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STATE OF OREGON  
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES  
DIVISION OF FINANCIAL REGULATION

In the Matter of:  
  
LPL Financial LLC,  
(CRD #6413)  
  
Respondent.

Case No. S-18-0034  
  
FINAL ORDER TO CEASE AND DESIST,  
FINAL ORDER ASSESSING CIVIL  
PENALTY, AND CONSENT TO ENTRY  
OF ORDER

WHEREAS, LPL Financial LLC (“LPL”) is a broker-dealer with a principal place of business at 75 State Street, 22nd Floor, Boston, MA 02109, that is licensed in the state of Oregon; and

WHEREAS, a coordinated investigation into LPL’s failure to establish and maintain reasonable policies and procedures to prevent the sale of unregistered, non-exempt securities by LPL to its customers, including LPL’s retention, use, and subsequent cancellation of certain third-party services integral to LPL’s compliance with state securities registration requirements (a/k/a “Blue Sky” laws); and certain other deficiencies within LPL’s compliance structure related to LPL’s controls, monitoring and reporting tools, and escalation protocols in relation to LPL’s response to significant compliance issues resulting from such failure during the period of approximately October 1, 2006 through May 1, 2018 (the “Investigation”) has been conducted by a multistate task force, coordinated among members of the North American Securities Administrators Association (“NASAA”), with Massachusetts and Alabama serving as the “Lead States”; and

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1 WHEREAS, LPL has agreed to resolve the Investigation, upon the terms  
2 specified in the Settlement Term Sheet executed as of May 1, 2018 between LPL and the  
3 Lead States on behalf of participating NASAA jurisdictions, with all participating states  
4 and territories identified in Appendix A to the Settlement Term Sheet (each, a  
5 “Jurisdiction” and collectively, the “Jurisdictions”); and

6 WHEREAS, LPL agrees to comply in all material respects with the undertakings  
7 specified herein; and

8 WHEREAS, LPL elects to permanently waive any right to a hearing and appeal  
9 under ORS 59.295 and ORS 59.305 with respect to this Final Order to Cease and Desist,  
10 Final Order Assessing Civil Penalty, and Consent to Entry of Order (the “Consent  
11 Order”);

12 NOW, THEREFORE, the Director of the Department of Consumer and Business  
13 Services (“DCBS”) for the State of Oregon (“Director”), as administrator of the Oregon  
14 Securities Law, Oregon Revised Statutes (“ORS”) 59.005 to 59.451, 59.991 and 59.995,  
15 and Oregon Administrative Rules (“OAR”) chapter 441, hereby enters this Consent  
16 Order:

17 1. LPL admits the jurisdiction of the Director, neither admits nor denies the  
18 Findings of Fact and Conclusions of Law contained in this Consent Order, and consents  
19 to the entry of this Consent Order by the Director.

20 I. FINDINGS OF FACT

21 The Directors FINDS that:

22 A. BACKGROUND, CONTRACT WITH BSDC

23 2. Every broker-dealer is required to have a supervisory system that is  
24 reasonably designed to ensure that the broker-dealer complies with all state and federal  
25 laws, rules and regulations, including laws that prohibit the offer or sale of unregistered,  
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1 non-exempt securities. Securities issued by companies listed on major national exchanges  
2 (e.g., NYSE, AMEX, NASDAQ) and securities issued by registered investment  
3 companies (e.g., mutual funds) are in most instances exempt from the Blue Sky  
4 requirements at issue here.

5 3. A reasonably designed system at a minimum includes written policies and  
6 procedures governing the offer and sale of securities by licensed persons, training for all  
7 associated persons, and supervisory procedures and designated supervisors responsible  
8 for ensuring compliance.

9 4. In January 2000, LPL entered into an agreement with Blue Sky Data  
10 Corporation (“BSDC”), by which BSDC was obligated to supply LPL with data for  
11 LPL's use in compliance and supervisory efforts related to Blue Sky laws, rules, and  
12 regulations (the “Subscription Agreement”). The Subscription Agreement was amended  
13 in 2006.

14 5. As executed in January 2000 and amended in mid-2006, the Subscription  
15 Agreement included data for equity securities, but not for fixed income securities.

16 6. From at least January 2000 forward, the Subscription Agreement provided  
17 for a data feed that, if properly utilized, would allow for the review of trades to ensure  
18 that equity securities were properly registered in the customer’s state. The subscription  
19 also provided online access for authorized personnel to query a specific CUSIP to  
20 determine its registration status in each U.S. state and territory. As described in more  
21 detail below, although the contract would enable such review, LPL failed to ensure  
22 during the relevant period that the data was comprehensively utilized and that its systems  
23 were properly configured to effectively make use of the data.

24 **B. BLUE SKY COMPLIANCE EFFORTS**

25 7. LPL has represented that for a number of years, through at least October  
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1 2006, LPL’s Surveillance Department conducted a manual review of certain solicited  
2 equities trades to confirm Blue Sky compliance. This involved the use of various reports  
3 and reference to registration and exemption data from BSDC, as a result of the state  
4 securities registration subscription described above, and resulted in LPL identifying  
5 certain violations and taking certain remedial actions.

6 8. At some point after October 2006 the manual Blue Sky Review process  
7 described above lapsed. Records reflect that LPL thereafter failed to meet Blue Sky  
8 compliance obligations and failed to address registration and exemption requirements in  
9 the states.

10 9. Records reflect that in 2006, LPL supplemented its subscription with  
11 BSDC to, among other things, include automated checks (a/k/a “edits”) to review orders  
12 against data from BSDC. Records reflect that the Subscription Agreement was amended  
13 based on an assumption by certain LPL personnel that, with this supplemental data feed  
14 feature, a front-end order entry block (*i.e.*, an automated mechanism that would prevent  
15 the execution of trades of unregistered, non-exempt securities) could be implemented  
16 with a fair degree of ease.

17 10. Lacking necessary training, supervision and process implementation of  
18 various order entry systems, including the role of both proprietary systems and vended,  
19 third-party systems, LPL personnel failed to accomplish the additional steps that would  
20 be required to implement a front-end order entry hard block. While it appears from LPL  
21 records that the implementation difficulties were recognized by certain personnel and  
22 some efforts to resolve the technological obstacles were undertaken over a period of time,  
23 these efforts were not successful as the efforts were not given the appropriate stature  
24 within LPL, necessary training, or appropriate and adequate supervision.

25 11. As reflected in various records, poor intradepartmental and  
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1 interdepartmental communications and a lack of integrated supervision and governance  
2 over vendor agreements, order entry systems controls, and Blue Sky compliance  
3 contributed to the failure of certain personnel in both Trading and Compliance to  
4 recognize at various points in time that Blue Sky hard blocks had not been implemented  
5 into LPL’s order entry systems.

6 12. Records reflect that, during the relevant period, other personnel appeared  
7 to place reliance on other surveillance reviews that were designed for purposes of  
8 complying with certain LPL internal policies (for example, surveillance reviews  
9 pertaining to compliance with LPL’s internal prohibition of solicited trades of low-priced  
10 and certain unlisted securities) as a means of capturing Blue Sky violations. LPL failed to  
11 ensure there was a review specifically designed to address state securities registration  
12 requirements.

13 13. The groups and functions that are required for ensuring Blue Sky  
14 compliance were not integrated and were fragmented across the organization, particularly  
15 in a period during which LPL was experiencing significant growth. Moreover, LPL  
16 lacked and failed to provide institutional Blue Sky expertise or experience in the form of  
17 an individual or individuals with particularized knowledge of industry-wide standards,  
18 policies, procedures and processes. This resulted in a failure by LPL to comprehensively  
19 address Blue Sky compliance needs and to develop and fund what should have been a  
20 centralized set of Blue Sky compliance controls.

21 C. CANCELLATION AND REINSTATEMENT OF BSDC DATA FEED

22 14. In or around January 2014, LPL’s Procurement Department  
23 (“Procurement”) undertook a review of various vendor contracts. Procurement identified  
24 the Subscription Agreement, at a cost of \$31,200 per year, and inquired whether LPL had  
25 a need for the service and who within LPL used the subscription. The purpose of this



1 inquiry was to determine whether Procurement could cancel or not renew the BSDC  
2 subscription.

3 15. Procurement was directed to LPLs Governance, Risk & Compliance  
4 Department (“Compliance”), specifically a vice president in Compliance (“VP  
5 Compliance”).

6 16. Without adequate controls in place to ensure that the inquiry was  
7 conducted properly, VP Compliance and an assistant vice president in Compliance sent a  
8 series of separate emails to various personnel within LPL’s Registrations, Trading,  
9 Compliance, and Operations departments to determine whether LPL had a continued  
10 need for the BSDC subscription or whether the contract could be cancelled.

11 17. None of the personnel consulted indicated that the BSDC subscription was  
12 critical to compliance with Blue Sky state registration requirements.

13 18. Following these inquiries, in February 2014, VP Compliance wrote to  
14 Procurement that it was “ok to discontinue” LPL's subscription to the Subscription  
15 Agreement.

16 19. In March 2014, Procurement provided written notice to BSDC to  
17 terminate the Subscription Agreement and LPL paid the final April 2014 invoice.

18 20. Email records reflect that on October 23, 2014, a trader on LPL’s Equity  
19 Trading desk (“Equity Trading”) reviewed a screen that contained information showing a  
20 particular security to be restricted as a result of not being registered for sale or exempt  
21 from registration in the particular jurisdiction (which information appears to have been  
22 populated to the system before the BSDC contract was terminated). The trader shared the  
23 screen with a Manager in Equity Trading who in turn contacted BSDC in an effort to  
24 determine whether the particular restriction was valid. Through this outreach to BSDC,  
25 that Manager learned that LPL’s subscription to the state securities registration data had  
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1 been cancelled months earlier.

2 21. On October 24, 2014, Equity Trading requested by email that the  
3 subscription be immediately reinstated. In that email, Equity Trading explained that it  
4 relied on the data to determine if over-the-counter securities are Blue Sky-compliant in  
5 the U.S. and territories, stating: “[w]e would like to request to have this subscription  
6 renewed as quickly as possible as this is a critical part of our day to day business.”

7 22. In December 2014, LPL and BSDC reinstated the Subscription Agreement  
8 and in February 2015, LPL was again receiving up-to-date data into its equity trading  
9 system from BSDC.

10 23. Both before and after the contract cancellation, alerts relating to potential  
11 Blue Sky registration violations for equity securities were visible only to the trading desk  
12 and not to financial advisors who placed trades directly and, as noted above,  
13 notwithstanding that LPL had access to BSDC data for equity securities, LPL’s systems  
14 did not operate to prevent a trade that was not Blue Sky-compliant (*i.e.*, a front-end  
15 block).

16 24. While the reinstated Subscription Agreement obligated BSDC to provide  
17 LPL with data for both equity and fixed income securities, at no point prior to December  
18 2014 did the Subscription Agreement include data for fixed income securities.

19 D. POST-REINSTATEMENT REVIEW AND REMEDIAL MEASURES

20 25. Following the reinstatement of the BSDC contract, LPL conducted a  
21 review of certain equities and fixed income trades and identified certain Blue Sky  
22 violations requiring remediation. LPL attempted repurchase or damages offers to affected  
23 investors identified through this limited review. In connection with the making of these  
24 offers, LPL contacted securities regulators in certain jurisdictions about the offers.

25 26. As reflected in various records, poor intradepartmental and

1 interdepartmental communications and a lack of integrated supervision and governance  
2 resulted in LPL’s failure at that time to conduct a sufficient analysis to determine the root  
3 cause of the identified violations and compliance and supervisory shortcomings.

4 27. LPL has represented that following the reestablishment of the BSDC  
5 contract, LPL implemented several Blue Sky controls.

6 28. LPL has engaged several consultants to conduct a comprehensive review  
7 of its current Blue Sky compliance program and to assist LPL with implementation of  
8 recommendations, which is ongoing.

9 29. LPL has represented that it has designed and began implementing Blue  
10 Sky training for Compliance, Trading, Operations and Legal personnel and hired a  
11 senior-level Blue Sky compliance expert as a full-time employee, who has  
12 responsibilities for establishing and implementing the enhanced Blue Sky compliance  
13 program as guided by the independent consultants.

14 II. CONCLUSIONS OF LAW

15 The Director CONCLUDES that:

16 1. The Director has jurisdiction over this matter pursuant to ORS 59.235 and  
17 ORS 59.245.

18 2. LPL offered and sold unregistered, non-exempt securities in Oregon, in  
19 violation of ORS 59.055.

20 3. LPL failed to invest sufficient and appropriate resources in personnel,  
21 expertise, systems, and operations to adequately comply with Blue Sky laws, rules, and  
22 regulations, in violation of OAR 441-205-0210(1) and OAR 441-205-0210(3)(b).

23 4. LPL failed to reasonably supervise the flow of information to ensure full  
24 and proper compliance with state securities registration requirements, in violation of  
25 OAR 441-205-0210(1) and OAR 441-205-0210(3)(b).

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1           5.           LPL failed to maintain adequate systems to reasonably supervise agents,  
2 staff, and employees to prevent the sale of unregistered, non-exempt securities, in  
3 violation of OAR 441-205-0210(1) and OAR 441-205-0210(3)(b).

4           6.           LPL failed to supervise agents, staff, and employees in the performance of  
5 duties with respect to systems operation, process, and checks and balances to ensure  
6 compliance with Blue Sky laws, rules, and regulations, in violation of OAR 441-205-  
7 0210(1) and OAR 441-205-0210(3)(b).

8           7.           LPL acted negligently in canceling certain third-party services critical for  
9 compliance with Blue Sky laws, rules, and regulations, in violation of OAR 441-205-  
10 0210(1) and OAR 441-205-0210(3)(b).

11           8.           LPL failed to maintain books and records necessary to ensure full and  
12 proper compliance with Blue Sky laws, rules, and regulations, in violation of ORS  
13 59.195(1) and OAR 441-205-0210(3)(d).

14           9.           LPL failed to conduct appropriate and necessary due diligence regarding  
15 the retention, use, and subsequent cancellation of certain third-party services critical for  
16 compliance with Blue Sky laws, rules, and regulations, in violation of ORS 59.195(1),  
17 OAR 441-205-0210(1) and OAR 441-205-0210(3)(b) and (d).

18           10.           The following relief is appropriate and in the public interest.

19   III.    ORDER

20   On the basis of the Findings of Fact, Conclusions of Law, and LPL's  
21 consent to the entry of this Consent Order,

22   IT IS HEREBY ORDERED:

23           1.           This Consent Order concludes the Investigation and any other action that  
24 the Director could commence under applicable Oregon law on behalf of Oregon as it  
25 relates to the substance of the Findings of Fact and Conclusions of Law herein, provided

1 however, that excluded from and not covered by this paragraph 1 are any claims by the  
2 Director arising from or relating to LPL’s failure to comply with the undertakings  
3 contained herein.

4 2. This Consent Order is entered into solely for the purpose of resolving the  
5 referenced multistate investigation, and is not intended to be used for any other purpose.

6 3. LPL shall CEASE AND DESIST from violating ORS 59.055, ORS  
7 59.195(1), OAR 441-205-0210(1) and OAR 441-205-0210(3)(b) and (d), and will  
8 comply with the Oregon Securities Law.

9 A. PENALTY

10 4. LPL Financial Holdings Inc., or its direct or indirect subsidiaries, shall,  
11 pay the sum of \$499,000.00 (four hundred ninety-nine thousand dollars) to the DCBS  
12 immediately upon entry of the Consent Order. Pursuant to ORS 59.995(1), \$474,000.00  
13 (four hundred seventy-four thousand dollars) of the sum will be allocated as a civil  
14 penalty for the General Fund of the Oregon State Treasury, and \$25,000.00 (twenty-five  
15 thousand dollars) will be allocated to the DCBS Consumer Financial Education Account.  
16 The check shall be made payable to “Department of Consumer and Business Services.”

17 B. CUSTOMER REMEDIATION

18 5. No later than July 2, 2018, LPL shall commence a comprehensive review  
19 of all customer transactions effected in Oregon to assess compliance with all applicable  
20 state securities registration requirements (“Historical Trade Review”).

21 6. The Historical Trade Review shall include all executed, solicited purchase  
22 orders of equity and fixed income securities effected in Oregon between October 1, 2006  
23 (insofar as LPL and/or any third party, vendor, supplier or service has necessary records)  
24 and May 1, 2018 (the “Historical Trade Review Period”), as well as all executed,  
25 unsolicited purchase orders of equity and fixed income securities effected in Oregon

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1 during the portion of the Historical Trade Review Period for which Oregon did not have  
2 an exemption from registration for unsolicited transactions.

3 7. For the purposes of the Historical Trade Review, a transaction shall be  
4 deemed to have been effected in Oregon if the customer’s address of record (or the  
5 address of record for the beneficial owner of any account, as applicable) at the time of the  
6 transaction was within Oregon.

7 8. The Historical Trade Review shall be conducted by an unaffiliated third  
8 party that is not unacceptable to the Lead States (the “Independent Reviewer”). The  
9 Independent Reviewer shall not be a person or entity who has provided LPL with any  
10 products or services related to Blue Sky compliance prior to July 1, 2017.

11 a. In conducting the Historical Trade Review, the Independent Reviewer may  
12 rely on historical research, data, and other services provided by a third-party service  
13 provider other than the Independent Reviewer. The Independent Reviewer may further  
14 rely on any determination by such a third-party service provider that a particular trade  
15 complied with state registration requirements.

16 b. Upon request, LPL shall provide the Director with copies of all final contracts  
17 and directives related to the engagement of the Independent Reviewer and any other  
18 third-party service provider involved in the Historical Trade Review and the related  
19 remediation. LPL shall promptly respond to any additional requests for information by  
20 the Director relating to such engagement.

21 c. LPL shall neither be in nor have an attorney-client relationship with the  
22 Independent Reviewer, and shall not seek to invoke the attorney-client privilege or any  
23 other doctrine or privilege to prevent the Independent Reviewer from transmitting any  
24 information, reports, or documents as set forth in this Consent Order to the Director or to  
25 LPL’s Board of Directors.

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1 d. LPL may request confidential treatment be afforded to material provided by  
2 LPL and/or the Independent Reviewer to the Director, if the material should be  
3 reasonably considered confidential. The Director shall provide such treatment to the  
4 extent permitted under the Oregon public records laws. If the Director receives a public  
5 records request regarding such material, the Director shall provide reasonable notice to  
6 LPL regarding the public records request. If the Director determines that any of the  
7 material requested is not exempt from disclosure, the Director will notify LPL of such  
8 determination and will allow LPL a reasonable amount of time to intervene and seek to  
9 prevent the release, publication or disclosure of such information to the requesting party  
10 by seeking a temporary restraining order or other legal or equitable remedy. If disclosure  
11 of the material is ordered by the Oregon Department of Justice or a circuit or appellate  
12 court, the Director will comply with the order as written.

13 e. LPL shall not have the authority to terminate the Independent Reviewer or any  
14 third-party service provider engaged in connection with the Historical Trade Review and  
15 related remediation, without prior written approval from the Lead States.

16 9. LPL shall offer to repurchase the securities where the securities are still  
17 held in an LPL Account (subject to a standardized repurchase formula) or to pay damages  
18 where the position has been sold (subject to a standardized damages formula) for each  
19 trade involving an unregistered, non-exempt equity or fixed income security. Each offer  
20 shall include interest at a rate of three (3) percent simple interest per annum. Interest shall  
21 be calculated from the trade date of the purchase to the earlier of May 1, 2018 or the date  
22 on which the customer sold the security, if applicable.

23 10. For customers with affected securities who have transferred their accounts  
24 away from LPL, LPL will attempt to contact the customer to determine whether the  
25 customer either (1) sold the position after transferring it away from LPL or (2) still holds  
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1 the position at a broker-dealer other than LPL. If the customer still holds the position,  
2 LPL will also need to determine whether it is feasible for the securities to be transferred  
3 back to LPL for purposes of LPL's offering to repurchase the securities. If the customer  
4 fails to timely provide information necessary for LPL to make a repurchase or damages  
5 offer using the formula described in Section III(B)(9) above or if it is not feasible to  
6 transfer the securities back to LPL for repurchase, then LPL will make a damages offer to  
7 the customer based on a revised formula. The damages shall be calculated by deducting  
8 the lowest reasonably identifiable value of the security on the date of transfer from the  
9 amount paid and applicable interest.

10 11. LPL shall memorialize each offer in a letter (each, an "Offer Letter"),  
11 pursuant to the following terms:

12 a. LPL and the Lead States will work to design a template Offer Letter  
13 (providing recommended format and the categories of information to be included with  
14 every offer). The Lead States will distribute the final template Offer Letter to the  
15 Jurisdictions.

16 b. If the Director requires modification of the final template Offer Letter, the  
17 Director must communicate that requirement, or advise LPL when the Director will  
18 communicate the details of that requirement, to counsel for LPL within ten (10) business  
19 days of receipt of the final template Offer Letter. LPL shall work in good faith to address  
20 any questions or concerns raised by the Director and to comply with any statutory or  
21 regulatory requirement in Oregon related to the form or content of such Offer Letters.  
22 Absent contact from the Director within ten (10) business days, LPL may presume that  
23 the Director has approved the template Offer Letter, inclusive of any waiver or release  
24 language, for distribution to offerees in Oregon.

25 c. Each Offer Letter shall be delivered to the offeree's last known mailing  
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1 address as maintained in LPL's records in a manner that enables confirmation of delivery  
2 (e.g., certified U.S. Post Mail or Federal Express). For offerees that have elected, in  
3 writing, to receive correspondence electronically, Offer Letters may be sent  
4 electronically, so long as electronic delivery includes a mechanism to confirm that the  
5 Offer Letter was delivered (e.g., request for read receipt).

6 d. Each Offer Letter shall clearly state the terms of the offer, and shall provide in  
7 bold underlined font: (1) the steps required to accept the offer, (2) the deadline for  
8 acceptance, and (3) the contact information at LPL whereby the offeree can obtain  
9 additional information.

10 e. LPL may include within its Offer Letters a waiver or release relative to the  
11 transactions it is offering to remediate. Notwithstanding any such waiver or release,  
12 neither the Historical Trade Review nor the Repurchase Program (defined below) shall  
13 operate to extinguish or preclude any individual claim or private right of action based on  
14 sales practice violations (e.g., material misrepresentation or omission, or suitability) that  
15 is otherwise available to any offeree, except to the extent that such claim or right of  
16 action is based primarily on the unregistered, non-exempt status of the security or  
17 transaction which LPL is offering to remediate. In any event, the form and content of any  
18 such waiver or release shall not be unacceptable to the Director.

19 f. If an offeree does not accept the offer from LPL, neither the Historical Trade  
20 Review nor the Repurchase Program (defined below) shall operate to extinguish or  
21 preclude any individual claim or private right of action that is available to the offeree.

22 12. The Offer Letter shall remain open for a period of sixty (60) days from the  
23 date it is sent to the offeree.

24 a. Within sixty (60) days of the date that Offer Letters are sent, LPL shall  
25 provide the Director a list of offerees in Oregon for whom Offer Letters were returned as  
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1 undeliverable so that the Jurisdiction may attempt to locate those offerees.

2 i. If the Director elects to try to locate current addresses for this  
3 population of offerees, then it shall inform LPL or its representative. The Director will  
4 then have ninety (90) days to provide LPL with a new address for use in re-sending each  
5 Offer Letter previously returned as undeliverable (the “Location Period”). The Director  
6 may determine it necessary to extend the Location Period in which case it will notify LPL  
7 as to the minimum period of time necessary to complete its search. The Location Period  
8 shall not extend beyond one hundred eighty (180) days.

9 ii. If the Director locates an individual after the Location Period has  
10 elapsed, LPL shall accommodate any reasonable request from the Director to re-send an  
11 Offer Letter to a newly-identified mailing address, so long as LPL is still actively  
12 engaged in mailing Offer Letters in any Jurisdiction.

13 iii. Any Offer Letter that is re-sent will carry with it a revised deadline for  
14 acceptance that is sixty (60) days from the date the Offer Letter is re-sent.

15 iv. Separate from the efforts undertaken by the Director to locate a current  
16 mailing address for undeliverable Offer Letters, LPL or its representative(s) shall conduct  
17 an electronic query (*i.e.*, a public records search via a service such as Thomson Reuters or  
18 LexisNexis) for each undeliverable offeree and shall re-send an Offer Letter in a manner  
19 not materially different from LPL’s initial mailing to offerees for whom it identifies an  
20 address that appears to be the offeree’s current mailing address. The Director and LPL  
21 shall coordinate to resolve any discrepancies between the address identified by the  
22 Director and the address identified by LPL.

23 v. If both the Director and LPL are unable to locate the address for any  
24 individual within the population of offerees addressed in this Section III(B)(12), LPL  
25 shall re-send an Offer Letter to all such individuals who come forward to either LPL or  
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1 the Jurisdiction within six (6) months after completion of the Historical Trade Review  
2 and Repurchase Program (as described and defined in Section III(B)(13), below).

3 13. The Historical Trade Review shall be completed, all offers shall be made,  
4 and all payments remitted (collectively the “Repurchase Program”) in Oregon no later  
5 than November 1, 2019.

6 14. No later than December 31, 2019, LPL shall prepare and submit to the  
7 Director a report including the following information:

8 a. For each offer made:

- 9 i. The trade date(s) and corresponding product(s) covered by the  
10 offer;
- 11 ii. The name and address of the offeree(s);
- 12 iii. Whether the offer was either accepted, affirmatively rejected,  
13 or deemed rejected due to a failure to timely accept;
- 14 iv. The date(s) and amount(s) remitted for each offer; and
- 15 v. Any special circumstances relevant to that offer (*e.g.*, if the  
16 original customer is now deceased and the payment was  
17 remitted to the customer’s heirs or estate).

18 b. The total amount paid to all residents of the Jurisdiction in connection with  
19 the Repurchase Program; and

20 c. The number of executed and settled purchase orders reviewed in Oregon that  
21 were determined by a third-party service provider other than the Independent Reviewer to  
22 have complied with state registration requirements, and that were therefore not reviewed  
23 by the Independent Reviewer. LPL will identify all such trades upon request by the  
24 Director.

25 15. No later than December 31, 2019, LPL shall require the Independent  
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1 Reviewer to certify to LPL that the Independent Reviewer’s determinations as to which  
2 transactions contravened state registration requirements are true, accurate, and based on  
3 all available information and a good faith interpretation of applicable law. Prior to the  
4 Independent Reviewer’s certification, LPL shall direct that any third-party who provided  
5 services in furtherance of the Independent Reviewer’s determinations provide a written  
6 representation to the Independent Reviewer that all services rendered in furtherance of  
7 the Historical Trade Review were fully completed in accordance with both the third-  
8 party’s statement of work and all directives provided to the third-party by the  
9 Independent Reviewer.

10 16. No later than December 31, 2019, LPL or its designee(s) shall certify to  
11 the Director that LPL has fully complied in all material respects with the undertakings set  
12 forth in Section III(B) of this Consent Order in connection with transactions effected in  
13 Oregon, including to the best of LPL’s knowledge, the truth, accuracy, and good faith  
14 basis of all determinations by the Independent Reviewer and any other third-party service  
15 provider as to whether any transaction complied with state registration requirements. LPL  
16 shall provide as an exhibit to this certification copies of the Independent Reviewer’s  
17 certification and any other third-party representations that LPL is relying upon in making  
18 this certification to the Director. In its certification, LPL shall affirm that if an error is  
19 subsequently identified within the Historical Trade Review and Repurchase Program  
20 (whether a failure to identify a violative transaction or an error in calculating the value of  
21 an offer), LPL will retain responsibility for ensuring the error is remediated so that LPL  
22 has made all offers anticipated by this Consent Order. The identification of a good-faith  
23 error within the Historical Trade Review and Repurchase Program shall not result in a  
24 finding by the Director that LPL is in default of this Consent Order.

25 17. The costs and expenses of the Historical Trade Review and the related  
26

1 Repurchase Program shall be borne exclusively by LPL Financial Holdings Inc. or its  
2 direct or indirect subsidiaries, and shall not reduce or otherwise affect the amount of any  
3 penalty or fine imposed in this Consent Order.

4 18. At LPL’s request, the Lead States for all Jurisdictions where necessary  
5 and/or the Director for its own part may extend, for good cause shown, any of the  
6 procedural dates set forth in this Section III(B). If the Lead States extend a date or  
7 deadline, the Lead States shall extend all related subsequent deadlines that are dependent  
8 on the extended date or deadline by a corresponding amount of time. Any extension  
9 granted by the Lead States shall apply to all dates in Oregon pursuant to this Consent  
10 Order. If the Director extends a date or deadline (*see, e.g., supra* Section III(B)(12)(a)(i)),  
11 then the Director shall extend all related subsequent deadlines applicable to the  
12 completion of undertakings in Oregon by a corresponding amount of time. Any extension  
13 by the Director shall apply only to Oregon and shall not have any effect on any dates or  
14 deadlines related to the Historical Trade Review and Repurchase Program in any other  
15 Jurisdiction.

16 C. COMPREHENSIVE REVIEW OF BLUE SKY OPERATIONS, POLICIES,  
17 PROCEDURES, AND PRACTICES

18 19. If it has not already done so, no later than July 2, 2018, LPL shall  
19 commence a comprehensive review of its operations, policies, procedures, and practices  
20 relating to compliance with and supervision of blue sky state securities registration  
21 requirements in all Jurisdictions, to assess whether the foregoing (i) are adequate to  
22 reasonably ensure compliance with applicable state laws, rules, and regulations, (ii) are  
23 consistent with industry practice, and (iii) are being implemented fully, properly, and  
24 effectively (the “Operational Review”) so as to avoid violative transactions like those  
25 identified in the Historical Trade Review.

Division of Financial Regulation  
Labor and Industries Building  
350 Winter Street NE, Suite 410  
Salem, OR 97301-3881  
Telephone: (503) 378-4387





- 1           20.           The Operational Review shall include the following areas:
- 2           a.           Compliance and supervisory controls and related policies, procedures and
- 3 process relating to:
- 4           i.           Identification and escalation protocols by supervisory and compliance
- 5 personnel involving significant matters relating to compliance with state securities laws,
- 6 rules and regulations;
- 7           ii.           Communication and information sharing between departments and
- 8 business units (*e.g.*, procurement, technology, trading, and retail brokerage) relative to
- 9 state securities registration requirements and operations processes for ensuring intra- and
- 10 inter-departmental coordination on matters relating to state securities registration
- 11 requirements; and,
- 12           iii.           Training and education of staff, including associated persons of the
- 13 broker- dealer whether employees or independent contractors, relative to state securities
- 14 registration requirements;
- 15           b.           A complete, top-to-bottom review of the onboarding of new securities
- 16 products for purposes of assessing LPL’s ability to comply with all state securities
- 17 registration requirements, and all operations and procedures in connection with state
- 18 registration requirements, that apply to the offer and sale of that product;
- 19           c.           A complete top-to-bottom review of vendor service protocols to ensure
- 20 processes are in place for identification and management of critical services used to
- 21 ensure compliance with state securities laws. This will include an assessment of the
- 22 impact of such products and services on LPL’s ability to review transactions for Blue Sky
- 23 compliance; and
- 24           d.           Personnel and staffing relative to those functions that relate to compliance
- 25 with and supervision of state securities registration requirements. Insofar as LPL has
- 26

1 represented that it has undertaken to assess and upgrade its talent as it impacts  
2 compliance with state securities registration requirements, including the recruitment of an  
3 experienced blue sky professional and expert on state securities registration compliance  
4 matters, the Operational Review shall assess the experience, responsibilities, and  
5 resources available to all personnel hired or reassigned within LPL in connection with  
6 ensuring compliance with state securities registration requirements.

7 21. The Operational Review shall be conducted by an unaffiliated third party  
8 that is not unacceptable to the Lead States (the “Consultant”). The Consultant shall not be  
9 a person or entity who has been engaged or retained by LPL between January 1, 2012 and  
10 July 1, 2017 for the purpose of conducting any review of similar scope and substance.

11 a. Upon request, LPL shall provide the Director with copies of all final contracts  
12 related to the engagement of the Consultant and any other third-party service provider  
13 involved in the Operational Review and the related remediation. LPL shall promptly  
14 respond to any additional requests for information by the Director relating to such  
15 engagement.

16 b. LPL shall neither be in nor have an attorney-client relationship with the  
17 Consultant, and shall not seek to invoke the attorney-client privilege or any other doctrine  
18 or privilege to prevent the Consultant from transmitting any information, reports, or  
19 documents as set forth in this Consent Order to the Director or to LPL’s Board of  
20 Directors.

21 c. LPL shall not have the authority to terminate the Consultant or any third-party  
22 service provider engaged in connection with the Operational Review, without prior  
23 written approval from the Lead States.

24 22. The Operational Review shall be completed no later than May 1, 2019.

25 23. LPL may request confidential treatment be afforded to material provided  
26





1 by LPL and/or the Consultant to the Director, if the material should be reasonably  
2 considered confidential. The Director shall provide such treatment to the extent  
3 permitted under the Oregon public records laws. If the Director receives a public records  
4 request regarding such material, the Director shall provide reasonable notice to LPL  
5 regarding the public records request. If the Director determines that any of the material  
6 requested is not exempt from disclosure, the Director will notify LPL of such  
7 determination and will allow LPL a reasonable amount of time to intervene and seek to  
8 prevent the release, publication or disclosure of such information to the requesting party  
9 by seeking a temporary restraining order or other legal or equitable remedy. If disclosure  
10 of the material is ordered by the Oregon Department of Justice or a circuit or appellate  
11 court, the Director will comply with the order as written.

12 24. No later than July 1, 2019, LPL shall require that the Consultant submit a  
13 report to LPL detailing the results and findings of the Operational Review, including a  
14 list of all deficiencies identified and recommendations for addressing such deficiencies.

15 25. LPL shall cure all deficiencies identified in the Consultant's report  
16 ("Operational Remediation") no later than June 30, 2020.

17 a. If LPL declines to adopt or implement any recommendation(s) by the  
18 Consultant for addressing deficiencies identified during the Operational Review, LPL  
19 shall identify the recommendations not adopted or implemented and explain why they  
20 were not adopted or implemented.

21 26. No later than August 31, 2020, LPL or its designee(s) shall certify to the  
22 Lead States that LPL has fully complied in all material respects with the undertakings set  
23 forth in Section III(C) of this Consent Order.

24 27. The costs and expenses of the Operational Review and Operational  
25 Remediation shall be borne exclusively by LPL Financial Holdings Inc. or its direct or  
26

1 indirect subsidiaries, and shall not reduce or otherwise affect the amount of any penalty  
2 or fine imposed as part of the Settlement.

3 28. At LPL's request, the Lead States may extend, for good cause shown, any  
4 of the procedural dates set forth in this Section III(C). If the Lead States extend a date or  
5 deadline, the Lead States shall extend all related subsequent deadlines that are dependent  
6 on the extended date or deadline by a corresponding amount of time. Each Jurisdiction  
7 shall reflect in their Consent Order that any extension granted by the Lead States shall  
8 apply in the Jurisdiction. Any extension granted by the Lead States shall apply to all dates  
9 in Oregon pursuant to this Consent Order.

10 D. AUDITS AND INSPECTIONS

11 29. The Director shall have the right to conduct on-site audits, inspections, or  
12 examinations of LPL to ensure full compliance with the undertakings herein. The cost of  
13 any such audit, inspection, or examination shall be borne exclusively by LPL Financial  
14 Holdings Inc. or its direct or indirect subsidiaries. The Director will not initiate any such  
15 audit, inspection or examination to assess LPL's compliance with the undertakings herein  
16 until after LPL has provided the certifications described in Sections III(B)(15), III(B)(16)  
17 and III(C)(26) above.

18 E. CONSTRUCTION AND DEFAULT

19 30. This Consent Order is not intended to form the basis for any  
20 disqualification from registration or licensing as a broker-dealer, investment adviser, or  
21 issuer under the laws, rules, and regulations of Oregon. Any disqualification from  
22 relying upon the securities registration exemptions or safe harbor provisions based on the  
23 substance of the Findings of Fact, Conclusions of Law or Order herein to which LPL or  
24 any of its affiliates may be subject under the laws, rules, and regulations of Oregon, is  
25 hereby waived.





1           31.           Nothing in this Consent Order is intended to form the basis for any  
2 disqualification under the laws of any state, the District of Columbia, Puerto Rico, or the  
3 U.S. Virgin Islands; under the rules or regulations of any securities or commodities  
4 regulator or self-regulatory organizations; or under the federal securities laws, including  
5 but not limited to, Section 3(a)(39) of the Securities Exchange Act of 1934 and  
6 Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933.  
7 Furthermore, nothing in this Consent Order is intended to form the basis for  
8 disqualification under the FINRA rules prohibiting continuance in membership or  
9 disqualification under other SRO rules prohibiting continuance in membership. This  
10 Consent Order is not intended to be a final order based upon violations of any Oregon  
11 statute, rule, or regulation that prohibits fraudulent, manipulative or deceptive conduct.

12           32.           Except in an action by the Director to enforce the obligations in this  
13 Consent Order, this Consent Order is not intended to be deemed or used as (a) an  
14 admission of, or evidence of, the validity of any alleged wrongdoing, liability, or lack of  
15 any wrongdoing or liability; or (b) an admission of, or evidence of, any such alleged fault  
16 or omission of LPL in any civil, criminal, arbitration, or administrative proceeding in any  
17 court, administrative agency, or other tribunal.

18           33.           If payment is not made by LPL or if LPL defaults in any of its obligations  
19 set forth in this Consent Order, the Director may institute an action to have this  
20 agreement declared null and void. Upon issuance of an appropriate order, after a fair  
21 hearing, the Director may reinstitute the action or investigation related to the substance of  
22 the Findings of Fact and Conclusions of Law herein.

23           34.           This Consent Order and any dispute related thereto shall be construed and  
24 enforced in accordance with, and governed by, the laws of the state of Oregon without  
25 regard to any choice of law principles.



1           35.           This Consent Order is not intended to state or imply willful, reckless, or  
2 fraudulent conduct by LPL, or its affiliates, directors, officers, employees, associated  
3 persons, or agents.

4           36.           LPL, through its execution of this Consent Order, voluntarily waives the  
5 right to a hearing on this matter and to judicial review of this Consent Order under ORS  
6 59.295 and ORS 59.305.

7           37.           LPL enters into this Consent Order voluntarily and represents that no  
8 threats, offers, promises, or inducements of any kind have been made by the Director or  
9 any member, officer, employee, agent, or representative of the Director to induce LPL to  
10 enter into this Consent Order.

11          38.           This Consent Order shall be binding upon LPL and its successors and  
12 assigns, as well as to successors and assigns of relevant affiliates, with respect to all  
13 conduct subject to the provisions above and all future obligations, responsibilities,  
14 undertakings, commitments, limitations, restrictions, events, and conditions.

15          39.           This Order is a "Final Order" under ORS 183.310(6)(b).

16                     Dated this 31<sup>st</sup> day of January, 2019.

17                                     CAMERON C. SMITH, Director  
18                                     Department of Consumer and Business Services

19   \_\_\_\_\_  
20   /s/ Dorothy Bean  
21                                     Dorothy Bean, Chief of Enforcement  
22                                     Division of Financial Regulation



1 CONSENT TO ENTRY OF CONSENT ORDER BY LPL

2 LPL hereby acknowledges that it has been served with a copy of this Consent  
3 Order, has read the foregoing Consent Order, is aware of its right to a hearing and appeal  
4 in this matter, and has waived the same.

5 LPL admits the jurisdiction of the Director, neither admits nor denies the Findings  
6 of Fact and Conclusions of Law contained in this Consent Order; and consents to entry of  
7 this Consent Order by the Director as settlement of the issues contained in this Order.

8 LPL agrees that it shall not claim, assert, or apply for a tax deduction or tax credit  
9 with regard to any state, federal or local tax for any administrative monetary penalty that  
10 LPL shall pay pursuant to this Consent Order. LPL understands and acknowledges that  
11 these provisions are not intended to imply that the Director would agree that any other  
12 amounts LPL shall pay pursuant to this Consent Order may be reimbursed or indemnified  
13 (whether pursuant to an insurance policy or otherwise) under applicable law or may be  
14 the basis for any tax deduction or tax credit with regard to any state, federal or local tax.

15 LPL states that no promise of any kind or nature whatsoever was made to it to  
16 induce it to enter into this Consent Order and that it has entered into this Consent Order  
17 voluntarily.

18 Cecilia B. Mavico represents that she is SVP, Head of Regulatory Inquiries and  
19 Strategy of LPL and that, as such, has been authorized by LPL to enter into this Consent  
20 Order for and on behalf of LPL.

21 Dated this 13 day of March, 2019.

22 LPL  
23 By: /s/ Cecilia Mavico  
24 Title: SVP, Head of Regulatory Inquiries +  
25 Strategy

26 SUBSCRIBED AND SWORN TO before me this 13 day of March, 2019.

/s/ Diane H. Carter  
Notary Public  
My Commission expires: 1/26/27

Division of Financial Regulation  
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