

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)	
)	
JP MORGAN CHASE & CO.,)	
)	No. 08-00261
)	
Respondent.)	
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CONSENT ORDER

WHEREAS, certain affiliates of JP Morgan Chase & Co. are dealers registered in the State of Illinois; and

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

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

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

WHEREAS, JP Morgan elects to permanently waive any right to a hearing and appeal under the Illinois Securities Act of 1953 (the "Act") with respect to this Administrative Consent Order (the "Consent Order");

NOW, THEREFORE, the Illinois Securities Department (the "Department"), as administrator of the Act, hereby enters this Consent Order.

I.

FINDINGS OF FACT

1. JP Morgan admits the jurisdiction of the Department, 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 Department.

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 JP Morgan was aware of increasing strains in areas of the ARS market during the approximate six (6) months prior to the mass failure, JP Morgan failed to ensure that

all of its registered representatives made appropriate disclosures to customers regarding the nature and risks of auction rate securities. Certain JP Morgan 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. JP Morgan 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 JP Morgan’s auction rate securities inventory grew significantly. JP Morgan did not discuss the increasing risks of owning or purchasing auction rate securities with all of its customers.

6. In February 2008, JP Morgan 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. JP Morgan engaged in practices prohibited by the Illinois Securities Law of 1953 [815 ILCS 5.1 *et. seq*] (the “Act”) by engaging in prohibited business practices of a dealer pursuant to Section 8.E(1)(e)(i) of the Act.

Failure to Supervise Agents who Sold ARS

8. JP Morgan did not provide all of 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 JP Morgan's registered associated persons were adequately educated in the ARS products they were selling.

10. JP Morgan failed to reasonably supervise all of its employees, by among other things:

a. failing to provide adequate training to all of 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 of its registered personnel were providing adequate information regarding ARS to its customers.

II.

CONCLUSIONS OF LAW

1. The Department has jurisdiction over this matter pursuant to the Act.

2. As described in the Findings of Fact above, J.P. Morgan failed to supervise all of its agents and employees and engaged in other practices in violation Section 8.E(1)(e)(i) of the Act.

3. As a result, the Department finds this Consent Order and the following relief appropriate, in the public interest, and consistent with the Act.

III.

ORDER

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

IT IS HEREBY ORDERED:

1. Entry of this Consent Order concludes the investigation by the Department and any other action that the Department could commence under applicable Illinois law on behalf of the Department as it relates to JP Morgan, relating to certain sale and marketing of auction rate securities at JP Morgan; provided, however, that excluded from and not covered by this paragraph are any claims by the Department 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. JP Morgan will CEASE AND DESIST from violating the Act, and will comply with the Act.

4. Within ten days of the date of this Consent Order, JP Morgan shall pay the sum of \$1,835,092.24 to the Illinois Secretary of State, Investor Education Fund. This amount

constitutes the state of Illinois's proportionate share of the state settlement amount of \$25 Million Dollars (\$25,000,000.00).

5. In the event another state securities regulator determines not to accept the recommendation of the NASAA Task Force and does not enter into a settlement with JP Morgan that follows the terms of the Settlement Term Sheet signed by JP Morgan on August 14, 2008, the total amount of the Department's payment shall not be affected, and shall remain at \$1,835,092.24.

6. JP Morgan shall comply (and, to the extent the Settlement Term sheet described herein required action to be taken prior to the date of this Consent Order, has already complied) with the requirements of the Settlement Term Sheet executed August 14, 2008, which provides:

a. Individual Investors

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

The buybacks were completed by November 12, 2008.

JP Morgan provided notice to customers of the settlement terms and JP Morgan established a dedicated telephone assistance line, with appropriate staff, to respond to questions from customers concerning the terms of the settlement.

b. Relief for Investors Who Sold Below Par

As of November 12, 2008, any JP Morgan Individual Investor that JP Morgan had reasonably identified who sold auction rate securities below par between February 12, 2008, and the announcement of the Settlement were paid the difference between par and the price at which the investor sold the auction rate securities.

c. Consequential Damages Claims

As of November 12, 2008, JP Morgan notified those JP Morgan clients who owned auction rate securities, pursuant to the terms of the Settlement, that a public arbitrator (as defined by Section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007), under the auspices of FINRA, will be available for the exclusive purpose of arbitrating any JP Morgan Individual Investor's consequential-damages claim.

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

d. Institutional Investors

JP Morgan worked with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors

not covered by paragraph 6.a. above, that continued to hold auction rate securities purchased from JP Morgan (“Institutional Investors”).

e. Relief for Municipal Issuers

JP Morgan refunded underwriting fees JP Morgan has received from municipal auction rate issuers that issued such securities through JP Morgan in the initial primary market between August 1, 2007, and February 12, 2008, and refinanced those securities through JP Morgan after February 12, 2008, through the date this Consent Order is executed.

f. In consideration of the Settlement the Department will:

i. Terminate its investigation with respect to JP Morgan’s marketing and sale of auction rate securities to Individual Investors defined in paragraph 6.a. above. However, nothing herein limits the ability of the Department in pursuing any investigation relating to any party other than JP Morgan.

ii. Accept payment of \$1,835,092.24 as its portion of the above-mentioned \$25 million penalty, to address all underlying conduct relating to the marketing and sale of auction rate securities. The Department will not seek additional monetary penalties from JP Morgan relating to such conduct.

7. If payment is not made by JP Morgan or if JP Morgan materially defaults in any of its obligations set forth in this Consent Order and fails to cure such a default reasonably after ten (10) days notice from the Department, notwithstanding any other provision of Illinois law, the Department may vacate this Consent Order at its sole discretion and without opportunity for administrative hearing.

8. This Consent Order is not intended to indicate that JP Morgan or any of its affiliates or current or former employees shall be subject to any disqualifications contained in the

federal securities law, the rules and regulations thereunder, the rules and regulations of self regulatory organizations, or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Consent Order is not intended to form the basis for any such disqualifications.

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

10. Except in an action by the Department to enforce the obligations of JP Morgan in this Consent Order, this Consent Order may neither be deemed nor used as an admission of or evidence of any alleged fault, omission, or liability of JP Morgan in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or tribunal. For any person or entity not a party to this Consent Order, this Consent Order does not limit or create any private rights or remedies against JP Morgan including, without limitation with respect to the use of any e-mails or other documents of JP Morgan or of others concerning the marketing and/or sales of auction rate securities, limit or create liability of JP Morgan, or limit or create defenses of JP Morgan to any claims.

11. This Consent Order shall not disqualify JP Morgan or any of its affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable state law and is not intended to form the basis for any disqualification.

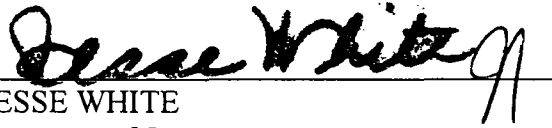
12. Any dispute related to this Consent Order shall be construed and enforced in accordance with, and governed by, the laws of the State of Illinois without regard to any choice of law principles.

13. Respondent, JP Morgan, through its execution of the Stipulation to Enter Consent Order, voluntarily waives its right to a hearing on this matter and to judicial review of the Consent Order under the Act and the Administrative Procedure Act [5 ILCS 100/10-5 et seq.] regarding contested cases pursuant to Section 25 thereof.

14. Respondent JP Morgan consents to the entry of this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Department or any member, officer, employee, agent, or representative of the Department to induce JP Morgan to consent to the entry of this Consent Order other than as set forth in this Consent Order.

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

Entered: This 21st day of September, 2012.



JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:
James Gleffe
Office of the Secretary of State
Illinois Securities Department
69 West Washington Street, Suite 1220
Chicago, Illinois 60602
Telephone: (312) 793-3593