



J.P. Morgan
Enforceable Undertaking

First Review - Summary Report

15 July 2016

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Inherent Limitations

This report has been prepared as outlined in Sections 1 - 2. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

This Summary Report provides a summary of KPMG's findings during the course of the work undertaken for J.P. Morgan Securities plc, J.P. Morgan Securities (Asia Pacific) Ltd and J.P. Morgan Securities LLC (collectively J.P. Morgan). As this Summary Report has been requested to provide a high level view of our key findings in connection with our engagement, no reliance may be placed on the information, findings or conclusions in the absence of written confirmation from us, as our conclusive findings are only contained in our final detailed report.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, J.P. Morgan management and personnel consulted as part of the process. KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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This report has been prepared at the request of J.P. Morgan in accordance with the terms of our Engagement Letter dated 16 December 2015. Other than our responsibility to J.P. Morgan, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

Public release

KPMG consents to J.P. Morgan, at its discretion, permitting ASIC to release a copy of this Summary Report into the public domain, provided the report is released in its entirety.

1 Background and Scope

J.P. Morgan Securities plc, J.P. Morgan Securities (Asia Pacific) Ltd and J.P. Morgan Securities LLC (collectively J.P. Morgan) are all financial service providers regulated by overseas regulators and are exempt under relevant Australian Securities and Investments Commission (ASIC) Class Orders from the requirement to hold an Australian financial services licence for the provision of financial services to wholesale clients in this jurisdiction. Under the Class Orders, J.P. Morgan is required to comply with certain obligations including the Disclosure Requirement.

Over the period June 2005 to April 2014, J.P. Morgan reported a number of breaches of the Disclosure Requirement to ASIC. J.P. Morgan agreed to enter into an Enforceable Undertaking with ASIC on 16 November 2015 (the EU), which included the appointment of an Independent Expert.

KPMG was appointed as the Independent Expert on 16 December 2015 to carry out two reviews in accordance with the EU. This report summarises the outcomes of our First Review, which was finalised on 15 April 2016. We have not considered any events that occurred after that date.

2 Assessment conducted during the First Review

In accordance with Annexure 1 of the EU, as Independent Expert, KPMG is required to complete the First Review as follows:

- a) review J.P. Morgan's policies, procedures, practices, training and monitoring implemented to comply with the Disclosure Requirement; and
- b) assess whether J.P. Morgan's policies, procedures, practices, training and monitoring are designed sufficiently to ensure effective and enduring compliance with the Disclosure Requirement.

While the EU has been entered into by three legal entities, during the initial planning phase of our engagement, we were advised that J.P. Morgan's business activities are arranged on a Line of Business (LOB) basis. Therefore, our assessment has been arranged in this manner and the observations included in this report are also arranged by the relevant J.P. Morgan LOBs, as follows:

- 1 General/Central, covering centrally managed policies, procedures, practices, training and monitoring such as core compliance training¹;
- 2 Corporate and Investment Bank (CIB);
- 3 Commercial Banking (CB); and
- 4 Wealth Management (WM).

The mapping of the above LOBs to the relevant legal entities is shown below:

1. CIB

- J.P. Morgan Securities (Asia Pacific) Limited;
- J.P. Morgan Securities LLC; and
- J.P. Morgan Securities plc.

¹ Any common or recurring matters will also be included in our observations under the General/Central section to minimise duplication of content.

2. **CB²**
 - J.P. Morgan Securities LLC.
3. **WM**
 - J.P. Morgan Securities LLC.

3 Summary of observations

Our assessment of J.P. Morgan’s policies, procedures, practices, training and monitoring has been performed in accordance with the scope set out in our Engagement Letter dated 16 December 2015. On the basis of this assessment, we have identified the following observations/improvement opportunities that if addressed, we believe will strengthen the relevant J.P. Morgan processes and controls for managing compliance with the Class Order Disclosure Requirement.

Summary of observation		Summary of recommendation
General/Central/Common		
1	Document Governance Procedural documentation and other non-policy level guidance have inconsistent document governance protocols.	To support the consistent application of processes and controls, we recommend that J.P. Morgan implements standardised document governance protocols concerning the Disclosure Requirement.
2	Recurring training At the time of our review, the <i>ASIC Awareness Training</i> , or other similar training, was not noted as being a recurring program in J.P. Morgan’s annual training plan.	We recommend that J.P. Morgan adds the <i>ASIC Awareness Training</i> or similar ongoing training to its recurring training plan.
3	Untailored training The <i>ASIC Awareness Training</i> provided a general overview of obligations; however it was general in nature and did not include any tailoring for the significant variance in processes and controls across the different LOBs.	We recommend that for subsequent instances of this training, J.P. Morgan should consider a tailored approach for each LOB.
4	Training completion a) J.P. Morgan’s electronic training system allows users to affirm completion of the <i>ASIC Awareness Training</i> upon accessing the system, without any system controls that require users to complete the full training course prior to affirming completion. b) There was no formal documented criteria in place for identifying which staff members were required to complete the <i>ASIC Awareness Training</i> .	a) In future, we recommend the use of a more robust tracking system to allow for better tracking of training completion. b) In future, we recommend that the criteria for identifying which staff members are required to complete training are formalised and documented.
Corporate and Investment Bank		
5	Accuracy or procedure documents Overall the procedure documentation for CIB is detailed and fit for purpose; however we identified a small number of instances where documented guidance could be improved for accuracy.	Update the procedure documentation to improve the effectiveness and accuracy of the documented guidance.
Commercial Banking		
6	Accuracy of procedure documents Overall the procedure documentation for CB is detailed and fit for purpose; however we identified some instances where information was unclear.	Update the procedure documentation to improve the effectiveness and accuracy of the documented guidance.

² J.P. Morgan has advised that while the CB LOB has procedures in place to ensure that the disclosure is provided to clients, where the class order entities provide services to CB clients, these services will be provided by CIB and subject to CIB on-boarding procedures.

Summary of observation		Summary of recommendation
7	Look-back process does not assess source documentation The current look-back process for CB does not specify that the reviewer accesses underlying source documentation.	To enable the look-back to operate as an effective control, it should assess underlying source documentation and this should be clearly stated in procedure documents.
Wealth Management		
8	Accuracy of procedure documents Overall the procedure documentation for WM is detailed and fit for purpose; however we identified a small number of instances where the documentation could provide greater clarity.	Update the procedure documentation to improve the effectiveness and accuracy of the documented guidance.

4 First Review Assessment

In accordance with the Engagement Letter dated 16 December 2015, and the EU, we have completed the agreed assessment work of the design of JP Morgan’s policies, procedures, practices, training and monitoring implemented to comply with the Disclosure Requirement. Based on our skills, experience and industry knowledge, in our view:

- Other than those observations listed in section 3, J.P. Morgan’s policies, procedures, practices and training appear to be designed sufficiently to ensure effective and enduring compliance with the Disclosure Requirement; and
- At the time of our review, J.P. Morgan had not yet implemented an independent compliance monitoring program to assess whether compliance with the Disclosure Requirement is being achieved on an ongoing basis. However we were informed by J.P. Morgan that it was in the process of developing this monitoring program and it was anticipated to be completed by 31 May 2016, after the completion of our First Review. While compliance with the Disclosure Requirement may be achieved without independent monitoring, we view an independent compliance monitoring program as an important element which contributes to effective and enduring compliance.

In relation to the second point above, we will assess the design of this program during the Second Review in accordance with the terms of our Engagement Letter and the EU, including considering:

- Industry standards and better practice, including but not necessarily limited to:
 - Our knowledge of similar Enforceable Undertakings;
 - ASIC Regulatory Guides;
 - Better practice compliance plans;
 - Better practice auditing programs; and
 - Thought leadership and KPMG in-house knowledge regarding best practice.

Without limiting the above statements, we note that the effectiveness of any compliance control framework remains dependent on the quality of execution. We have not yet had an opportunity to review the controls in effect and therefore withhold our view on operational effectiveness until a later date.

Additionally, we note that a commitment to continuous improvement is a key element in achieving effective and enduring compliance.