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BEFORE THE ARKANSAS SECURITIES COMMISSIONER

CASE NO. S-16-0069

ORDER NO. S-16-0069-OR02

ARKANSAS SECURITIES DEPT.

19

IN THE MATTER OF:

LPL FINANCIAL LLC

RESPONDENT

I. ADMINISTRATIVE CONSENT ORDER

This Consent Order is entered into between the Arkansas Securities Department (“Department”) and LPL Financial LLC, CRD No. 6413 (“LPL” or the “Respondent”), in order to resolve the Department’s investigation under Case No. S-16-0069 into whether certain LPL conduct violated the provisions of the Arkansas Securities Act (“Act”) and Rules of the Arkansas Securities Commissioner (“Rules”).

Without admitting to or denying the Findings of Fact and Conclusions of Law set forth in this Consent Order, except as to the jurisdiction of the Arkansas Securities Commissioner (“Commissioner”) over it and the subject matter of this proceeding, which are admitted, the Respondent expressly consents to the entry of this Consent Order.

II. JURISDICTION

1. This matter is brought in connection with violations of the Act and is therefore properly before the Commissioner in accordance with Ark. Code Ann. § 23-42-308(h).

III. FINDINGS OF FACT

2. LPL is registered with the Commissioner as a broker-dealer with a home office address of 75 State Street, 22nd Floor, Boston, Massachusetts, 02109.

LPL’s Customer Account Statements.

3. LPL provides monthly account statements to its customers which include, among other information, a breakdown of their investment holdings at LPL.

4. This information is provided on the second page of each account statement in the form of a Portfolio Investment Summary (the “Investment Summary”). The Investment Summary breaks down the client’s portfolio by listing the investment type, the dollar amount of each investment type and the percentage of each investment type in relation to the client’s overall holdings.

5. LPL outsources certain tasks in relation to the production of customer account statements to third party vendors, Thompson Reuters’ Beta platform (“Beta”) and Broadridge. Beta refers to a suite of products offered through the Wealth Management Division of Thompson Reuters. Broadridge is a service provider that generates account statements based on a template that has been approved by its client, such as LPL. LPL’s customer account statements are generated by Broadridge using data it receives from LPL and Beta.

Inconsistent Classification of Certain Securities.

6. The Department conducted an investigation into LPL’s classification of certain securities on its customer account statements.

7. During its investigation, the Department identified certain non-traded real estate investment trusts (“non-traded REIT’s”) and non-traded business development companies (“non-traded BDCs”) that were classified as equities, rather than as alternative investments. Client statements dated back to January 2012 reflected an inconsistent classification of these products.

LPL's Remediation

8. Since at least 2012, LPL was aware that information provided by Beta was causing certain non-traded REITs to be categorized as equities, rather than alternative investments on client statements. In November 2015, LPL identified a coding function in Beta enabling LPL to amend the classification on non-traded REITs and non-traded BDCs on client account statements to consistently group the products within the alternative investment category. The changes were reflected on account statements beginning in April 2016.

9. LPL has instituted an Operational Review with an outside and independent consultant, which will include reviews of the onboarding of new securities products and of the vendor service protocols to ensure processes are in place for identification and management of critical services used to ensure compliance with state securities laws.

IV. CONCLUSIONS OF LAW

10. LPL's inconsistent classification of securities on customer account statements was a failure to comply with the Commissioner's books and records requirements as set forth in Rule 306.01.

11. LPL's failure to comply with Rule 306.01 provides the basis for discipline of LPL pursuant to Ark. Code Ann. § 23-42-308(h).

12. This Consent Order is in the public interest.

V. ORDER

It is hereby ORDERED that LPL will, contemporaneously with the execution of this Consent Order, pay a total fine in the amount of Forty Thousand Dollars (\$40,000) to the State of Arkansas.

This Order waives any disqualification in Arkansas laws, or rules or regulations hereunder, including any disqualifications from relying upon the registration exemptions or safe

harbor provisions to which LPL or any of its affiliates may be subject. Nothing in this Order is intended to form the basis for any disqualification under the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator or self-regulatory organizations; or under the federal securities laws, including, but not limited to, Section 3(a)(39) of the Securities Exchange Act of 1934 and Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933. Furthermore, nothing in this Order is intended to form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership. This Order is not intended to be a final order based upon violations of any Arkansas statute, rule, or regulation that prohibits fraudulent, manipulative or deceptive conduct.

Upon execution by the Securities Commissioner, this Consent Order resolves Case No. S-16-0069.

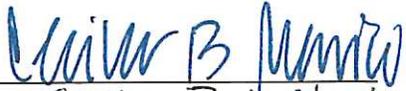
This Order should not be interpreted to waive any (i) criminal cause of action, (ii) private cause of action that may be accrued to investors as a result of the activities described above, or (iii) other causes of action that may result from activities of the Respondent not detailed herein or which may hereafter arise.

IT IS SO ORDERED on this the 22nd day of JANUARY, 2019.

By: 

B. Edmond Waters
Securities Commissioner
State of Arkansas

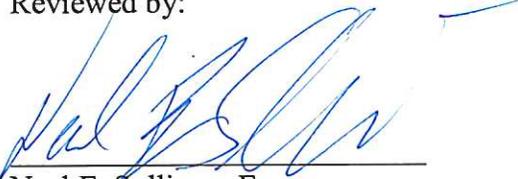
Respondent LPL Financial, LLC



Name *Cecilia Barte Navico*
Title *SVP, Head of Regulatory
Inquiries + Strategy*

Date: 1/15/19

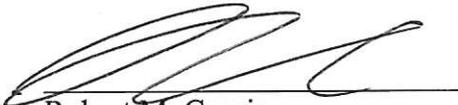
Reviewed by:



Neal E. Sullivan, Esq.
Sidley Austin LLP
Counsel for Respondent

Date: 1/16/19

Approved as to Form:



Robert M. Cossio
Staff Attorney
Securities Division

Date: 1-22-19