

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

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9:23 am, Mar 23, 2016

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In the Matter of)
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JP Morgan Ventures Energy Corp. and)
JP Morgan Chase Bank N.A.,)

Respondents.)
_____)

) **CFTC Docket No: 16-11**

ORDER INSTITUTING PROCEEDINGS PURSUANT TO
SECTION 6(c) AND 6(d) OF THE COMMODITY EXCHANGE ACT,
MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS

I.

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from at least March 1, 2013 through April 30, 2014 (the “Relevant Period”), JP Morgan Ventures Energy Corporation (“JPVEC”) and JP Morgan Chase Bank N.A. (“JPCB”) (collectively, “Respondents”) violated Section 4s(f) of the Commodity Exchange Act (the “Act”), 7 U.S.C. § 6s(f) (2012), and Commission Regulations (“Regulations”) 20.4 and 20.7, 17 C.F.R. §§ 20.4 and 20.7 (2015). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondents engaged in the violations set forth herein, and to determine whether any order should be issued imposing remedial sanctions.

II.

In anticipation of the institution of an administrative proceeding, Respondents have submitted an Offer of Settlement of Respondents JP Morgan Ventures Energy Corporation and JP Morgan Chase Bank N.A. (“Offer”) that the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, Respondents consent to the entry of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, Making Findings and Imposing Remedial Sanctions (“Order”) and acknowledge service of this Order.¹

¹ Respondents consent to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Respondents do not consent to the use of the Offer or the findings or conclusions in this Order consented to in the Offer, as the sole basis for any other proceeding brought by the Commission, other than a proceeding in bankruptcy or to enforce the terms of this Order. Nor do Respondents consent to the use of the Offer or this Order, or the findings or conclusions in this Order consented to in the Offer, by any other party in any other proceeding.

III.

The Commission finds the following:

A. SUMMARY

Pursuant to Section 4s(f), 7 U.S.C. § 6s(f), and Regulation 20.4, 17 C.F.R. § 20.4, Swap Dealers that meet certain requirements are required to file daily large trader reports for reportable positions in physical commodity swaps (“LTRs”), which are populated with specific data as directed by the Commission. The LTRs must also conform to the form and manner for reporting and submitting information as set forth in Regulation 20.7, 17 C.F.R. § 20.7.

During the Relevant Period, Respondents filed LTRs which failed to comply with certain Commission requirements. On January 2, 2014, the Commission’s Division of Market Oversight issued special call notices to JPVEC and JPCB that identified multiple apparent instances of such noncompliance in the LTRs submitted by Respondents (“Special Calls”). After receiving the Special Calls, Respondents implemented changes to their reporting procedures and submitted corrected historical reports.

B. RESPONDENTS

Respondents are headquartered in New York and have been provisionally registered with the Commission as Swap Dealers (“SDs”) since December 31, 2012.

C. FACTS

As provisionally registered SDs, Respondents were required to submit LTRs in the form and manner determined by the Commission during the Relevant Period.² Despite that obligation, Respondents submitted LTRs that routinely contained errors, and they failed to submit LTRs on two days. Respondents submitted reports that included errors such as (1) reporting the underlying commodity, futures equivalent months, and currency value strike price in the wrong data fields; (2) reporting futures contract equivalents, commodity units, and notional values that were incorrect or missing; and (3) providing identifying information for principals that attributed positions to the wrong entities; and (4) incorrectly reporting counterparty names. As a result of these errors, Respondents submitted LTRs throughout the Relevant Period that inaccurately reported Respondents’ positions in various commodities. Moreover, in many instances, the data processing and reporting systems used by Respondents to generate the LTRs did not detect these errors before Respondents submitted the LTRs to the Commission’s Division of Market Oversight (DMO). Accordingly, Respondents’ LTRs did not comply with the requirements governing Part 20 Reports, which are set forth in Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7, in conjunction with further instructions provided in the Large Trader Reporting for

² The Part 20 rules became effective on September 20, 2011. Following the promulgation of the Part 20 rules, the Commission’s Division of Market Oversight, through a series of no-action letters, provided temporary relief from these reporting requirements and certain safe-harbor provisions. However, by March 1, 2013, such relief was no longer available and Respondents were required to be in full compliance with the Part 20 reporting requirements.

Physical Commodity Swaps: Division of Market Oversight Guidebook for Part 20 Reports (“Part 20 Guidebook”).

In accepting Respondents’ Offer, the Commission recognizes Respondents’ cooperation in this matter. Throughout the Relevant Period, Respondents communicated with DMO regarding issues with their LTRs. In response to DMO’s Special Calls, Respondents analyzed their past reports and made modifications to their data processing and reporting systems as necessary to comply with their LTR reporting requirements. Respondents also corrected errors as they were identified and submitted corrected historical LTRs.

IV.

LEGAL DISCUSSION

Pursuant to Section 4s(f)(1)(A) of the Act: “Each registered swap dealer and major swap participant . . . shall make such reports as are required by the Commission by rule or regulation regarding the transactions and positions and financial condition of the registered swap dealer or major swap participant.” 7 U.S.C. § 6s(f). Regulation 20.4(c) provides certain enumerated data elements that must be included in a SD’s data report. 17 C.F.R. § 20.4(c) (2015). These data elements include, among others: the commodity underlying the reportable positions, the commodity reference price, futures equivalent month, long paired swap positions and short paired swap positions, swaption strike price, name of the counterparty, and an identifier indicating that a principal or counterparty position is being reported.

Large trader reporting for physical commodity swaps is essential to the Commission’s ability to conduct effective surveillance of markets in U.S. physical commodity futures and economically equivalent swaps. Failure to comply with the reporting specifications set forth by the Commission hinders the Commission’s ability to efficiently process and effectively utilize this critical data.

Regulation 20.7 provides, in relevant part: “Unless otherwise instructed by the Commission, a clearing organization or reporting entity shall submit data records and any other information required under this part to the Commission . . . (a) Using the format, coding structure, and electronic data transmission procedures approved in writing by the Commission.” 17 C.F.R. § 20.7 (2015). The prescribed manner and form of reporting and submitting swaps data is provided in the Part 20 Guidebook.³

Respondents provisionally registered as SDs on December 31, 2012 and consequently were required to submit LTRs during the Relevant Period. LTRs submitted by Respondents omitted required data elements and reported certain data in a manner that did not conform to the specifications required by the Commission. Additionally, for two days during the Relevant Period, Respondents failed to submit required LTRs altogether. Accordingly, Respondents

³ As provided for in Regulation 20.8, 17 C.F.R. § 20.8 (2015), the Commission delegated certain authority to the Director of DMO or others as the Director may designate from time to time. This delegated authority includes the authority pursuant to Regulation 20.7 “for providing instructions or determining the format, coding structure, and electronic data transmission procedures for submitting data records and any other information required under [part 20].”

violated Section 4s(f) of the Act, 7 U.S.C. § 6s(f), and Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7.

V.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that Respondents violated Section 4s(f) of the Act, 7 U.S.C. § 6s(f) (2012), and Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7 (2015).

VI.

OFFER OF SETTLEMENT

Respondents have submitted an Offer in which they, without admitting or denying the findings and conclusions herein:

- A. Acknowledge receipt of service of this Order;
- B. Admit the jurisdiction of the Commission to all the matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- C. Waive:
 - (1) the filing and service of a complaint and notice of hearing;
 - (2) a hearing;
 - (3) all post-hearing procedures;
 - (4) judicial review by any court;
 - (5) any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 - (6) any and all claims that they may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2012) and 28 U.S.C. § 2412 (2012), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Commission's Regulations, 17 C.F.R. §§ 148.1-30 (2015), relating to, or arising from, this proceeding;
 - (7) any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, §§ 201-253, 110 Stat. 847, 857-68 (1996), as amended by Pub. L. No. 110-28, § 8302, 121 Stat. 112, 204-205 (2007), relating to, or arising from, this proceeding; and
 - (8) any claims of Double Jeopardy based upon the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief;

- D. Stipulate that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondents have consented in the Offer; and
- E. Consent, solely on the basis of the Offer, to the Commission's entry of this Order that:
- (1) makes findings by the Commission that Respondents violated Section 4s(f) of the Act, 7 U.S.C. § 6s(f) (2012), and Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7 (2015);
 - (2) orders Respondents to cease and desist from violating Section 4s(f) of the Act, 7 U.S.C. § 6s(f) (2012), and Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7 (2015);
 - (3) orders Respondents to, jointly and severally, pay a civil monetary penalty in the amount of \$225,000, plus post-judgment interest, within ten (10) days of the date of the entry of this Order;
 - (4) orders Respondents to comply with the conditions, undertakings, and representations consented to in the Offer and set forth in Part VII of this Order.

Upon consideration, the Commission has determined to accept the Offer.

VII.

ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. Respondents shall cease and desist from violating Section 4s(f) of the Act, 7 U.S.C. § 6s(f) (2012), and Regulations 20.4 and 20.7, 17 C.F.R. §§ 20.4 & 20.7 (2015);
- B. Respondents shall, jointly and severally, pay a civil monetary penalty in the amount of two hundred and twenty-five thousand dollars (\$225,000) (the “CMP Obligation”), plus post-judgment interest, within ten (10) days of the date of the entry of the Order. If the CMP Obligation is not paid in full within ten (10) days of the date of entry of the Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of the Order pursuant to 28 U.S.C. § 1961 (2012). Respondents shall pay the CMP Obligation by electronic funds transfer, U.S. postal money order, certified check, bank cashier’s check, or bank money order. If payment is to be made other than by electronic funds transfer, Respondents shall make the payment payable to the Commodity Futures Trading Commission, and sent to the address below:

Commodity Futures Trading Commission
Division of Enforcement
ATTN: Accounts Receivables
DOT/FAA/MMAC/AMZ-341
CFTC/CPSC/SEC
6500 S. MacArthur Blvd.
Oklahoma City, OK 73169
(405) 954-7262 office
(405) 954-1620 fax
nikki.gibson@faa.gov

If payment is to be made by electronic transfer, Respondents shall contact Nikki Gibson or her successor at the above address to receive payment instructions and shall fully comply with those instructions. Respondents shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. Respondents shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

- C. Respondents and their successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:

1. **Public Statements:** Respondents agree that neither they nor any of their successors, assigns, agents or employees under their authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order, or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondents' (i) testimonial obligations, or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondents and their successors and assigns shall undertake all steps necessary to ensure that all of their agents and/or employees under their authority or control understand and comply with this agreement.

2. **Cooperation with the Commission:** Respondents shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, and any other governmental agency in this action, and in any investigation, civil litigation, or administrative matter related to the subject matter of this action or any current or future Commission investigation related thereto. As part of such cooperation, Respondents agree to:
 - a. Comply fully, promptly, completely, and truthfully, subject to any legally recognized privilege, with any inquiries or requests for information and documents;
 - b. Provide authentication of documents and other evidentiary material; and
 - c. Use their best efforts to produce any current (as of the time of the request) officer, director, employee, or agent of Respondents, regardless of the individual's location and at such location that minimizes Commission travel expenditures, to provide assistance at any trial, proceeding, or Commission investigation related to the subject matter of this proceeding, including but not limited to, requests for testimony, depositions, and/or interviews, and to encourage them to testify completely and truthfully in any such proceeding, trial or investigation.

3. **Partial Satisfaction:** Respondents understand and agree that any acceptance by the Commission of any partial payment of Respondents' CMP Obligation shall not be deemed a waiver of their obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.

4. **Change of Address/Phone:** Until such time as Respondents satisfy in full their CMP Obligation as set forth in this Order, Respondents shall provide written notice to the Commission by certified mail of any change to their telephone number and mailing address within ten calendar days of the change.

- a. Representations: Respondents have reviewed and revised their reporting systems for LTRs to address the errors identified during the Relevant Period. Respondents have also submitted corrected LTRs to the Commission. Respondents will continue to monitor their LTRs and cooperate with DMO and the Office of Data and Technology to ensure compliance with the Commission's LTR data requirements.

The provisions of this Order shall be effective on this date.

By the Commission



Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission

Dated: March 23, 2016