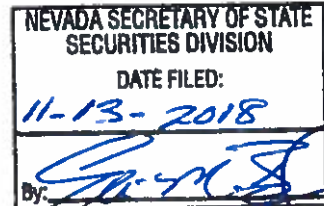


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STATE OF NEVADA  
OFFICE OF THE SECRETARY OF STATE  
SECURITIES DIVISION  
555 EAST WASHINGTON AVE., SUITE 5200  
LAS VEGAS, NEVADA 89101



In the matter of )  
LPL FINANCIAL LLC, ) File No. INV 18-104  
CRD No. 6413, )  
Respondent. ) ADMINISTRATIVE CONSENT 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 registered in the state of Nevada;

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";

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

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

**WHEREAS, LPL elects to permanently waive any right to a hearing and appeal under the Nevada Uniform Securities Act (“Act”) with respect to this Administrative Consent Order (the “Order”).**

**NOW, THEREFORE**, the Administrator of the Nevada Securities Division,  
Secretary of State, ("Division") as administrator of the Act hereby enters this Order:

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

## I. FINDINGS OF FACT

### A. BACKGROUND, CONTRACT WITH BSDC

2. Every broker-dealer is required to have a supervisory system that is reasonably designed to ensure that the broker-dealer complies with all state and federal laws, rules and regulations, including laws that prohibit the offer or sale of unregistered, non-exempt securities. Securities issued by companies listed on major national exchanges (*e.g.*, NYSE, AMEX, NASDAQ) and securities issued by registered investment companies (*e.g.*, mutual funds) are in most instances exempt from the Blue Sky requirements at issue here.
3. A reasonably designed system at a minimum includes written policies and procedures governing the offer and sale of securities by registered persons, training for all associated persons, and supervisory procedures and designated supervisors responsible for ensuring compliance.
4. In January 2000, LPL entered into an agreement with Blue Sky Data Corporation (“BSDC”), by which BSDC was obligated to supply LPL with data for LPL’s use in compliance and supervisory efforts related to Blue Sky laws, rules, and regulations (the “Subscription Agreement”). The Subscription Agreement was amended in 2006.

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

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

11 **B. BLUE SKY COMPLIANCE EFFORTS**

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

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

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

- 1 10. Lacking necessary training, supervision and process implementation of various order entry  
2 systems, including the role of both proprietary systems and vended, third-party systems, LPL  
3 personnel failed to accomplish the additional steps that would be required to implement a  
4 front-end order entry hard block. While it appears from LPL records that the implementation  
5 difficulties were recognized by certain personnel and some efforts to resolve the  
6 technological obstacles were undertaken over a period of time, these efforts were not  
7 successful as the efforts were not given the appropriate stature within LPL, necessary  
8 training, or appropriate and adequate supervision.
- 9 11. As reflected in various records, poor intradepartmental and interdepartmental  
10 communications and a lack of integrated supervision and governance over vendor  
11 agreements, order entry systems controls, and Blue Sky compliance contributed to the failure  
12 of certain personnel in both Trading and Compliance to recognize at various points in time  
13 that Blue Sky hard blocks had not been implemented into LPL's order entry systems.
- 14 12. Records reflect that, during the relevant period, other personnel appeared to place reliance on  
15 other surveillance reviews that were designed for purposes of complying with certain LPL  
16 internal policies (for example, surveillance reviews pertaining to compliance with LPL's  
17 internal prohibition of solicited trades of low-priced and certain unlisted securities) as a  
18 means of capturing Blue Sky violations. LPL failed to ensure there was a review specifically  
19 designed to address state securities registration requirements.
- 20 13. The groups and functions that are required for ensuring Blue Sky compliance were not  
21 integrated and were fragmented across the organization, particularly in a period during which  
22 LPL was experiencing significant growth. Moreover, LPL lacked and failed to provide  
23 institutional Blue Sky expertise or experience in the form of an individual or individuals with  
24 particularized knowledge of industry-wide standards, policies, procedures and processes.  
25 This resulted in a failure by LPL to comprehensively address Blue Sky compliance needs and  
26 to develop and fund what should have been a centralized set of Blue Sky compliance  
27 controls.

### C. CANCELLATION AND REINSTATEMENT OF BSDC DATA FEED

14. In or around January 2014, LPL's Procurement Department ("Procurement") undertook a review of various vendor contracts. Procurement identified the Subscription Agreement, at a cost of \$31,200 per year, and inquired whether LPL had a need for the service and who within LPL used the subscription. The purpose of this inquiry was to determine whether Procurement could cancel or not renew the BSDC subscription.
15. Procurement was directed to LPL's Governance, Risk & Compliance Department ("Compliance"), specifically a vice president in Compliance ("VP Compliance").
16. Without adequate controls in place to ensure that the inquiry was conducted properly, VP Compliance and an assistant vice president in Compliance sent a series of separate emails to various personnel within LPL's Registrations, Trading, Compliance, and Operations departments to determine whether LPL had a continued need for the BSDC subscription or whether the contract could be cancelled.
17. None of the personnel consulted indicated that the BSDC subscription was critical to compliance with Blue Sky state registration requirements.
18. Following these inquiries, in February 2014, VP Compliance wrote to Procurement that it was "ok to discontinue" LPL's subscription to the Subscription Agreement.
19. In March 2014, Procurement provided written notice to BSDC to terminate the Subscription Agreement and LPL paid the final April 2014 invoice.
20. Email records reflect that on October 23, 2014, a trader on LPL's Equity Trading desk ("Equity Trading") reviewed a screen that contained information showing a particular security to be restricted as a result of not being registered for sale or exempt from registration in the particular jurisdiction (which information appears to have been populated to the system before the BSDC contract was terminated). The trader shared the screen with a Manager in Equity Trading who in turn contacted BSDC in an effort to determine whether the particular restriction was valid. Through this outreach to BSDC, that Manager learned that LPL's subscription to the state securities registration data had been cancelled months earlier.

- 1 21. On October 24, 2014, Equity Trading requested by email that the subscription be  
2 immediately reinstated. In that email, Equity Trading explained that it relied on the data to  
3 determine if over-the-counter securities are Blue Sky-compliant in the U.S. and territories,  
4 stating: “[w]e would like to request to have this subscription renewed as quickly as possible  
5 as this is a critical part of our day to day business.”
- 6 22. In December 2014, LPL and BSDC reinstated the Subscription Agreement and in February  
7 2015, LPL was again receiving up-to-date data into its equity trading system from BSDC.
- 8 23. Both before and after the contract cancellation, alerts relating to potential Blue Sky  
9 registration violations for equity securities were visible only to the trading desk and not to  
10 financial advisors who placed trades directly and, as noted above, notwithstanding that LPL  
11 had access to BSDC data for equity securities, LPL’s systems did not operate to prevent a  
12 trade that was not Blue Sky-compliant (*i.e.*, a front-end block).
- 13 24. While the reinstated Subscription Agreement obligated BSDC to provide LPL with data for  
14 both equity and fixed income securities, at no point prior to December 2014 did the  
15 Subscription Agreement include data for fixed income securities.

16 **D. POST-REINSTATEMENT REVIEW AND REMEDIAL MEASURES**

- 17 25. Following the reinstatement of the BSDC contract, LPL conducted a review of certain  
18 equities and fixed income trades and identified certain Blue Sky violations requiring  
19 remediation. LPL attempted repurchase or damages offers to affected investors identified  
20 through this limited review. In connection with the making of these offers, LPL contacted  
21 securities regulators in certain jurisdictions about the offers.
- 22 26. As reflected in various records, poor intradepartmental and interdepartmental  
23 communications and a lack of integrated supervision and governance resulted in LPL’s  
24 failure at that time to conduct a sufficient analysis to determine the root cause of the  
25 identified violations and compliance and supervisory shortcomings.
- 26 27. LPL has represented that following the reestablishment of the BSDC contract, LPL  
27 implemented several Blue Sky controls.

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

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

## 9 II. CONCLUSIONS OF LAW

10 1. The Division has jurisdiction over this matter pursuant to Nevada Revised Statute ("NRS")  
11 90.420 and 90.630.

12 2. LPL offered and sold unregistered, non-exempt securities in Nevada, in violation of NRS  
13 90.460.

14 3. LPL failed to invest sufficient and appropriate resources in personnel, expertise, systems, and  
15 operations to adequately comply with Blue Sky laws, rules, and regulations, in violation  
16 FINRA Rule 3110(a) and (b)(1) and 3120 as adopted pursuant to Nevada Administrative  
17 Code ("NAC") 90.321.

18 4. LPL failed to reasonably supervise the flow of information to ensure full and proper  
19 compliance with state securities registration requirements, in violation of FINRA  
20 Rule 3110(a) and (b)(1) and 3120 as adopted pursuant to NAC 90.321.

21 5. LPL failed to maintain adequate systems to reasonably supervise agents, staff, and employees  
22 to prevent the sale of unregistered, non-exempt securities, in violation of FINRA  
23 Rule 3110(a) and (b)(1) and 3120 as adopted pursuant to NAC 90.321.

24 6. LPL failed to supervise agents, staff, and employees in the performance of duties with  
25 respect to systems operation, process, and checks and balances to ensure compliance with  
26 Blue Sky laws, rules, and regulations, in violation of FINRA Rule 3110(a) and (b)(1) as  
27 adopted pursuant to NAC 90.321.

7. LPL acted negligently in canceling certain third-party services critical for compliance with Blue Sky laws, rules, and regulations, in violation of FINRA Rule 3110(a) and (b)(1) and 3120 as adopted pursuant to NAC 90.321.
8. LPL failed to maintain books and records necessary to ensure full and proper compliance with Blue Sky laws, rules, and regulations, in violation of FINRA Rule 4511 as adopted pursuant to NAC 90.321.
9. LPL failed to conduct appropriate and necessary due diligence regarding the retention, use, and subsequent cancellation of certain third-party services critical for compliance with Blue Sky laws, rules, and regulations, in violation of FINRA Rules 3110(a) and (b)(1), 3120 and 4511, as adopted pursuant to NAC 90.321.
10. The following relief is appropriate and in the public interest.

### III. ORDER

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

#### **IT IS HEREBY ORDERED:**

1. This Order concludes the Investigation and any other action that the Division could commence under applicable Nevada law on behalf of Nevada as it relates to the substance of the Findings of Fact and Conclusions of Law herein, provided however, that excluded from and not covered by this paragraph 1 are any claims by the Division arising from or relating to LPL's failure to comply with the undertakings contained herein.
2. This Order is entered into solely for the purpose of resolving the referenced multistate investigation, and is not intended to be used for any other purpose.
3. LPL shall CEASE AND DESIST from violating NRS 90.460, and FINRA Rules 3110(a) and (b)(1), 3120 and 4511 as adopted pursuant to NAC 90.321, and will comply with NRS 90.460, and FINRA Rules 3110(a) and (b)(1), 3120 and 4511 as adopted pursuant to NAC 90.321.



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1 any determination by such a third-party service provider that a particular trade  
2 complied with state registration requirements.

3 b. Upon request, LPL shall provide the Division with copies of all final contracts and  
4 directives related to the engagement of the Independent Reviewer and any other third-  
5 party service provider involved in the Historical Trade Review and the related  
6 remediation. LPL shall promptly respond to any additional requests for information  
7 by the Division relating to such engagement.

8 c. LPL shall neither be in nor have an attorney-client relationship with the Independent  
9 Reviewer, and shall not seek to invoke the attorney-client privilege or any other  
10 doctrine or privilege to prevent the Independent Reviewer from transmitting any  
11 information, reports, or documents as set forth in this Order to the Division or to  
12 LPL's Board of Directors.

13 d. LPL may request confidential treatment be afforded to any material provided by LPL  
14 and/or the Independent Reviewer to the Division, and the Division shall provide such  
15 treatment and seek to prevent public disclosure of those materials to the full extent  
16 possible under its laws.

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

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

10. For customers with affected securities who have transferred their accounts away from LPL, LPL will attempt to contact the customer to determine whether the customer either (1) sold the position after transferring it away from LPL or (2) still holds the position at a broker-dealer other than LPL. If the customer still holds the position, LPL will also need to determine whether it is feasible for the securities to be transferred back to LPL for purposes of LPL's offering to repurchase the securities. If the customer fails to timely provide information necessary for LPL to make a repurchase or damages offer using the formula described in Section III(B)(9) above or if it is not feasible to transfer the securities back to LPL for repurchase, then LPL will make a damages offer to the customer based on a revised formula. The damages shall be calculated by deducting the lowest reasonably identifiable value of the security on the date of transfer from the amount paid and applicable interest.
11. LPL shall memorialize each offer in a letter (each, an "Offer Letter"), pursuant to the following terms:
- a. LPL and the Lead States will work to design a template Offer Letter (providing recommended format and the categories of information to be included with every offer). The Lead States will distribute the final template Offer Letter to the Jurisdictions.
  - b. If the Division requires modification of the final template Offer Letter, the Division must communicate that requirement, or advise LPL when the Division will communicate the details of that requirement, to counsel for LPL within ten (10) business days of receipt of the final template Offer Letter. LPL shall work in good faith to address any questions or concerns raised by the Division and to comply with any statutory or regulatory requirement in Nevada related to the form or content of such Offer Letters. Absent contact from the Division within ten (10) business days, LPL may presume that the Division has approved the template Offer Letter, inclusive of any waiver or release language, for distribution to offerees in Nevada.

- 1 c. Each Offer Letter shall be delivered to the offeree's last known mailing address as  
2 maintained in LPL's records in a manner that enables confirmation of delivery (*e.g.*,  
3 certified U.S. Post Mail or Federal Express). For offerees that have elected, in  
4 writing, to receive correspondence electronically, Offer Letters may be sent  
5 electronically, so long as electronic delivery includes a mechanism to confirm that the  
6 Offer Letter was delivered (*e.g.*, request for read receipt).
- 7 d. Each Offer Letter shall clearly state the terms of the offer, and shall provide in bold  
8 underlined font: (1) the steps required to accept the offer, (2) the deadline for  
9 acceptance, and (3) the contact information at LPL whereby the offeree can obtain  
10 additional information.
- 11 e. LPL may include within its Offer Letters a waiver or release relative to the  
12 transactions it is offering to remediate. Notwithstanding any such waiver or release,  
13 neither the Historical Trade Review nor the Repurchase Program (defined below)  
14 shall operate to extinguish or preclude any individual claim or private right of action  
15 based on sales practice violations (*e.g.*, material misrepresentation or omission, or  
16 suitability) that is otherwise available to any offeree, except to the extent that such  
17 claim or right of action is based primarily on the unregistered, non-exempt status of  
18 the security or transaction which LPL is offering to remediate. In any event, the form  
19 and content of any such waiver or release shall not be unacceptable to the Division.
- 20 12. The Offer Letter shall remain open for a period of sixty (60) days from the date it is sent to  
21 the offeree.
- 22 a. Within sixty (60) days of the date that Offer Letters are sent, LPL shall provide the  
23 Division a list of offerees in Nevada for whom Offer Letters were returned as  
24 undeliverable so that the Jurisdiction may attempt to locate those offerees.
- 25 i. If the Division elects to try to locate current addresses for this population of  
26 offerees, then it shall inform LPL or its representative. The Division will then  
27 have ninety (90) days to provide LPL with a new address for use in re-sending

1 each Offer Letter previously returned as undeliverable (the "Location  
2 Period"). The Division may determine it necessary to extend the Location  
3 Period in which case it will notify LPL as to the minimum period of time  
4 necessary to complete its search. The Location Period shall not extend  
5 beyond one hundred eighty (180) days.

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

- 1 13. The Historical Trade Review shall be completed, all offers shall be made, and all payments  
2 remitted (collectively the "Repurchase Program") in Nevada no later than November 1, 2019.
- 3 14. No later than December 31, 2019, LPL shall prepare and submit to the Division a report  
4 including the following information:
- 5 a. For each offer made:
- 6 i. The trade date(s) and corresponding product(s) covered by the offer;
- 7 ii. The name and address of the offeree(s);
- 8 iii. Whether the offer was either accepted, affirmatively rejected, or deemed  
9 rejected due to a failure to timely accept;
- 10 iv. The date(s) and amount(s) remitted for each offer; and
- 11 v. Any special circumstances relevant to that offer (*e.g.*, if the original customer  
12 is now deceased and the payment was remitted to the customer's heirs or  
13 estate).
- 14 b. The total amount paid to all residents of the Jurisdiction in connection with the  
15 Repurchase Program; and
- 16 c. The number of executed and settled purchase orders reviewed in Nevada that were  
17 determined by a third-party service provider other than the Independent Reviewer to  
18 have complied with state registration requirements, and that were therefore not  
19 reviewed by the Independent Reviewer. LPL will identify all such trades upon  
20 request by the Division.
- 21 15. No later than December 31, 2019, LPL shall require the Independent Reviewer to certify to  
22 LPL that the Independent Reviewer's determinations as to which transactions contravened  
23 state registration requirements are true, accurate, and based on all available information and a  
24 good faith interpretation of applicable law. Prior to the Independent Reviewer's certification,  
25 LPL shall direct that any third-party who provided services in furtherance of the Independent  
26 Reviewer's determinations provide a written representation to the Independent Reviewer that  
27 all services rendered in furtherance of the Historical Trade Review were fully completed in  
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1 accordance with both the third-party's statement of work and all directives provided to the  
2 third-party by the Independent Reviewer.

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

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

21 18. At LPL's request, the Lead States for all Jurisdictions where necessary and/or the Division  
22 for its own part may extend, for good cause shown, any of the procedural dates set forth in  
23 this Section III(B). If the Lead States extend a date or deadline, the Lead States shall extend  
24 all related subsequent deadlines that are dependent on the extended date or deadline by a  
25 corresponding amount of time. Any extension granted by the Lead States shall apply to all  
26 dates in Nevada pursuant to this Order. If the Division extends a date or deadline (*see, e.g.,*  
27 *supra* Section III(B)(12)(a)(i)), then the Division shall extend all related subsequent  
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1 deadlines applicable to the completion of undertakings in Nevada by a corresponding amount  
2 of time. Any extension by the Division shall apply only to Nevada and shall not have any  
3 effect on any dates or deadlines related to the Historical Trade Review and Repurchase  
4 Program in any other Jurisdiction.

5 C. COMPREHENSIVE REVIEW OF BLUE SKY OPERATIONS, POLICIES,  
6 PROCEDURES, AND PRACTICES

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

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

16 a. Compliance and supervisory controls and related policies, procedures and process  
17 relating to:

- 18 i. Identification and escalation protocols by supervisory and compliance  
19 personnel involving significant matters relating to compliance with state  
20 securities laws, rules and regulations;
- 21 ii. Communication and information sharing between departments and business  
22 units (e.g., procurement, technology, trading, and retail brokerage) relative to  
23 state securities registration requirements and operations processes for ensuring  
24 intra- and inter-departmental coordination on matters relating to state  
25 securities registration requirements; and,





- 1 involved in the Operational Review and the related remediation. LPL shall promptly  
2 respond to any additional requests for information by the Division relating to such  
3 engagement.
- 4 b. LPL shall neither be in nor have an attorney-client relationship with the Consultant,  
5 and shall not seek to invoke the attorney-client privilege or any other doctrine or  
6 privilege to prevent the Consultant from transmitting any information, reports, or  
7 documents as set forth in this Order to the Division or to LPL's Board of Directors.
- 8 c. LPL shall not have the authority to terminate the Consultant or any third-party service  
9 provider engaged in connection with the Operational Review, without prior written  
10 approval from the Lead States.
- 11 22. The Operational Review shall be completed no later than May 1, 2019.
- 12 23. LPL may request confidential treatment be afforded to any material provided by LPL and/or  
13 the Consultant to the Division, and the Division shall provide such treatment and seek to  
14 prevent public disclosure of those materials to the full extent possible under its laws.
- 15 24. No later than July 1, 2019, LPL shall require that the Consultant submit a report to LPL  
16 detailing the results and findings of the Operational Review, including a list of all  
17 deficiencies identified and recommendations for addressing such deficiencies.
- 18 25. LPL shall cure all deficiencies identified in the Consultant's report ("Operational  
19 Remediation") no later than June 30, 2020.
- 20 a. If LPL declines to adopt or implement any recommendation(s) by the Consultant for  
21 addressing deficiencies identified during the Operational Review, LPL shall identify  
22 the recommendations not adopted or implemented and explain why they were not  
23 adopted or implemented.
- 24 26. No later than August 31, 2020, LPL or its designee(s) shall certify to the Lead States that  
25 LPL has fully complied in all material respects with the undertakings set forth in Section  
26 III(C) of this Order.

1 27. The costs and expenses of the Operational Review and Operational Remediation shall be  
2 borne exclusively by LPL Financial Holdings Inc. or its direct or indirect subsidiaries, and  
3 shall not reduce or otherwise affect the amount of any penalty or fine imposed as part of the  
4 Settlement.

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

11 **D. AUDITS AND INSPECTIONS**

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

18 **E. CONSTRUCTION AND DEFAULT**

19 30. This Order is not intended to form the basis for any disqualification from registration as a  
20 broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of Nevada,  
21 and waives any disqualification from relying upon the securities registration exemptions or  
22 safe harbor provisions to which LPL or any of its affiliates may be subject under the laws,  
23 rules, and regulations of Nevada.

24 31. Nothing in this Order is intended to form the basis for any disqualification under the laws of  
25 any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or  
26 regulations of any securities or commodities regulator or self-regulatory organizations; or  
27 under the federal securities laws, including but not limited to, Section 3(a)(39) of the  
28

1 Securities Exchange Act of 1934 and Regulation A and Rules 504 and 506 of Regulation D  
2 under the Securities Act of 1933. Furthermore, nothing in this Order is intended to form the  
3 basis for disqualification under the FINRA rules prohibiting continuance in membership or  
4 disqualification under other SRO rules prohibiting continuance in membership. This Order is  
5 not intended to be a final order based upon violations of any Nevada statute, rule, or  
6 regulation that prohibits fraudulent, manipulative or deceptive conduct.

7 32. Except in an action by the Division to enforce the obligations in this Order, this Order is not  
8 intended to be deemed or used as (a) an admission of, or evidence of, the validity of any  
9 alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of,  
10 or evidence of, any such alleged fault or omission of LPL in any civil, criminal, arbitration,  
11 or administrative proceeding in any court, administrative agency, or other tribunal.

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

17 34. This Order and any dispute related thereto shall be construed and enforced in accordance  
18 with, and governed by, the laws of Nevada without regard to any choice of law principles.

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

21 36. LPL, through its execution of this Order, voluntarily waives the right to a hearing on this  
22 matter and to judicial review of this Consent Order under NRS 90.630(2) and  
23 NRS 233B.130.

24 37. LPL enters into this Consent Order voluntarily and represents that no threats, offers,  
25 promises, or inducements of any kind have been made by the Division or any member,  
26 officer, employee, agent, or representative of the Division to induce LPL to enter into this  
27 Consent Order.

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

5 Dated this 13<sup>th</sup> day of November, 2018.

6 BY ORDER OF NEVADA SECURITIES ADMINISTRATOR

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9 Diana J. Foley, Nevada Securities Administrator  
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1                   **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY LPL**

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

5           LPL admits the jurisdiction of the Division, neither admits nor denies the Findings of Fact and  
6 Conclusions of Law contained in this Order; and consents to entry of this Order by the Division as  
7 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 regard  
9 to any state, federal or local tax for any administrative monetary penalty that LPL shall pay pursuant  
10 to this Order. LPL understands and acknowledges that these provisions are not intended to imply that  
11 Division would agree that any other amounts LPL shall pay pursuant to this Order may be reimbursed  
12 or indemnified (whether pursuant to an insurance policy or otherwise) under applicable law or may be  
13 the basis for any tax deduction or tax credit with regard to any state, federal or local tax.

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

16           Cecilia Boute Navico represents that he/she is SVP, Head of Regulatory <sup>Inquiries + Strategy</sup> of LPL  
17 and that, as such, has been authorized by LPL to enter into this Order for and on behalf of LPL.

18           Dated this 1 day of November, 2018.

19                                   LPL

20                                   By: Cecilia Boute Navico

21                                   Title: SVP, Head of Regulatory <sup>Inquiries + Strategy</sup>