

STATE OF WISCONSIN  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
DIVISION OF SECURITIES

<b>IN RE:</b>	)	
	)	<b>ADMINISTRATIVE CONSENT ORDER</b>
<b>JPMORGAN CHASE &amp; CO.,</b>	)	
	)	
	)	<b>File No. S-09150(EX)</b>
<b>Respondent.</b>	)	
<hr/>	)	

WHEREAS, certain affiliates of JPMorgan Chase & Co. are broker-dealers registered in the state of Wisconsin; 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

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

WHEREAS, JPMorgan elects to permanently waive any right to a hearing and appeal under sec. 551.61, Wis. Stats., the Hearings and Judicial Review statute which was applicable during the relevant time period with respect to this Administrative Consent Order (the “Consent Order”);

NOW, THEREFORE, the Division of Securities (“Division”) of the Wisconsin Department of Financial Institutions, as administrator of the Wisconsin Uniform Securities Law applicable during the relevant time period, hereby enters this Consent Order.

## I.

### FINDINGS OF FACT

1. JPMorgan admits the jurisdiction of the Division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Consent Order, and consents to the entry of this Consent Order by the Division.

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

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

3. Although JPMorgan was aware of increasing strains in areas of the ARS market during the approximate six (6) months prior to the mass failure, JPMorgan failed to ensure that all of

its registered representatives made appropriate disclosures to customers regarding the nature and risks of auction rate securities. Certain JPMorgan employees stated that auction rate securities were liquid, safe, short-term investments and did not highlight the risk that, in the event of a failed auction, the securities might become illiquid.

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

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

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

7. JPMorgan’s conduct and activities described in paragraphs 3 through 6 constituted engaging in prohibited business practices by a broker-dealer in violation of sec. 551.34(1), Wis. Stats.

#### **Failure to Supervise Agents who Sold ARS**

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

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

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

a. failing to provide adequate training to all its registered agents regarding ARS by, among other things:

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

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

iii failing to provide to all of its registered agents all pertinent information regarding the state of the market prior to the mass auction failures in mid-February, 2008; and

b. failing to review ARS transactions in accounts of certain customers who needed liquidity; and

c. failing to ensure that all its registered personnel were providing adequate information regarding ARS to its customers.

## II.

### CONCLUSIONS OF LAW

The Division has jurisdiction over this matter pursuant to the Wisconsin Uniform Securities Law and sections 551.61(1) and 551.63(1) and (2), Wis. Stats., the statutes applicable during the relevant time period with respect to this Consent Order.

1. As described in the Findings of Fact 8 through 10 above, JPMorgan failed to supervise all its agents and employees and engaged in other practices in violation of sec. 551.34(1)(j), Wis. Stats.

2. As a result, the Division finds this Consent Order and the following relief appropriate, in the public interest, and consistent with the Wisconsin Uniform Securities Law.

### **III.**

#### **ORDER**

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

#### **IT IS HEREBY ORDERED:**

1. Entry of this Consent Order concludes the investigation by the Division and any other action that the Division could commence under applicable Wisconsin law on behalf of the Division as it relates to JPMorgan, relating to certain sale and marketing of auction rate securities at JPMorgan; provided, however, that excluded from and not covered by this paragraph are any claims by the Division arising from or relating to violations of the provisions contained in this Consent Order.

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

3. JPMorgan will CEASE AND DESIST from violating the Wisconsin Uniform Securities Law, and will comply with the Wisconsin Uniform Securities Law.

4. Within ten days of the date of this Consent Order, JPMorgan shall pay as a monetary penalty, the sum of \$ 469,571.17 in the form of a check payable to the Wisconsin