

1 STATE OF OREGON  
2 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES  
3 DIVISION OF FINANCE AND CORPORATE SECURITIES  
4 BEFORE THE DIRECTOR OF THE  
5 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

6 )  
7 ) **File No. S-09-0040**  
8 ) **ORDER TO CEASE AND DESIST,**  
9 ) **ORDER ASSESSING CIVIL PENALTY,**  
10 ) **AND**  
11 ) **CONSENT TO ENTRY OF ORDER**  
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**In the Matter of:**  
**JPMORGAN CHASE & CO.,**  
**CRD #79**  
**Respondent.**

WHEREAS, at times material to this order JPMorgan Chase & Co. was the parent company of certain subsidiaries and affiliates that were broker-dealers licensed in Oregon with the Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (“DFCS”); 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 JPMorgan’s marketing and sale of auction rate securities from 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 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

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1 certain payments; and

2 WHEREAS, JPMorgan elects to permanently waive any right to a hearing and appeal  
3 under ORS 59.295, ORS 59.305 and ORS Chapter 183 with respect to this Order to Cease and  
4 Desist, Order Assessing Civil Penalty, and Consent to Entry of Order (the "Order");

5 NOW, THEREFORE, the Director of the Oregon Department of Consumer and Business  
6 Services ("the Director"), as administrator of the Oregon Securities Law, Oregon Revised  
7 Statutes Chapter 59 and Oregon Administrative Rules Chapter 441, hereby enters this Order.

8 **I.**

9 **FINDINGS OF FACT**

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

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

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

23 3. Although JPMorgan was aware of increasing strains in areas of the ARS market  
24 during the approximate six (6) months prior to the mass failure in mid-February 2008, JPMorgan  
25 failed to ensure that all of its securities salespersons made appropriate disclosures to customers



1 regarding the nature and risks of ARS. Certain JPMorgan employees stated that ARS were liquid,  
2 safe, short-term investments and did not highlight the risk that, in the event of a failed auction,  
3 the securities might become illiquid.

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

9 5. Starting in the fall of 2007, demand for certain ARS continued to erode and  
10 JPMorgan’s ARS inventory grew significantly. JPMorgan did not discuss the increasing risks of  
11 owning or purchasing ARS with all of its customers.

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

### 17 **Failure to Supervise Securities Salespersons who Sold ARS**

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

21 8. Some of JPMorgan’s securities salespersons were not adequately informed about  
22 the features and risks of the ARS products they were selling.

23 9. JPMorgan failed to reasonably supervise all its employees, by:

24 a. failing to provide adequate training to all its securities salespersons  
25 regarding ARS by:





1 the Director could commence under the Oregon Securities Law on behalf of Oregon as it relates  
2 to JPMorgan, relating to the sale and marketing of ARS at JPMorgan; provided, however, that  
3 excluded from and not covered by this paragraph are any claims by the Director arising from or  
4 relating to violations of the provisions contained in this Order.

5 2. This Order is entered into solely for the purpose of resolving the referenced multi-  
6 state investigation and is not intended to be used for any other purpose.

7 3. JPMorgan will CEASE AND DESIST from violating the Oregon Securities Law,  
8 and will comply with the Oregon Securities Law.

9 4. Within ten days of the date of this Order, JPMorgan shall pay the sum of  
10 \$54,465.68 (fifty-four thousand, four hundred sixty-five dollars and sixty-eight cents) to the  
11 Oregon Department of Consumer and Business Services. This sum includes a civil penalty of  
12 \$51,742.40 (fifty-one thousand, seven hundred forty-two dollars and forty cents) for the General  
13 Fund of the Oregon State Treasury, pursuant to ORS 59.995(1), and \$2,723.28 (two thousand,  
14 seven hundred twenty-three dollars and twenty-eight cents) for the Oregon Department of  
15 Consumer and Business Services Consumer Financial Education Account. This amount  
16 constitutes the state of Oregon's proportionate share of the state settlement amount of \$25  
17 Million Dollars (\$25,000,000.00).

18 5. In the event another state securities regulator determines not to accept the  
19 recommendation of the NASAA Task Force and does not enter into a settlement with JPMorgan  
20 that follows the terms of the Settlement Term Sheet signed by JPMorgan, the North American  
21 Securities Administrators' Association, and the state of Florida, Office of Financial Regulation,  
22 on August 14, 2008, the total amount of the payment to the Oregon Department of Consumer  
23 and Business Services shall not be affected, and shall remain at \$54,465.68 (fifty-four thousand,  
24 four hundred sixty-five dollars and sixty-eight cents).

25 6. JPMorgan shall comply (and, to the extent the Settlement Term sheet described



1 herein required action to be take prior to the date of this Order, has already complied) with the  
2 requirements of the Settlement Term Sheet executed August 14, 2008, which provides:

3 a. Individual Investors

4 As soon as practicable following the execution of the Settlement Term Sheet,  
5 JPMorgan will have offered to buy back at par ARS that since February 12, 2008, have not been  
6 auctioning from individual investors who purchased those ARS from JPMorgan prior to  
7 February 12, 2008 (“Individual Investors”). For purposes of the Settlement, charities and small  
8 to medium-sized businesses with account values and household values up to \$10 million will  
9 also be treated as JPMorgan Individual Investors. The term Individual Investors does not include  
10 senior management of JPMorgan and its predecessors and JPMorgan financial  
11 advisors/registered representatives.

12 The buybacks shall have been completed no later than November 12, 2008.

13 JPMorgan shall have provided notice to customers of the settlement terms and  
14 JPMorgan shall have established a dedicated telephone assistance line, with appropriate staff, to  
15 respond to questions from customers concerning the terms of the settlement.

16 b. Relief for Investors Who Sold Below Par

17 No later than November 12, 2008, any JPMorgan Individual Investor that  
18 JPMorgan can reasonably identify who sold ARS below par between February 12, 2008, and  
19 August 14, 2008 shall have been paid the difference between par and the price at which the  
20 investor sold the ARS.

21 c. Consequential Damages Claims

22 No later than November 12, 2008, JPMorgan shall have notified those JPMorgan  
23 clients who own ARS, pursuant to the terms of the Settlement, that a public arbitrator (as defined  
24 by Section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff.  
25 April 16, 2007), under the auspices of FINRA, will be available for the exclusive purpose of

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1 arbitrating any JPMorgan Individual Investor’s consequential-damages claim.

2 Arbitration shall be conducted by public arbitrators and JPMorgan will pay all  
3 applicable forum and filing fees. Any JPMorgan Individual Investors who choose to pursue such  
4 claims shall bear the burden of proving that they suffered consequential damages and that such  
5 damages were caused by investors’ inability to access funds consisting of investors’ ARS  
6 holdings at JPMorgan. JPMorgan shall be able to defend itself against such claims; provided,  
7 however, that JPMorgan shall not contest in these arbitrations liability related to the sale of ARS.  
8 Special or punitive damages shall not be available in the arbitration proceedings.

9 d. Institutional Investors

10 JPMorgan shall endeavor to continue to work with issuers and other interested  
11 parties, including regulatory and governmental entities, to expeditiously provide liquidity  
12 solutions for institutional investors not covered by paragraph 6.a. above, that continue to hold  
13 ARS purchased from JPMorgan (“Institutional Investors”).

14 Within 45 days of the end of each quarter beginning with a report covering the  
15 quarter ended December 31, 2008 (due on February 14, 2009), and continuing through and  
16 including a report covering the quarter ended December 31, 2009 (due on February 14, 2010),  
17 JPMorgan shall have submitted a quarterly written report detailing JPMorgan’s progress with  
18 respect to its obligations pursuant to this Order and outlining the efforts in which JPMorgan has  
19 engaged and the results of those efforts with respect to JPMorgan’s institutional investors’  
20 holdings in ARS. JPMorgan shall have conferred with William F. Reilly, Bureau Chief, Bureau  
21 of Securities Regulation, of the state of Florida, Office of Financial Regulation, as the lead  
22 NASAA member on behalf of all the states, on a quarterly basis to discuss JPMorgan’s progress  
23 to date. Such quarterly reports and conferences/meetings shall have continued until the first  
24 quarter of 2010. Following every quarterly meeting, the state of Florida, Office of Financial  
25 Regulation, shall have advised JPMorgan of any concerns regarding JPMorgan’s progress in



1 providing liquidity solutions for Institutional Investors and, in response, JPMorgan shall have  
2 detailed the steps that JPMorgan plans to implement to address such concerns. The reporting or  
3 meeting deadlines set forth above may be amended with written permission from the state of  
4 Florida, Office of Financial Regulation.

5 e. Relief for Municipal Issuers

6 JPMorgan shall refund underwriting fees JPMorgan has received from municipal  
7 auction rate issuers that issued such securities through JPMorgan in the initial primary market  
8 between August 1, 2007, and February 12, 2008, and refinanced those securities through  
9 JPMorgan after February 12, 2008, through the date this Order is executed by JPMorgan.

10 f. In consideration of the Settlement

11 The Director will:

12 i. Terminate the DFCS investigation with respect to JPMorgan's  
13 marketing and sale of ARS to Individual Investors defined in paragraph 6.a. above. However,  
14 nothing herein limits the Director from pursuing any investigation relating to any party other  
15 than JPMorgan.

16 ii. Refrain from taking legal action, excluding entry of this Order,  
17 against JPMorgan with respect to its institutional investors until November 12, 2008; The  
18 Director shall issue continuances of that period as the Director deems appropriate; and

19 iii. Accept payment of \$54,465.68 (fifty-four thousand, four hundred  
20 sixty-five dollars and sixty-eight cents) to address all underlying conduct relating to the  
21 marketing and sale of ARS. The Director will not seek additional monetary penalties from  
22 JPMorgan relating to such conduct.

23 7. If payment is not made by JPMorgan or if JPMorgan materially defaults in any of  
24 its obligations set forth in this Order and fails to cure such a default reasonably after ten (10)  
25 days notice from the Director, notwithstanding any other provision of Oregon law, the Director



1 may vacate this Order at the Director’s sole discretion and without opportunity for administrative  
2 hearing.

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

9 9. Nothing herein shall preclude the state of Oregon, its departments, agencies,  
10 boards, commissions, authorities, political subdivisions, and corporations (collectively “State  
11 Entities”), other than the Director and only to the extent set forth in paragraph 1 above, and the  
12 officers, agents, or employees of State Entities from asserting any claims, causes of action, or  
13 applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal,  
14 or injunctive relief against JPMorgan in connection with certain marketing and sales practices of  
15 ARS at JPMorgan.

16 10. Except in an action by the Director to enforce the obligations of JPMorgan in this  
17 Order, this Order may neither be deemed nor used as an admission of or evidence of any alleged  
18 fault, omission, or liability of JPMorgan in any civil, criminal, arbitration, or administrative  
19 proceeding in any court, administrative agency, or tribunal. For any person or entity not a party  
20 to this Order, this Order does not limit or create any private rights or remedies against JPMorgan  
21 including, without limitation with respect to the use of any e-mails or other documents of  
22 JPMorgan or of others concerning the marketing and/or sales of ARS, limit or create liability of  
23 JPMorgan, or limit or create defenses of JPMorgan to any claims.

24 11. This Order shall not disqualify JPMorgan or any of its affiliates or current or  
25 former employees from any business that they otherwise are qualified or licensed to perform

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1 under applicable state law and is not intended to form the basis for any disqualification.

2 12. Any dispute related to this Order shall be construed and enforced in accordance  
3 with, and governed by, the laws of the state of Oregon without regard to any choice of law  
4 principles.

5 13. Respondent, JPMorgan, through its execution of the Consent to entry of this  
6 Order, voluntarily waives its right to a hearing on this matter and to judicial review of the Order  
7 under ORS 59.295, ORS 59.305 and ORS Chapter 183.

8 14. Respondent, JPMorgan, enters into this Order voluntarily and represents that no  
9 threats, offers, promises, or inducements of any kind have been made by the Director or any  
10 member, officer, employee, agent, or representative of the Director to induce JPMorgan to enter  
11 into this Order other than as set forth in this Order.

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

16 Dated this 7th day of June, 2011 .

17 SCOTT L. HARRA, ACTING Director  
18 Department of Consumer and Business Services

19 By: /s/ David Tatman  
20 David C. Tatman, Administrator  
21 Division of Finance and Corporate Securities

### 22 CONSENT TO ENTRY OF ORDER BY JPMORGAN

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

2. JPMorgan admits the jurisdiction of the Director, neither admits nor denies the

1 Findings of Fact and Conclusions of Law contained in the foregoing Order, and consents to entry  
2 of this Order by the Director as settlement of the issues contained in the foregoing Order.

3 3. JPMorgan agrees that it shall not claim, assert, or apply for a tax deduction or tax  
4 credit with regard to any state, federal, or local tax for any administrative monetary penalty that  
5 JPMorgan shall pay pursuant to this Order.

6 4. JPMorgan states that no promise of any kind or nature whatsoever that is not  
7 reflected in this Order was made to it to induce it to enter into this Order and that it has entered  
8 into this Order voluntarily.

9 5. Michael O'Connor represents that he/she is a Senior Vice President  
10 of JPMorgan and that, as such, has been authorized by JPMorgan to enter into this Order for and  
11 on behalf of JPMorgan.

12 Dated this 25th day of May, 2011.

13 JPMORGAN

14 By: /s/ Michael O'Connor

15 Michael O'Connor  
16 (Printed Name)

17 Senior Vice President  
18 (Title)

18 State of New York )

) ss

19 County of New York )

20 SUBSCRIBED AND SWORN TO before me this 25th day of May, 2011, by

21 Michael O'Connor.

22 Notary Public

23 /s/ Susan McNamara  
24 (Signature of Notary)

24 My commission expires:  
25 \_\_\_\_\_

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