

1 of participating NASAA jurisdictions, with all participating states and territories identified in
2 Appendix A to the Settlement Term Sheet (each, a “Jurisdiction” and collectively, the
3 “Jurisdictions”); and

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

6 WHEREAS, LPL elects to permanently waive any right to a hearing and appeal under
7 RCW 21.20.440 and Chapter 34.05 RCW with respect to this Administrative Consent Order (the
8 “Order”);

9 NOW, THEREFORE, the Washington State Department of Institutions, Securities
10 Division (“Securities Division”), as administrator of the Securities Act of Washington, hereby
11 enters this Order:

12 I. FINDINGS OF FACT

13 1. LPL admits the jurisdiction of the Securities Division, neither admits nor denies
14 the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of
15 this Order by the Securities Division.

16 A. Background, Contract with BSDC

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

23 3. A reasonably designed system at a minimum includes written policies and
24 procedures governing the offer and sale of securities by registered persons, training for all
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1 associated persons, and supervisory procedures and designated supervisors responsible for
2 ensuring compliance.

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

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

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

17 **B. Blue Sky Compliance Efforts**

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

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

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

10 10. Lacking necessary training, supervision and process implementation of various
11 order entry systems, including the role of both proprietary systems and vended, third-party
12 systems, LPL personnel failed to accomplish the additional steps that would be required to
13 implement a front-end order entry hard block.

14 11. While it appears from LPL records that the implementation difficulties were
15 recognized by certain personnel and some efforts to resolve the technological obstacles were
16 undertaken over a period of time, these efforts were not successful as the efforts were not given
17 the appropriate stature within LPL, necessary training, or appropriate and adequate supervision.

18 12. As reflected in various records, poor intradepartmental and interdepartmental
19 communications and a lack of integrated supervision and governance over vendor agreements,
20 order entry systems controls, and Blue Sky compliance contributed to the failure of certain
21 personnel in both Trading and Compliance to recognize at various points in time that Blue Sky
22 hard blocks had not been implemented into LPL's order entry systems.

23 13. Records reflect that, during the relevant period, other personnel appeared to place
24 reliance on other surveillance reviews that were designed for purposes of complying with certain
25 LPL internal policies (for example, surveillance reviews pertaining to compliance with LPL's

1 internal prohibition of solicited trades of low-priced and certain unlisted securities) as a means of
2 capturing Blue Sky violations. LPL failed to ensure there was a review specifically designed to
3 address state securities registration requirements. The groups and functions that are required for
4 ensuring Blue Sky compliance were not integrated and were fragmented across the organization,
5 particularly in a period during which LPL was experiencing significant growth. Moreover, LPL
6 lacked and failed to provide institutional Blue Sky expertise or experience in the form of an
7 individual or individuals with particularized knowledge of industry-wide standards, policies,
8 procedures and processes. This resulted in a failure by LPL to comprehensively address Blue
9 Sky compliance needs and to develop and fund what should have been a centralized set of Blue
10 Sky compliance controls.

11 **C. Cancellation and Reinstatement of BSDC Data Feed**

12 14. In or around January 2014, LPL's Procurement Department ("Procurement")
13 undertook a review of various vendor contracts. Procurement identified the Subscription
14 Agreement, at a cost of \$31,200 per year, and inquired whether LPL had a need for the service
15 and who within LPL used the subscription. The purpose of this inquiry was to determine
16 whether Procurement could cancel or not renew the BSDC subscription.

17 15. Procurement was directed to LPL's Governance, Risk & Compliance Department
18 ("Compliance"), specifically a vice president in Compliance ("VP Compliance").

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

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

1 18. Following these inquiries, in February 2014, VP Compliance wrote to
2 Procurement that it was “ok to discontinue” LPL’s subscription to the Subscription Agreement.

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

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

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

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

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

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

4 **D. Post-Reinstatement Review and Remedial Measures**

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

10 26. As reflected in various records, poor intradepartmental and interdepartmental
11 communications and a lack of integrated supervision and governance resulted in LPL's failure at
12 that time to conduct a sufficient analysis to determine the root cause of the identified violations
13 and compliance and supervisory shortcomings.

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

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

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

1 **CONCLUSIONS OF LAW**

2 1. The Securities Division has jurisdiction over this matter pursuant to Chapter 21.20
3 RCW.

4 2. LPL offered and sold unregistered, non-exempt securities in violation of RCW
5 21.20.140.

6 3. LPL failed to invest sufficient and appropriate resources in personnel, expertise,
7 systems, and operations to adequately comply with Blue Sky laws, rules, and regulations, which
8 is grounds for the imposition of a fine pursuant to RCW 21.20.110(1)(j).

9 4. LPL failed to reasonably supervise the flow of information to ensure full and
10 proper compliance with state securities registration requirements, which is grounds for the
11 imposition of a fine pursuant to RCW 21.20.110(1)(j).

12 5. LPL failed to maintain adequate systems to reasonably supervise agents, staff, and
13 employees to prevent the sale of unregistered, non-exempt securities, which is grounds for the
14 imposition of a fine pursuant to RCW 21.20.110(1)(j).

15 6. LPL failed to supervise agents, staff, and employees in the performance of duties
16 with respect to systems operation, process, and checks and balances to ensure compliance with
17 Blue Sky laws, rules, and regulations, which is grounds for the imposition of a fine pursuant to
18 RCW 21.20.110(1)(j).

19 7. LPL acted negligently in canceling certain third-party services critical for
20 compliance with Blue Sky laws, rules, and regulations, which is grounds for the imposition of a
21 fine pursuant to RCW 21.20.110(1)(j).

22 8. LPL failed to maintain books and records necessary to ensure full and proper
23 compliance with Blue Sky laws, rules, and regulations, in violation of RCW 21.20.100.

1 **B. Customer Remediation**

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

5 6. The Historical Trade Review shall include all executed, solicited purchase orders
6 of equity and fixed income securities effected in Washington State between October 1, 2006
7 (insofar as LPL and/or any third party, vendor, supplier or service has necessary records) and
8 May 1, 2018 (the “Historical Trade Review Period”), as well as all executed, unsolicited
9 purchase orders of equity and fixed income securities effected in Washington State during the
10 portion of the Historical Trade Review Period, for which Washington State did not have an
11 exemption from registration for unsolicited transactions or secondary transactions.

12 7. For the purposes of the Historical Trade Review, a transaction shall be deemed to
13 have been effected in Washington State if the customer’s address of record (or the address of
14 record for the beneficial owner of any account, as applicable) at the time of the transaction was
15 within Washington State.

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

20 a. In conducting the Historical Trade Review, the Independent Reviewer
21 may rely on historical research, data, and other services provided by a
22 third-party service provider other than the Independent Reviewer. The
23 Independent Reviewer may further rely on any determination by such a
24 third-party service provider that a particular trade complied with state
25 registration requirements.

- 1 b. Upon request, LPL shall provide the Securities Division with copies of all
2 final contracts and directives related to the engagement of the Independent
3 Reviewer and any other third-party service provider involved in the
4 Historical Trade Review and the related remediation. LPL shall promptly
5 respond to any additional requests for information by the Securities
6 Division relating to such engagement.
- 7 c. LPL shall neither be in nor have an attorney-client relationship with the
8 Independent Reviewer, and shall not seek to invoke the attorney-client
9 privilege or any other doctrine or privilege to prevent the Independent
10 Reviewer from transmitting any information, reports, or documents as set
11 forth in this Order to the Securities Division or to LPL's Board of
12 Directors.
- 13 d. LPL may request confidential treatment be afforded to any material
14 provided by LPL and/or the Independent Reviewer to the Securities
15 Division, and the Securities Division shall provide such treatment and
16 seek to prevent public disclosure of those materials to the full extent
17 possible under its laws.
- 18 e. LPL shall not have the authority to terminate the Independent Reviewer or
19 any third-party service provider engaged in connection with the Historical
20 Trade Review and related, without prior written approval from the Lead
21 States.

22 9. LPL shall offer to repurchase the securities where the securities are still held in an
23 LPL Account (subject to a standardized repurchase formula) or to pay damages where the
24 position has been sold (subject to a standardized damages formula) for each trade involving an
25 unregistered, non-exempt equity or fixed income security. Each offer shall include interest at a

1 rate of three (3) percent simple interest per annum. Interest shall be calculated from the trade
2 date of the purchase to the earlier of May 1, 2018 or the date on which the customer sold the
3 security, if applicable.

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

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

- 17 a. LPL and the Lead States will work to design a template Offer Letter
18 (providing recommended format and the categories of information to be
19 included with every offer). The Lead States will distribute the final
20 template Offer Letter to the Jurisdictions.
- 21 b. If the Securities Division requires modification of the final template Offer
22 Letter, the Securities Division must communicate that requirement, or
23 advise LPL when the Securities Division will communicate the details of
24 that requirement, to counsel for LPL within ten (10) business days of
25 receipt of the final template Offer Letter. LPL shall work in good faith to

1 address any questions or concerns raised by the Securities Division and to
2 comply with any statutory or regulatory requirement in Washington State
3 related to the form or content of such Offer Letters. Absent contact from
4 the Securities Division within ten (10) business days, LPL may presume
5 that the Securities Division has approved the template Offer Letter,
6 inclusive of any waiver or release language, for distribution to offerees in
7 Washington State.

- 8 c. Each Offer Letter shall be delivered to the offeree's last known mailing
9 address as maintained in LPL's records in a manner that enables
10 confirmation of delivery (*e.g.*, certified U.S. Post Mail or Federal
11 Express). For offerees that have elected, in writing, to receive
12 correspondence electronically, Offer Letters may be sent electronically, so
13 long as electronic delivery includes a mechanism to confirm that the Offer
14 Letter was delivered (*e.g.*, request for read receipt).
- 15 d. Each Offer Letter shall clearly state the terms of the offer, and shall
16 provide in bold underlined font: (1) the steps required to accept the offer,
17 (2) the deadline for acceptance, and (3) the contact information at LPL
18 whereby the offeree can obtain additional information.
- 19 e. LPL may include within its Offer Letters a waiver or release relative to the
20 transactions it is offering to remediate. Notwithstanding any such waiver
21 or release, neither the Historical Trade Review nor the Repurchase
22 Program (defined below) shall operate to extinguish or preclude any
23 individual claim or private right of action based on sales practice
24 violations (*e.g.*, material misrepresentation or omission, or suitability) that
25 is otherwise available to any offeree, except to the extent that such claim

1 or right of action is based primarily on the unregistered, non-exempt status
2 of the security or transaction which LPL is offering to remediate. In any
3 event, the form and content of any such waiver or release shall not be
4 unacceptable to the Securities Division.

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

7 a. Within sixty (60) days of the date that Offer Letters are sent, LPL shall
8 provide the Securities Division a list of offerees in Washington State for
9 whom Offer Letters were returned as undeliverable so that the Jurisdiction
10 may attempt to locate those offerees.

11 i. If the Securities Division elects to try to locate current addresses
12 for this population of offerees, then it shall inform LPL or its
13 representative. The Securities Division will then have ninety (90)
14 days to provide LPL with a new address for use in re-sending each
15 Offer Letter previously returned as undeliverable (the "Location
16 Period"). The Securities Division may determine it necessary to
17 extend the Location Period in which case it will notify LPL as to
18 the minimum period of time necessary to complete its search. The
19 Location Period shall not extend beyond one hundred eighty (180)
20 days.

21 ii. If the Securities Division locates an individual after the Location
22 Period has elapsed, LPL shall accommodate any reasonable
23 request from the Securities Division to re-send an Offer Letter to a
24 newly-identified mailing address, so long as LPL is still actively
25 engaged in mailing Offer Letters in any Jurisdiction.

- 1 iii. Any Offer Letter that is re-sent will carry with it a revised deadline
2 for acceptance that is sixty (60) days from the date the Offer Letter
3 is re-sent.
- 4 iv. Separate from the efforts undertaken by the Securities Division to
5 locate a current mailing address for undeliverable Offer Letters,
6 LPL or its representative(s) shall conduct an electronic query (*i.e.*,
7 a public records search via a service such as Thomson Reuters or
8 LexisNexis) for each undeliverable offeree and shall re-send an
9 Offer Letter in a manner not materially different from LPL's initial
10 mailing to offerees for whom it identifies an address that appears
11 to be the offeree's current mailing address. The Securities
12 Division and LPL shall coordinate to resolve any discrepancies
13 between the address identified by the Securities Division and the
14 address identified by LPL.
- 15 v. If both the Securities Division and LPL are unable to locate the
16 address for any individual within the population of offerees
17 addressed in this Section III(B)(12)(a), LPL shall re-send an Offer
18 Letter to all such individuals who come forward to either LPL or
19 the Jurisdiction within six (6) months after completion of the
20 Historical Trade Review and Repurchase Program (as described
21 and defined in Section III(B)(13), below).

22 13. The Historical Trade Review shall be completed, all offers shall be made, and all
23 payments remitted (collectively the "Repurchase Program") in Washington State no later than
24 November 1, 2019.

1 14. No later than December 31, 2019, LPL shall prepare and submit to the Securities
2 Division a report including the following information:

- 3 a. For each offer made:
- 4 i. The trade date(s) and corresponding product(s) covered by the
5 offer;
- 6 ii. The name and address of the offeree(s);
- 7 iii. Whether the offer was either accepted, affirmatively rejected, or
8 deemed rejected due to a failure to timely accept;
- 9 iv. The date(s) and amount(s) remitted for each offer; and
- 10 v. Any special circumstances relevant to that offer (*e.g.*, if the
11 original customer is now deceased and the payment was remitted
12 to the customer's heirs or estate).
- 13 b. The total amount paid to all residents of the Jurisdiction in connection
14 with the Repurchase Program; and
- 15 c. The number of executed and settled purchase orders reviewed in
16 Washington State that were determined by a third-party service provider
17 other than the Independent Reviewer to have complied with state
18 registration requirements, and that were therefore not reviewed by the
19 Independent Reviewer. LPL will identify all such trades upon request by
20 the Washington State Department of Financial Institutions.

21 15. No later than December 31, 2019, LPL shall require the Independent Reviewer to
22 certify to LPL that the Independent Reviewer's determinations as to which transactions
23 contravened state registration requirements are true, accurate, and based on all available
24 information and a good faith interpretation of applicable law. Prior to the Independent
25 Reviewer's certification, LPL shall direct that any third-party who provided services in

1 furtherance of the Independent Reviewer's determinations provide a written representation to the
2 Independent Reviewer that all services rendered in furtherance of the Historical Trade Review
3 were fully completed in accordance with both the third-party's statement of work and all
4 directives provided to the third-party by the Independent Reviewer.

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

19 17. The costs and expenses of the Historical Trade Review and the related
20 Repurchase Program shall be borne exclusively by LPL Financial Holdings Inc. or its direct or
21 indirect subsidiaries, and shall not reduce or otherwise affect the amount of any penalty or fine
22 imposed in this Order.

23 18. At LPL's request, the Lead States for all Jurisdictions where necessary and/or the
24 Securities Division for its own part may extend, for good cause shown, any of the procedural
25 dates set forth in this Section III(B). If the Lead States extend a date or deadline, the Lead States

1 shall extend all related subsequent deadlines that are dependent on the extended date or deadline
2 by a corresponding amount of time. Any extension granted by the Lead States shall apply to all
3 dates in Washington State pursuant to this Order. If the Securities Division extends a date or
4 deadline (*see, e.g., supra* Section III(B)(12)(a)(i)), then the Securities Division shall extend all
5 related subsequent deadlines applicable to the completion of undertakings in Washington State
6 by a corresponding amount of time. Any extension by the Securities Division shall apply only to
7 Washington State and shall not have any effect on any dates or deadlines related to the Historical
8 Trade Review and Repurchase Program in any other Jurisdiction.

9 **C. Comprehensive Review of Blue Sky Operations, Policies, Procedures, and Practices**

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

17 20. The Operational Review shall include the following areas:

- 18 a. Compliance and supervisory controls and related policies, procedures and
19 process relating to:
- 20 i. Identification and escalation protocols by supervisory and
21 compliance personnel involving significant matters relating to
22 compliance with state securities laws, rules and regulations;
- 23 ii. Communication and information sharing between departments and
24 business units (*e.g.*, procurement, technology, trading, and retail
25 brokerage) relative to state securities registration requirements and

1 operations processes for ensuring intra- and inter-departmental
2 coordination on matters relating to state securities registration
3 requirements; and,

4 iii. Training and education of staff, including associated persons of the
5 broker- dealer whether employees or independent contractors,
6 relative to state securities registration requirements;

7 b. A complete, top-to-bottom review of the onboarding of new securities
8 products for purposes of assessing LPL's ability to comply with all state
9 securities registration requirements, and all operations and procedures in
10 connection with state registration requirements, that apply to the offer and
11 sale of that product;

12 c. A complete top-to-bottom review of vendor service protocols to ensure
13 processes are in place for identification and management of critical
14 services used to ensure compliance with state securities laws. This will
15 include an assessment of the impact of such products and services on
16 LPL's ability to review transactions for Blue Sky compliance; and

17 d. Personnel and staffing relative to those functions that relate to compliance
18 with and supervision of state securities registration requirements. Insofar
19 as LPL has represented that it has undertaken to assess and upgrade its
20 talent as it impacts compliance with state securities registration
21 requirements, including the recruitment of an experienced blue sky
22 professional and expert on state securities registration compliance matters,
23 the Operational Review shall assess the experience, responsibilities, and
24 resources available to all personnel hired or reassigned within LPL in
25

1 connection with ensuring compliance with state securities registration
2 requirements.

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

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

13 b. LPL shall neither be in nor have an attorney-client relationship with the
14 Consultant, and shall not seek to invoke the attorney-client privilege or
15 any other doctrine or privilege to prevent the Consultant from transmitting
16 any information, reports, or documents as set forth in this Order to the
17 Securities Division or to LPL's Board of Directors.

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

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

22 23. LPL may request confidential treatment be afforded to any material provided by
23 LPL and/or the Consultant to the Securities Division, and the Securities Division shall provide
24 such treatment and seek to prevent public disclosure of those materials to the full extent possible
25 under its laws.

1 such audit, inspection, or examination shall be borne exclusively by LPL Financial Holdings Inc.
2 or its direct or indirect subsidiaries. The Securities Division will not initiate any such audit,
3 inspection or examination to assess LPL's compliance with the undertakings herein until after
4 LPL has provided the certifications described in Sections III(B)(15), III(B)(16), and III(C)(26)
5 above.

6 **E. Construction and Default**

7 30. This Order is not intended to form the basis for any disqualification from
8 registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and
9 regulations of Washington State, and waives any disqualification from relying upon the
10 securities registration exemptions or safe harbor provisions to which LPL or any of its affiliates
11 may be subject under the laws, rules, and regulations of Washington State.

12 31. Nothing in this Order is intended to form the basis for any disqualification under
13 the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the
14 rules or regulations of any securities or commodities regulator or self-regulatory organizations;
15 or under the federal securities laws, including but not limited to, Section 3(a)(39) of the
16 Securities Exchange Act of 1934 and Regulation A and Rules 504 and 506 of Regulation D
17 under the Securities Act of 1933. Furthermore, nothing in this Order is intended to form the
18 basis for disqualification under the FINRA rules prohibiting continuance in membership or
19 disqualification under other SRO rules prohibiting continuance in membership. This Order is not
20 intended to be a final order based upon violations of any Washington State statute, rule, or
21 regulation that prohibits fraudulent, manipulative or deceptive conduct.

22 32. Except in an action by the Securities Division to enforce the obligations in this
23 Order, this Order is not intended to be deemed or used as (a) an admission of, or evidence of, the
24 validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an
25

1 admission of, or evidence of, any such alleged fault or omission of LPL in any civil, criminal,
2 arbitration, or administrative proceeding in any court, administrative agency, or other tribunal.

3 33. If payment is not made by LPL or if LPL defaults in any of its obligations set
4 forth in this Order, the Securities Division may institute an action to have this agreement
5 declared null and void. Upon issuance of an appropriate order, after a fair hearing, the Securities
6 Division may reinstitute the action or investigation related to the substance of the Findings of
7 Fact and Conclusions of Law herein.

8 34. This Order and any dispute related thereto shall be construed and enforced in
9 accordance with, and governed by, the laws of the Washington State without regard to any
10 choice of law principles.

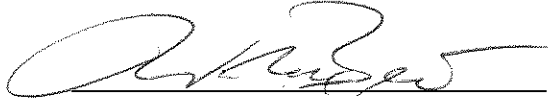
11 35. This Order is not intended to state or imply willful, reckless, or fraudulent
12 conduct by LPL, or its affiliates, directors, officers, employees, associated persons, or agents.

13 36. LPL, through its execution of this Order, voluntarily waives the right to a hearing
14 on this matter and to judicial review of this Order under and Chapter 34.05 RCW.

15 37. LPL enters into this Order voluntarily and represents that no threats, offers,
16 promises, or inducements of any kind have been made by the Securities Division or any member,
17 officer, employee, agent, or representative of the Securities Division to induce LPL to enter into
18 this Order.

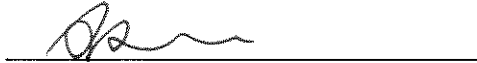
19 38. This Order shall be binding upon LPL and its successors and assigns, as well as to
20 successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions
21 above and all future obligations, responsibilities, undertakings, commitments, limitations,
22 restrictions,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

1 SIGNED and ENTERED this ~~4th~~ day of MARCH 2019.

2 

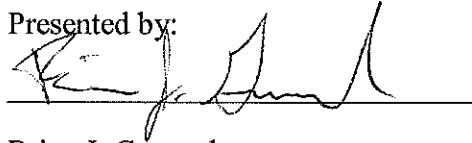
3
4 William M. Beatty
Securities Administrator

5 Approved by:

6 

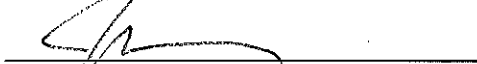
7 Suzanne Sarason
8 Chief of Enforcement

9 Presented by:

10 

11 Brian J. Guerard
12 Financial Legal Examiner

13 Reviewed by:

14 

15 Jack McClellan
16 Financial Legal Examiner Supervisor

1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY LPL**

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

5 LPL admits the jurisdiction of the Securities Division, neither admits nor denies the
6 Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this
7 Order by the Securities Division 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 with
9 regard to any state, federal or local tax for any administrative monetary penalty that LPL shall
10 pay pursuant to this Order.

11 LPL understands and acknowledges that these provisions are not intended to imply that
12 Securities Division would agree that any other amounts LPL shall pay pursuant to this Order
13 may be reimbursed or indemnified (whether pursuant to an insurance policy or otherwise) under
14 applicable law or may be the basis for any tax deduction or tax credit with regard to any state,
15 federal or local tax.

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

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

20 Dated this 15th day of February, 2019.

21 LPL

22 By: /s/

23 Title: SVP, Head of Regulatory Inquiries + Strategy