order.

11 3. JPMorgan agrees that it shall not claim, assert, or apply for a tax deduction or tax  
12 credit with regard to any state, federal, or local tax for any administrative monetary penalty that  
13 JPMorgan shall pay pursuant to this Consent Order.  
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15 4. JPMorgan states that no promise of any kind or nature whatsoever that is not  
16 reflected in this Consent Order was made to it to induce it to enter into this Consent Order and  
17 that it has entered into this Consent Order voluntarily.

18 5. Lawrence Chanen represents that he/she is SVP and Associate General  
19 Counsel of JPMorgan and that, as such, has been authorized by JPMorgan to enter into this  
20 Consent Order for and on behalf of JPMorgan.  
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Dated this 24th day of December, 2009.

JPMORGAN

By /s/ Lawrence Chanen  
Its SVP and Associate General Counsel

State of New York )  
 ) ss  
County of Kings )

SUBSCRIBED AND SWORN TO before me this 24 day of December, 2009, by  
Marlene M. Thompson.

/s/ Marlene M. Thompson  
Notary Public

My commission expires:

Feb. 12, 2011

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