

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT COMPANY ACT OF 1940
Release No. 35373 / October 31, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22281

In the Matter of

**J.P. Morgan Investment
Management Inc.,**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTION 9(f) OF THE INVESTMENT
COMPANY ACT OF 1940, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against J.P. Morgan Investment Management Inc. (“JP Morgan IM” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Pursuant to Section 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

1. In March 2020, JP Morgan IM, a registered investment adviser to three U.S. money market mutual funds (“Domestic Funds”) and the delegated portfolio manager of an affiliated foreign money market fund (“Foreign Fund”), caused prohibited joint transactions involving these funds that advantaged the Foreign Fund over the Domestic Funds.

2. At the onset of the COVID-19 pandemic, the Federal Reserve Board (“Fed”) established a liquidity facility to address severe liquidity constraints in the market called the Money Market Mutual Fund Liquidity Facility (“MMLF”). The MMLF was available only for certain qualifying U.S. funds and assets. While the Domestic Funds had access to the MMLF, the Foreign Fund and many of its assets were not eligible for the program. Between March 2 and March 23, 2020, significant investor redemptions resulted in a decrease in the assets of the Domestic Funds and the Foreign Fund by 25% and 21%, respectively. In anticipation of possible additional redemptions and to avoid the need to charge investors a fee for redeeming shares (“liquidity fees”) or limiting or halting redemptions altogether (“gates”), and to slow or discourage redemptions in the Foreign Fund, JP Morgan IM structured transactions involving the Domestic Funds to provide the Foreign Fund with liquidity from the MMLF. In those transactions, the Foreign Fund sold a total of approximately \$4.3 billion in assets over the course of two days, on March 24 and 25, 2020, that were ineligible for the MMLF to Investment Bank A, an entity that was not affiliated with either JP Morgan IM, the Domestic Funds, or the Foreign Fund. Each day, Investment Bank A repackaged these assets as collateral for asset-backed commercial paper (“Repack ABCP”) and then immediately sold the entire issuance to the Domestic Funds through Broker-Dealer A, an unaffiliated entity. The Domestic Funds then sold these securities to Broker-Dealer B, a separate unaffiliated entity, which immediately pledged them to the MMLF.

3. While the Foreign Fund recognized a net realized gain of \$1.5 million and received \$4.3 billion in sales proceeds from the transactions that enhanced its liquidity, the Domestic Funds earned one-tenth of this amount and bore certain associated risks. Those risks included the chance that the Fed might reject the Repack ABCP for placement into the MMLF due to the transaction structure, which could have affected the Domestic Funds’ liquidity position, and the risk that a regulator (like the Commission) could determine these were joint transactions that violated Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder. These provisions prohibit any affiliate of a registered investment company, or an affiliate of the affiliated entity, from acting as principal to effect a transaction in which the registered investment company participates unless it first obtains an exemption from the Commission permitting the joint transaction—an exemption that JP Morgan IM neither sought nor obtained here.

4. As a result of the conduct described herein, JP Morgan IM caused violations of Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.

Respondent

5. **JP Morgan IM**, incorporated in Delaware, has been an investment adviser registered with the Commission since 1984. JP Morgan IM's principal place of business is in New York, New York. JP Morgan IM has regulatory assets under management of \$2.5 trillion as of December 31, 2023. Among other things, JP Morgan IM provides advisory services to registered investment companies that operate as U.S. money market mutual funds (including the Domestic Funds) and to foreign money market funds (including the Foreign Fund). JP Morgan IM is a wholly owned subsidiary of JPMorgan Chase & Co., a global financial services firm incorporated in Delaware and headquartered in New York, New York.

Other Relevant Entities

6. The **Domestic Funds** comprise three funds that are each a series of separate trusts. Each of these trusts is registered as an open-end management investment company under the Investment Company Act, and each of the Domestic Funds operates as a money market fund in accordance with Rule 2a-7 under the Investment Company Act. JP Morgan IM is an investment adviser to the Domestic Funds. The Domestic Funds had net assets of \$138.1 billion as of December 11, 2023.

7. The **Foreign Fund** is a sub-fund of a money market fund organized as a Société d'Investissement à Capital Variable domiciled in Luxembourg. The Foreign Fund operates as a money market fund available to investors outside of the United States. The manager of the Foreign Fund has delegated portfolio management responsibilities to JP Morgan IM. The Foreign Fund had net assets of \$125.6 billion as of December 11, 2023.

The Domestic Funds, the Foreign Fund, and Stressed Market Conditions

8. JP Morgan IM advises several U.S. registered and foreign money market funds, which utilize different investment strategies. The Domestic Funds' prospectuses in effect as of March 2020 stated that the Domestic Funds would invest in, among other things, short-term debt securities, debt securities issued or guaranteed by U.S. and foreign banks, asset-backed securities, and high-quality commercial paper. Commercial paper are unsecured promissory notes issued by companies that typically pay a fixed rate of interest. As of March 2, 2020, the Domestic Funds had combined net asset values of \$75.6 billion.

9. In addition to the Domestic Funds, JP Morgan IM was a delegated portfolio manager to an affiliated Luxembourg-domiciled money market fund, the Foreign Fund, for which JP Morgan IM invested in similar securities as the Domestic Funds. Investment in the Foreign Fund was available to foreign investors. As of March 2, 2020, the Foreign Fund had a net asset value of \$85.1 billion.

10. In March 2020, the onset of the COVID-19 pandemic resulted in highly stressed market conditions for commercial paper, debt securities issued by banks, and asset-backed securities, particularly for those securities with maturities greater than seven days.

11. These stressed market conditions impacted the Domestic Funds and the Foreign Fund as well as many other money market funds that invested in similar securities. Specifically, investor redemptions in the Domestic Funds and the Foreign Fund were significant and outstripped subscriptions. From March 2 to March 23, 2020, the Domestic Funds’ assets decreased 25%, falling from \$75.6 billion to \$56.5 billion. During the same period, the Foreign Fund’s assets decreased 21%, falling from \$85.1 billion to \$66.9 billion. This redemption activity caused JP Morgan IM to seek liquidity in these funds. But, due to market conditions at the time, these funds risked incurring investment losses if they sold their holdings—particularly longer-dated securities that matured in seven days or later—in order to satisfy these redemptions.

12. Rule 2a-7 of the Investment Company Act places certain liquidity requirements on domestic registered money market funds such as the Domestic Funds. Specifically, Rule 2a-7(d)(4)(iii), as in effect at the time, required that a registered money market fund (like the Domestic Funds) hold 30% or more of its portfolio in “weekly liquid assets” before it acquires securities that do not meet the definition of such assets.² Rule 2a-7(a)(28) described, and currently describes, various eligible assets meeting the definition of “weekly liquid assets,” which include government obligations with a maturity of 60 days or less. However, commercial paper, debt securities issued by banks, and asset-backed securities would not fall within the definition of weekly liquid assets unless they matured within five business days.

13. In addition, pursuant to the provisions of Rule 2a-7 in effect at the time, the board overseeing a money market fund registered under the Investment Company Act could, under these circumstances, impose liquidity fees and gates, which have the effect of slowing and discouraging redemptions. The board of trustees of the Domestic Funds could take such actions if the Domestic Funds’ weekly liquid assets dropped below the 30% threshold.

14. Accordingly, if the Domestic Funds had sold shorter duration securities, which were not experiencing the same level of market stress, to satisfy these redemptions while continuing to hold longer-duration securities, the Domestic Funds risked the imposition of liquidity fees and gates due to the impact that such securities sales would have had on the Domestic Funds’ weekly liquid assets.

Fed Intervention and the MMLF

15. On March 18, 2020, the Fed created a liquidity facility, the MMLF, to assist in providing liquidity to so-called “2a-7 funds”—such as the Domestic Funds but not the Foreign Fund—because “many money markets” became “extremely illiquid due to uncertainty related to

² The Commission amended Rule 2a-7 on July 12, 2023, effective October 2, 2023. *See Money Market Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A*, Investment Company Rel. No. 34959 (July 12, 2023).

the coronavirus outbreak.”³ The MMLF permitted eligible borrowers, which included all U.S. depository institutions, U.S. bank holding companies, including parent companies incorporated in the United States or their U.S. broker-dealer subsidiaries, or U.S. branches and agencies of foreign banks, to pledge certain assets purchased from 2a-7 funds into the facility at the assets’ amortized cost. In exchange for the pledged assets, the MMLF would provide eligible borrowers with non-recourse cash advances equal to either amortized cost or fair value of the pledged assets provided the MMLF eligibility requirements were met. These cash advances were the “liquidity” provided by the MMLF, which could be used to satisfy investor redemptions.

16. The MMLF had two central eligibility requirements. First, the MMLF could only purchase assets from U.S. registered money market funds; not foreign money market funds. Second, the MMLF had certain requirements concerning the eligibility of assets that 2a-7 funds could pledge to the facility. Specifically, with respect to commercial paper, the MMLF required that the issuer of commercial paper be domiciled in the U.S. in order for the commercial paper to be eligible to be pledged. The MMLF had the same requirements for debt securities issued by banks.

17. The Foreign Fund was not eligible to participate in the MMLF because it was not a 2a-7 fund and many of the securities in the Foreign Fund portfolio were not eligible to be pledged to the MMLF because they were not issued by U.S. entities. Foreign financial regulators, such as the European Central Bank, did not have a program similar to the MMLF to provide liquidity to foreign money market funds.

The Domestic Funds Seek Liquidity from the MMLF as Market Conditions Deteriorate

18. Once the MMLF became operational, the Domestic Funds began to participate in the program to obtain additional liquidity. On March 19, 2020, JP Morgan IM sold \$390 million in eligible assets from several 2a-7 funds it advised, including the Domestic Funds, to an MMLF-eligible borrower. On the following two trading days, March 20 and 23, 2020, these sales exceeded \$1 billion each day. The Domestic Funds were among the JP Morgan IM-advised 2a-7 funds that sold assets to the MMLF-eligible borrowers on these days.

19. On March 20 and 23, 2020, the Foreign Fund experienced heightened redemption activity, with its net assets dropping 6%.

JP Morgan IM Uses a Set of Transactions to Provide the Foreign Fund Access to the MMLF

20. Executives at JP Morgan IM recognized that, under the terms of the MMLF, the Foreign Fund could not access the MMLF and began efforts to persuade the Fed to expand the program.

³ See Federal Reserve Board, *Money Market Mutual Fund Liquidity Facility FAQs*, available at <https://www.federalreserve.gov/monetarypolicy/files/mmlf-faqs.pdf>.

21. But, recognizing that these efforts to persuade the Fed to expand the MMLF to include foreign money market funds were unlikely to succeed, JP Morgan IM's Global Liquidity Group ("Global Liquidity"), which comprised the investment professionals responsible for advising the Domestic Funds and the Foreign Fund, structured transactions to provide the Foreign Fund with liquidity through the MMLF. JP Morgan IM would execute joint transactions involving the Foreign Fund and the Domestic Funds, working with Investment Bank A, Broker-Dealer A, and Broker-Dealer B to complete the transactions. Discussions about the transactions among Global Liquidity, others at JP Morgan IM, and Investment Bank A began on March 20, 2020.

22. Overlapping members of Global Liquidity represented both the Domestic Funds and the Foreign Fund in the transactions, working with Investment Bank A and Broker-Dealer B that pledged the Repack ABCP to the MMLF. Additionally, two individuals who were co-portfolio managers of the Foreign Fund were also co-portfolio managers of the two largest Domestic Funds and one of those individuals was a co-portfolio manager for all three Domestic Funds and the Foreign Fund.

23. On March 23, 2020, in coordination with JP Morgan IM, personnel at J.P. Morgan Securities LLC ("JP Morgan Securities") emailed the Fed seeking guidance on whether a hypothetical transaction would comply with the intent of the MMLF. The hypothetical transaction posed to the Fed was similar to what later became the Repack ABCP trades. In the following days, the Fed and JP Morgan Securities engaged in further communications about the hypothetical transaction. The Fed ultimately responded that it did not plan to issue any guidance that would prevent the hypothetical transaction, but it was not asked to and did not opine on whether the transaction would comply with the federal securities laws.

24. On March 24 and 25, 2020, JP Morgan IM executed the Repack ABCP trades. In total, the Foreign Fund received \$4.3 billion in proceeds from asset sales to an affiliated broker-dealer of Investment Bank A. As of March 25, 2020, these proceeds represented approximately 7% of the value of the assets in the Foreign Fund's portfolio.

25. The proceeds the Foreign Fund received from the transactions were in excess of the amortized cost of the assets it sold to Investment Bank A. As a result, the Foreign Fund accrued \$1.5 million in net realized gains from the two transactions.

26. Investment Bank A used the Foreign Fund securities as collateral for the Repack ABCP it issued and then sold to the Domestic Funds. Because the Foreign Fund's securities had differing maturities, the Repack ABCP also had differing maturities. The Repack ABCP was not sold to the Domestic Funds at the Foreign Fund's amortized cost or even at the cost at which Investment Bank A acquired the Foreign Fund securities. Instead, the price the Domestic Funds paid for the Repack ABCP was set by JP Morgan IM—above amortized cost—so that the transactions could fund the Foreign Fund's \$1.5 million in net realized gains, a \$1.2 million structuring fee paid to Investment Bank A, as well as other transaction costs.

27. The Domestic Funds bought all \$4.3 billion of the Repack ABCP over the course of March 24 and 25, 2020, from Broker-Dealer A, which distributed the securities. On each trading day, the Domestic Funds held the Repack ABCP for one day before selling the holdings to Broker-Dealer B, an MMLF-eligible borrower, at their amortized cost. There were approximately \$610,000 in transaction-based fees (mark-ups and mark-downs) from the broker-dealers that executed the purchases from Investment Bank A and the sales related to the MMLF pledges.

28. The Domestic Funds earned approximately \$150,000 in interest income by holding the Repack ABCP overnight due to its pre-determined 1.3% annualized yield. This yield was five basis points above the minimum yield required by the Fed for assets to qualify for the MMLF.⁴ The Domestic Funds earned only one-tenth of the investment gain that the Foreign Fund made from the transactions. Because JP Morgan IM personnel were involved in all aspects of the transactions, JP Morgan IM could have allocated more of the investment proceeds from the transactions to the Domestic Funds by increasing the annualized yield of the Repack ABCP but did not do so. Broker-Dealer B received five basis points in compensation for pledging the securities to the MMLF.

29. The Repack ABCP had longer duration maturities that extended well beyond a single day and into April and May 2020. Internal daily market surveys created by Global Liquidity on March 24 and 25, 2020, stated that the range of yields for asset-backed commercial paper with similar one- and two-month maturities were between 1.25% and 2.50%, placing the 1.3% yield JP Morgan IM set for the Repack ABCP at the low end of this range.

30. With the exception of the Repack ABCP purchases, on March 24 and 25, 2020, the Domestic Funds primarily acquired fixed income securities with overnight maturities and, in limited instances, securities that matured on April 1, 2020. No other securities the Domestic Funds acquired on those days had one- or two-month maturities like the Repack ABCP.

31. Because the money the Domestic Funds obtained from Broker-Dealer B in exchange for their pledges of the Repack ABCP was used to pay for those same securities, these transactions did not enhance the Domestic Funds' liquidity position. Conversely, the Foreign Fund received \$4.3 billion in sales proceeds that enhanced its liquidity, which included the \$1.5 million net realized gain.

32. JP Morgan IM was aware that the Domestic Funds bore certain risks in the transactions that the Foreign Fund did not bear. For example, certain risks were discussed in a

⁴ The term sheet for the MMLF stated that the Fed would provide advances of 1% above the primary credit rate available to depository institutions, which was 0.25% during this time. See Federal Reserve Board, *Money Market Mutual Fund Liquidity Facility*, available at <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20201130a2.pdf>; Federal Reserve Board, *Implementation Note Issued March 15, 2020*, available at <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a1.htm>.

memo describing these transactions that was reviewed by the Domestic Funds' counsel and distributed by JP Morgan IM to certain Domestic Funds' trustees and counsel to the independent trustees of the board on March 25, 2020. The memo stated that JP Morgan IM believed that the transactions were in the Domestic Funds' "best interest"; it also discussed risks that the MMLF may cease operating or that the Fed "may reject" the Repack ABCP for "placement into the MMLF." Under either scenario, the transactions would have had the effect of reducing the Domestic Funds' liquidity positions during a period of time when there were stressed market conditions and significant redemption activity in the Domestic Funds. As of March 25, 2020, the Repack ABCP would have constituted 7.7% of the combined assets of the Domestic Funds if the MMLF had rejected the Repack ABCP. Furthermore, because these securities had varying maturities extending to as late as May 2020, there was a possibility that the Domestic Funds would have had to hold these assets until maturity because it was unlikely that they could sell them in stressed market conditions without incurring a loss. As discussed above, holding these securities until their maturity could have reduced the weekly liquid asset levels of the Domestic Funds to below 30% of net assets, which could have adversely affected their operations as discussed in Paragraphs 13 and 14. The memo also stated that there was a risk that the Commission would view these transactions as joint transactions that violated Section 17(d) of Investment Company Act and Rule 17d-1.

33. After March 25, 2020, the Domestic Funds did not purchase any additional Repack ABCP. In fact, the Domestic Funds did not participate again in MMLF-related transactions until April 7 and 9, 2020, when they sold \$613 million of other securities to MMLF-eligible borrowers that were not structured by JP Morgan IM like the Repack ABCP. In contrast to the Repack ABCP, the Domestic Funds held these securities for between five days and several months prior to having them pledged to the MMLF and did not use the proceeds of these sales to enhance the liquidity of the Foreign Fund.

Violations

34. Section 17(d) of the Investment Company Act prohibits any affiliated person of a registered investment company or any affiliated person of such affiliated person (each, an "affiliated person"), acting as principal, from effecting any transaction in which such registered investment company is a joint or a joint and several participant with an affiliated person in contravention of such rules and regulations as the Commission may prescribe. Section 17(d) is intended to limit or prevent participation by such registered company on a basis different from or less advantageous than that of another participant. Rule 17d-1 promulgated under the Investment Company Act prohibits any affiliated person from participating in any joint enterprise, other joint arrangement, or profit-sharing plan (a "joint arrangement") unless it obtains an order from the Commission permitting the joint arrangement.

35. As contemplated and executed, the Repack ABCP transactions were joint transactions under Section 17(d) and Rule 17d-1. Accordingly, JP Morgan IM caused violations of Section 17(d) of the Investment Company Act and Rule 17d-1 promulgated thereunder by causing the Foreign Fund and the Domestic Funds to engage in the Repack ABCP transactions.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent JP Morgan IM's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 9(f) of the Investment Company Act, Respondent JP Morgan IM cease and desist from committing or causing any violations and any future violations of Section 17(d) of the Investment Company Act of 1940 and Rule 17d-1 promulgated thereunder.

B. Pursuant to Section 9(d) of the Investment Company Act, JP Morgan IM shall, within twenty-one days of the entry of this Order, pay a civil money penalty in the amount of \$5,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying JP Morgan IM as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lee A. Greenwood, Assistant Regional Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY 10004.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any

award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary