

September 3, 2013

Re: FINRA Rule 5270 – Prohibition on Front Running Customer Block Transactions

Dear Client:

J.P. Morgan Securities LLC (“JPMS” or the “Firm”) strives to provide its clients with information and transparency regarding our order handling practices. To that end, we are writing to advise you that the Financial Industry Regulatory Authority, Inc. (“FINRA”) has expanded its policy on front running of customer block transactions (“Rule 5270”) to include fixed income securities (other than treasuries, agency debt, agency-backed MBS, and municipal securities) and security-based swaps. We believe that JPMS’ order handling practices with respect to block transactions allow the Firm maximum flexibility in our efforts to provide you with the highest quality executions reasonably available under the circumstances.

Rule 5270 generally prohibits a member firm from trading for its own account while in possession of material, non-public information concerning an imminent customer block transaction or providing such information to other customers for trading purposes. Rule 5270, however, recognizes the following three (3) categories of “permitted transactions” that a member firm may engage in, while in possession of such information: (1) transactions that a firm can demonstrate are unrelated to the customer block order; (2) transactions that are undertaken to facilitate the execution of the customer block order; and (3) transactions that are executed in a compliant manner on a national securities exchange.

Permitted Transactions

With respect to the first category of permitted transactions, member firms are permitted to engage in transactions that are unrelated to the customer block order, including transactions where the member has effective information barriers¹ established to prevent internal disclosure of customer order information, transactions that are related to a prior customer order in the same security, and transactions to correct bona fide errors or to offset odd-lot orders.

The second category of permitted transactions pertains to transactions that are undertaken by the member firm to facilitate the execution of the customer block order. Under certain circumstances, a member firm may engage in bona fide hedging or positioning activity (i.e., trade ahead of, or alongside of, the customer order) in connection with the handling of the customer block order. It should be noted that when engaging in such bona fide hedging or positioning activity, JPMS will make every effort to minimize any potential market impact and obtain the best possible prices for your orders. JPMS will not place its financial interests ahead of yours.

The third, and final, category of permitted transactions concerns transactions that are undertaken in compliance with the rules of a national securities exchange and at least one leg of the trading activity is executed on that exchange (e.g., anticipatory hedging of block transactions on options exchanges).

If you have any questions about this notice, or wish to discuss it further, please contact your JPMS sales representative.

¹ JPMS maintains information barriers between its trading units, which are designed to prevent one trading unit from obtaining knowledge of a customer block order held by a different trading unit.