

## **ASX Disciplinary Matter – J.P. Morgan Securities Australia Limited**

ASX Limited's Chief Compliance Officer (the '**CCO**') has determined that J.P. Morgan Securities Australia Limited ('**JPMSAL**') did not comply with ASX Clear (Futures) Operating Rule 45.1, being its obligation to meet a USD 2am Intra-Day Margin ('**Overnight Margin**') by the prescribed time of 4:28am AEST on 28 January 2022 (the '**Contravention**').

The CCO imposed a total fine of \$55,000 (plus GST) for the Contravention.

The circumstances of this matter are:

On 28 January 2022, JPMSAL failed to settle an Overnight Margin call of USD \$16,683,005 by the prescribed time of 4:28am AEST, after receiving a notification from ASX to meet the required payment at 2:28am AEST. The margin was subsequently settled at approximately 8:08am AEST (the '**Event**').

The identified payment failure in the OneMargin system was the result of an account number in the payment templates, used to process JPMSAL's margin payments, no longer matching the account number in JPMSAL's back-end reference data system ('**AMS**'), which was amended as part of a technology upgrade project.

Correcting this issue required a system change (in adherence with the established change management protocols) which JPMSAL was unable to undertake on the morning of the Event. In light of this, arrangements for payment of the Overnight Margin call were made by JPMSAL via J.P. Morgan Chase Bank's Wholesale Payments team using their payments infrastructure.

It was identified that JPMSAL did not review the impact of the technology upgrade project on the OneMargin system in relation to this specific scenario. Testing conducted by JPMSAL to confirm the continued effectiveness of its margin payment processes would likely have revealed the discrepancy in the account information between the OneMargin and AMS systems and allowed JPMSAL to address the issue before the breach occurred.

In determining the penalty, the CCO, among other factors, took into account the following:

- (a) The Reserve Bank of Australia ('RBA') has determined the Financial Stability Standards ('FSS') for licensed clearing facilities such as ASX Clear (Futures) ('CCP Standards'). Under Standard 6 of the CCP Standards, the RBA stipulates that central counterparties such as ASX are required to establish and rigorously enforce timelines for margin collections and payments, as well as set appropriate consequences for the failure by participants to pay within the required timeframe.
- (b) Identified inadequacies in JPMSAL's review and change management processes and the failure of JPMSAL to conduct a review of its key processes in response to an upgrade in its systems in order to ensure that it could continue to comply with its obligations under the ASX Rules.
- (c) JPMSAL did have in place an adequate documented contingency payment process, however that contingency payment process had not been established as a working alternative arrangement prior to the day of the Event, meaning the contingency payment could not be executed within the required timeframe.
- (d) JPMSAL did not act unconscionably towards, or otherwise take advantage of, clients or counterparties.
- (e) JPMSAL demonstrated an overall cooperative stance with ASX in its investigations and was forthright in responding to the requests for information issued by ASX.

- (f) JPMSAL has previously contravened a rule relating to margin payments, for which it received a “no-escalation” decision from ASX.
- (g) There was no indication that employees of JPMSAL involved in the margin payment process were inadequately supervised.
- (h) JPMSAL did not derive a financial benefit from the Event.
- (i) JPMSAL immediately updated the relevant procedures which detail the payment procedures for the various margin obligations, to ensure that similar breaches would not occur going forward.
- (j) JPMSAL’s Contravention was inadvertent and unintentional.

**Sanction Guidelines**

The CCO determined that, given the circumstances in this matter, a fine of \$55,000 (plus GST) was an appropriate sanction.

The CCO is of the opinion that this sanction will act as a deterrent and appropriately serves the interests of ASX and its participants.