

By Brett Wolf and Carrick Mollenkamp and Emily Flitter



NEW YORK (Reuters) - U.S. regulators are expected to order JPMorgan Chase & Co to correct lapses in how it polices suspect money flows, two people familiar with the situation said, in the latest move by officials to force banks to tighten their anti money-laundering systems.

The action against JPMorgan, which is expected as soon as Friday, would be in the form of a cease-and-desist order, which regulators use to force banks to improve compliance weaknesses, the sources said. JPMorgan will probably not have to pay a monetary penalty, one of the sources said.

The Office of the Comptroller of the Currency and the Federal Reserve are expected to issue a cease-and-desist order, the sources said. The Treasury Department's anti money-laundering unit, the Financial Crimes Enforcement Network, could take a separate action against the bank, they said.

The status of the inquiry could change, and the timing of the action could extend to next week or later.

A JPMorgan spokeswoman declined to comment.

U.S. regulators have been cracking down on lapses at banks on their anti money-laundering controls. Banks are supposed to flag suspect transactions from sanctioned countries or those from customers with ties to drug trafficking or terrorism.

Britain's Standard Chartered Plc last year agreed to pay a total of \$667 million to U.S. and state regulators to resolve anti-money laundering probes, while HSBC Holdings Plc, also headquartered in Britain, agreed in December to pay \$1.9 billion to settle a U.S. inquiry.

In April, the Office of the Comptroller of the Currency identified major lapses in compliance systems at U.S. bank Citigroup Inc, which did not pay a monetary penalty.

The inquiry on JPMorgan, the biggest U.S. bank, dates back several months, the sources said.

The first public signs that JPMorgan had issues with its transaction monitoring systems emerged in August 2011. At that time JPMorgan agreed to pay \$88.3 million to settle Treasury Department allegations that it engaged in prohibited transactions linked to Cuba and Iran.

A source familiar with the expected order said JPMorgan did not adequately fix dozens of anti-money laundering issues cited previously by regulators, forcing them to take formal action.

Under the order, JPMorgan is expected to be required to bolster systems it uses to monitor risk and transactions, the sources said.

Regulators enforcing U.S. anti money-laundering laws are required to issue cease-and-desist orders when they instruct a bank to correct Bank Secrecy Act compliance deficiencies and the bank fails to do so in short order. What happens after that, however, varies according to the severity of the bank's violations.

The terms of a cease-and-desist order, in some cases, can require a bank to review its prior transactions to determine whether it missed any suspicious activity it should have reported to regulators. If a high enough number of unreported suspicious transactions are found, the regulators may decide to issue a civil money penalty.

While no immediate action is expected from U.S. prosecutors, the Office of the Comptroller of the Currency typically informs the Justice Department when it undertakes inquiries of this sort, John Hawke, a former comptroller of the currency, said.

"I would think that if the agency gets to the point of issuing a cease-and-desist order that they've

already been in touch with the Justice Department," said Hawke, who is now a partner at Arnold and Porter in Washington. He said he had no knowledge of the specific case.

A Justice Department spokesman declined to comment.

(Reporting by Carrick Mollenkamp and Emily Flitter of Reuters, and Brett Wolf of the Compliance Complete service Thomson Reuters Accelus; Additional reporting by Aruna Viswanatha; Editing by Lisa Von Ahn, Paritosh Bansal, Tim Dobbyn, Leslie Adler)