



J.P. Morgan
Enforceable Undertaking

Second Review Summary Report

15 February 2018

Contents

1	Background and Scope	3
2	Assessment conducted in the completion of this report	4
3	Enduring Compliance assessment	5
4	Second Report Assessment	6
5	Implementation of the First Remedial Action Plan	7
A	Class Order summary	9

Inherent Limitations

This report has been prepared as outlined in Section 1. 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.

The findings in this report are based on a qualitative study of arrangements related to managing compliance with the Disclosure Requirement (See *Appendix A* for details of the Disclosure Requirement) and the reported results reflect a perception of J.P. Morgan Securities PLC, J.P. Morgan Securities (Asia Pacific) Ltd and J.P. Morgan Securities LLC (collectively J.P. Morgan) but only to the extent of the sample surveyed. Any projection to J.P. Morgan's broader compliance arrangements is subject to the level of bias in the method of sample selection.

This Summary Report provides a summary of KPMG's observations during the course of the work undertaken for J.P. Morgan. As this Summary Report has been requested to provide you with a high level view of our key observations in connection with our engagement, you may not place any reliance 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.

Where relevant, KPMG has indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

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.

Third Party Reliance

This report is solely for the purpose set out in Section 1 and for J.P. Morgan's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

KPMG consents to J.P. Morgan providing a copy of this report to ASIC or other relevant regulatory authorities, solely for the purpose set out in Section 1 and for the information of J.P. Morgan, ASIC and other regulators. This report is not to be used for any other purpose or distributed to, or relied upon by, any other party without our prior written consent. We disclaim any assumption of responsibility by any person other than J.P. Morgan, or for any purpose other than that for which it was prepared.

KPMG consents to ASIC making use of this report for the purpose of monitoring and supervising J.P. Morgan, including any enforcement activity against J.P. Morgan.

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 Order, J.P. Morgan is required to comply with certain obligations including the Disclosure Requirement.

Further information as to the nature of the Class Orders and the Disclosure Requirement can be found in *Appendix A*.

Over the period June 2005 to April 2014, J.P. Morgan reported a number of breaches of the Disclosure Requirement to ASIC. ASIC stated that it is concerned that in light of the previous breaches of the Disclosure Requirement that occurred in 2005 and 2008, ASIC considered the breaches reported to ASIC in 2014 to be significant as they related to a repeated failure by J.P. Morgan to comply with the Disclosure Requirement. The breaches affected a large number of wholesale clients over an extended period of time.

Given these concerns, 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 to:

- a) conduct and complete a review (the First Review) of J.P. Morgan's compliance with the Disclosure Requirement;
- b) deliver a report (the First Report) in relation to the conduct and completion of the First Review, to J.P. Morgan and ASIC;
- c) conduct and complete a review (the Second Review) of J.P. Morgan's compliance with the Disclosure Requirement; and
- d) deliver a report (the Second Report) in relation to the Second Review to J.P. Morgan and ASIC.

KPMG was appointed as the Independent Expert on 16 December 2015. This report is a Summary of the Second Report referred to above.

2 Assessment conducted in the completion of this report

In accordance with Annexure 2 of the EU, as Independent Expert, KPMG is required to complete the Second Review as follows:

- a) Assess remedial actions (if any) implemented by J.P. Morgan following the implementation of the First Remedial Action Plan (the Plan developed and implemented by J.P. Morgan to address the observations made in the First Report);
- b) Test the effectiveness of the implementation of the recommendations and the actions arising from the First Report;
- c) Through design and operational effectiveness assessment, consider potential remaining gaps in internal controls areas as they relate to the Disclosure Requirement and provide further recommendations as appropriate; and
- d) Review any matters set out in Annexure 1 that were not addressed in the First Review.

KPMG is confident that the level of assessment, including the level of sample testing undertaken was appropriate to allow us to execute our scope in line with the EU and our Engagement letter.

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.

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

- 1 Corporate and Investment Bank (CIB)
 - J.P. Morgan Securities LLC;
 - J.P. Morgan Securities PLC; and
 - J.P. Morgan Securities (Asia Pacific) Limited.
- 2 Commercial Banking (CB)
 - J.P. Morgan Securities LLC.
 - Note: CB no longer owns products that rely on the class orders and is therefore not in the scope for the Second Review.
- 3 Wealth Management (WM)
 - J.P. Morgan Securities LLC; and
 - J.P. Morgan Securities PLC.

3 Enduring Compliance assessment

In accordance with our Engagement Letter dated 16 December 2015 and the EU, we are required to assess whether J.P. Morgan's compliance policies, procedures, practices, training and monitoring are designed sufficiently to ensure effective and enduring compliance.

As at the date of this report, we have not identified any matters that we believe lead to any concerns in relation to J.P. Morgan achieving enduring compliance. We have made some observations and recommendations that if addressed, we believe will further enhance J.P. Morgan's arrangements; however we do not believe that those observations are likely to impact J.P. Morgan's enduring compliance. We do not believe these observations to constitute deficiencies or gaps in J.P. Morgan's compliance arrangements. See *Section 4* for further details.

Based on the assessment we have completed, as outlined in *Section 2*, we have formed a favourable view of the likely sustainability of the changes made by J.P. Morgan and we believe that J.P. Morgan is well placed to achieve enduring compliance. This view is formed on the basis that J.P. Morgan has demonstrated that the changes are, and will continue to be, supported by:

- A commitment to continuous improvement of key systems, processes and controls;
- Sufficient and appropriate resources;
- Continued education, training and development of staff;
- Appropriate oversight by management and governing bodies; and
- An ongoing commitment to maintain compliance with the Disclosure Requirement.

This assessment is made at a point in time, based on information made available to us by J.P. Morgan and based on testing performed, which was based on the work plan agreed with J.P. Morgan and ASIC. KPMG does not make any statement as to whether the sustainment of changes will be continuously achieved by J.P. Morgan in the future.

4 Second Report Assessment

Our assessment of J.P. Morgan’s policies, procedures, practices, training and monitoring (Design Assessment or DA and Operational Assessment or OA) has been performed in accordance with the scope set out in *Sections 1 and 2*. On the basis of this assessment, we identified some observations/improvement opportunities that if addressed, we believe will further strengthen the relevant J.P. Morgan processes and controls for managing compliance with the Class Order Disclosure Requirement.

As noted in *Section 3*, we do not believe that the observations made are likely to materially impact J.P. Morgan’s ability to achieve enduring compliance. KPMG does not consider the observations made to be deficiencies or gaps in J.P. Morgan’s compliance framework as it applies to the Disclosure Requirement, insofar as we do not believe that these matters, if left unaddressed, would be likely to cause non-compliance with the Disclosure Requirement.

A full explanation of all observations and recommendations is included in our full Second Report.

In accordance with the Engagement Letter dated 16 December 2015, and the EU, we have completed the agreed assessment work of the design of J.P. Morgan’s policies, procedures, practices, training and monitoring implemented to comply with the Disclosure Requirement. We have made some observations and recommendations that if addressed, we believe will further enhance J.P. Morgan’s arrangements; however those observations do not adversely impact our overall assessment.

Based on our skills, experience and industry knowledge and informed by the assessment completed, in our view:

- J.P. Morgan’s policies, procedures, practices and training are designed sufficiently to ensure effective and enduring compliance with the Disclosure Requirement;
- J.P. Morgan’s compliance monitoring plan is designed sufficiently to ensure effective and enduring compliance with the Disclosure Requirement; and
- J.P. Morgan’s policies, procedures, practices, training and compliance monitoring plan are operating effectively to ensure effective and enduring compliance with the Disclosure Requirement.

Without limiting the above statements, we note that the effectiveness of any compliance control framework remains dependent on the quality of execution. Additionally, we note that a commitment to continuous improvement is a key element in achieving effective and enduring compliance.

5 Implementation of the First Remedial Action Plan

We have assessed as effective, J.P. Morgan’s response to our First Report.

The table below summarises the recommendations made in our First Report and KPMG’s assessment of the remedial actions completed by J.P. Morgan during the Second Review. The observations included in this section are made in accordance with the scope of our engagement.

#	Recommendation from First Review	Observations re J.P. Morgan response
1	<p>Document governance</p> <p>To support the consistent application of processes and controls concerning the Class Order Disclosure Requirement, we recommend that J.P. Morgan implements standardised document governance protocols, to ensure procedural documents are regularly reviewed and updated to remain relevant and effective.</p>	<p>The recommendation made in the First Report has been addressed. No further action required.</p>
2	<p>Recurring training</p> <p>Given the importance of maintaining ongoing awareness of obligations, we recommend that J.P. Morgan adds the ASIC Awareness Training or similar ongoing training to its recurring annual training plan for relevant staff.</p> <p>We note that J.P. Morgan has, since our review, added this training to its Compliance Assessment, Testing and Tracking System to be reviewed and rolled out on an annual basis.</p>	<p>We observed that J. P. Morgan’s ASIC Class Order Training Plan will be rolled out on an annual basis. No further action required.</p>
3	<p>Untailored training</p> <p>We note that the purpose of the ASIC Awareness Training was to improve general awareness of obligations, however we recommend that for subsequent instances of this training, J.P. Morgan should consider a tailored approach with modified training for each LOB that better reflects the specific processes and controls that the particular LOB has in place.</p>	<p>We observed that J.P. Morgan has implemented ‘stranding’ to tailor the training presentation to that of the LOB in which the employee works.</p> <p>We note that J.P. Morgan has implemented an assessment module which the employee must pass before completing the training.</p> <p>We note that J.P. Morgan has implemented an Audience Identification process.</p>
4	<p>Training completion</p> <p>a) To better track training completion in future, we recommend the use of an improved tracking system, which may include the affirmation being locked until the full training program is completed, the use of an assessment component or a different delivery method.</p> <p>b) We recommend that the criteria for identifying which staff members are required to complete training on an ongoing basis is formalised and documented to minimise the risk of gaps.</p>	<p>In the event of any future system enhancements, if possible, we recommend that to ensure all employees required to complete the ASIC Class Order training have completed the correct LOB specific module, J.P. Morgan tailors the allocated training modules to each individual, or extracts reporting which details whether the required employees have completed the correct strand of the training and the number of attempts taken for successful completion.</p>
5	<p>Accuracy of procedure documents - CIB</p> <p>a) We recommend that the procedure document is updated to reflect actual practices with respect to how the disclosures are delivered to clients and to better support independent monitoring of compliance with documented procedures.</p> <p>b) While it is clear that WCOB is the owner of the process, the procedure documentation could be enhanced to include</p>	<p>We note that CIB Wholesale Client On-boarding ASIC Class Order Disclosure Procedure has been updated. No further action required.</p>

#	Recommendation from First Review	Observations re J.P. Morgan response
	details of scenarios where non-WCOB staff may be involved in the process. We recommend that CIB management confirm exactly which teams are responsible for providing the disclosure documents and ensure that relevant guidance documents align with actual practice.	
6	<p>Accuracy of procedure documents - CB</p> <p>a) Update the procedure document and process map to ensure that the timing of the provision of the disclosure letter is clearly stated.</p> <p>b) Update the procedure document to reflect the actual timing of the look-back process.</p>	As J.P. Morgan’s CB LOB ceased reliance on ASIC Class Order 04/829 and as such, is no longer in scope of this Enforceable Undertaking, the Remedial Action Plan items in relation to J.P. Morgan’s CB LOB were no longer applicable.
7	<p>Look-back process does not assess source documentation - CB</p> <p>To enable the look-back to operate as an effective control, update the process to include an assessment of underlying source documentation for all or a sample of all assessments.</p>	
8	<p>Accuracy of procedure documents - WM</p> <p>a) Update the procedure document to include reference to the attestations completed by advisers.</p> <p>b) Update the procedure document to reflect the processes completed by the Account Services Team.</p>	We have observed that the WM Cross Border Activities Onboarding Procedures document has been updated to include the circumstances/requirements in which an adviser must provide a completed attestation in relation to client information. No further action required.

A Class Order summary

A.1 Applicable Class Orders

We note that ASIC issued the *ASIC Corporations (Repeal and Transitional) Instrument 2016/396* which had the effect of repealing ASIC Class Orders: CO 03/1099, CO 03/1103 and CO 04/829 from 22 September 2016 and extending the Foreign Financial Service Providers relief until 1 October 2018. Prior to 22 September 2016, the following Class Orders applied to the J.P. Morgan entities:

- JPMSPLC, a financial service provider regulated by the Financial Conduct Authority of the United Kingdom, is exempt under ASIC Class Order [CO 03/1099] 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 Order, JPMSPLC is required to comply with certain obligations including the Disclosure Requirement.
- JPMSAPL, a financial service provider regulated by the Securities and Futures Commission of Hong Kong is exempt under ASIC Class Order [CO 03/1103] 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 Order, JPMSAPL is required to comply with certain obligations including the Disclosure Requirement.
- JPMSLLC, a financial service provider primarily regulated by the U.S Securities and Exchange Commission, the Financial Industry Regulatory Authority and the U.S. Commodity Futures Trading Commission, is exempt under ASIC Class Order [CO 04/829] 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 Order, JPMSLLC is required to comply with certain obligations including the Disclosure Requirement.

The Class Orders referred to above contain other requirements that must be complied with other than the Disclosure Requirement, however the EU applies only to the Disclosure Requirement as defined below.

A.2 The Disclosure Requirement

The Disclosure Requirement means the requirement under the Class Orders to provide written disclosure to all persons to whom the financial services are provided in this jurisdiction (before the financial services are provided) containing prominent statements to the effect that:

- a) the body is exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of the financial services; and
- b) the body is authorised and regulated by the relevant foreign regulatory authority under the relevant foreign laws, which differ from Australian laws.