FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018059192701

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: LPL Financial LLC (Respondent)
Member Firm
CRD No. 6413

Pursuant to FINRA Rule 9216, Respondent LPL Financial LLC submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent hereby accepts and consents, without admitting or denying the findings and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

LPL has been a FINRA member since February 1973. The firm conducts a general securities business and is headquartered in Fort Mill, South Carolina. LPL has over 21,500 registered representatives operating out of nearly 13,000 branch offices.

RELEVANT DISCIPLINARY HISTORY

In December 2016, LPL executed AWC No. 2014043539001 in which it consented to findings that, over a five-year period from December 2010 to November 2015, the firm failed to maintain over 18.3 million electronic internal compliance and administrative alerts in a non-erasable, non-rewritable format, in violation of Securities Exchange Act of 1934 (Exchange Act) Rule 17a-4(f)(2)(ii), NASD Rule 3110, FINRA Rules 4511 and 2010, and failed to establish, maintain, and enforce written supervisory procedures reasonably designed to achieve compliance with its retention obligations for those records, in violation of NASD Rule 3010(b) and FINRA Rules 3110(b) and 2010. LPL also consented to sanctions of a censure and a fine of $750,000.

Also in December 2016, LPL executed AWC No. 2015045887301 in which it consented to findings that, from 2009 to 2016, LPL failed to send to customers, and to create

records that it had sent to customers, more than 1.6 million account notices that are required to be sent to customers at 36-month intervals for each account in which a suitability determination had been made (36-Month Letters), in violation of Exchange Act Rule 17a-3(a)(17), NASD Rule 3110 and FINRA Rules 4511 and 2010, and that the firm failed to establish, maintain, and enforce a supervisory system and written supervisory procedures reasonably designed to achieve compliance with applicable laws and regulations relating to the creation and distribution of such account records, in violation of NASD Rule 3010 and FINRA Rules 3110 and 2010. LPL also consented to sanctions of a censure, a fine of $900,000, and an undertaking to (1) conduct a comprehensive review of the adequacy of the relevant policies and procedures (written and otherwise), including a description of remedial measures leading to full compliance, relating to the conduct addressed in the AWC and (2) provide at the conclusion of its review a certification that the firm had adopted and implemented policies and procedures reasonably designed to ensure compliance with the federal securities laws and FINRA rules addressed in the AWC.

In May 2015, LPL executed AWC No. 2013035109701 in which it consented to, among others, findings that LPL failed to reasonably supervise its registered representatives' use of consolidated reports, in part by allowing registered representatives to contract directly with third-party vendors to create and disseminate consolidated reports, and failed to retain consolidated reports as required, in violation of Exchange Act § 17, Exchange Act Rule 17a-4, NASD Rules 3010 and 3110, and FINRA Rules 4511 and 2010. LPL also consented to sanctions of a censure, a fine of $10 million, restitution of $1,664,592.05, and an undertaking to, among other things, (1) conduct a comprehensive review of the adequacy of its policies, systems, and procedures (written and otherwise), and training relating to the conduct addressed in the AWC, and (2) provide at the conclusion of its review a certification that the firm's policies, systems, procedures, and training implemented in connection with this undertaking were adequate and reasonably designed to address the conduct at issue in the AWC.

OVERVIEW

LPL failed to establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with three regulatory obligations: record retention, fingerprinting and screening of associated persons, and supervision of consolidated reports.

Federal securities laws and regulations and FINRA rules require broker-dealers to maintain certain broker-dealer and customer records in a form and manner designed to prevent their loss, alteration, or deletion. Protecting the integrity of these required records is an essential obligation for broker-dealers because review of such records is the primary means by which regulators protect investors and examine for misconduct.

From January 2014 to September 2019, LPL failed to establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with certain of its record retention obligations, in violation of NASD Rule 3010 and FINRA Rules 3110 and 2010. As a result, among other things, the firm failed to

retain electronic records in the required format, preserve certain electronic records, and notify FINRA prior to employing electronic storage media, in violation of Exchange Act § 17(a), Exchange Act Rule 17a-4 and FINRA Rules 4511 and 2010. The firm's failure affected at least 87 million records and led to the permanent deletion of over 1.5 million customer communications maintained by a third-party data vendor. Further, LPL failed to send account notices that are required to be sent to customers at 36-month intervals for each account in which a suitability determination had been made (36-Month Letters) to over one million customers in violation of Exchange Act § 17(a), Exchange Act Rule 17a-3, and FINRA Rules 4511 and 2010.

Federal securities laws also require that FINRA member firms fingerprint associated persons prior to or upon association with a broker-dealer. Member firms review the fingerprint results as part of their background check to determine, among other things, whether a prospective associated person has previously engaged in misconduct that subjects that person to a statutory disqualification. As set forth in Exchange Act § 3(a)(39), certain criminal and regulatory events will subject a person to a statutory disqualification. Among other things, the fingerprint results provide information about a prospective associated person's criminal background. From January 2014 through the present, LPL failed to fingerprint more than 7,000 non-registered associated persons and thus failed to screen these individuals for statutory disqualification based on criminal convictions. This failure arose from the firm's failure to maintain a reasonable supervisory system and procedures to identify and properly screen all individuals who became associated with the firm in a non-registered capacity. The firm self-reported this failure to FINRA and commenced a remedial review. Separately, from January 2017 to September 2019, LPL permitted a non-registered associated person, who was subject to statutory disqualification, to remain associated with the firm. As a result of the foregoing, LPL violated Article III, Section 3(b), of FINRA's By-Laws, Exchange Act § 17(a) and (f), Exchange Act Rules 17a-3 and 17f-2, NASD Rule 3010, and FINRA Rules 3110, 4511, and 2010.

Finally, from May 2015 to the present, LPL failed to establish and maintain a supervisory system reasonably designed to supervise certain consolidated reports. LPL was not aware of, and therefore failed to reasonably supervise, certain tools that its approved third-party vendors provided to the firm's registered representatives to create and disseminate consolidated reports. In particular, the firm's vendors created "non-finalized" consolidated reports, which, although intended for internal use, could be sent to customers. Nonetheless, the vendors did not send such reports to LPL and the firm therefore did not review them. The firm's vendors also allowed representatives and customers to directly access consolidated reports on the vendors' websites, and the firm did not receive or review consolidated reports that its representatives disseminated in this manner. The firm also failed to review assets that were manually entered by representatives on consolidated reports when the representatives categorized them as "non-securities related," even when the manually entered assets were evidently securities-related. A former registered representative of the firm exploited these supervisory deficiencies in perpetrating a Ponzi scheme through which he converted at

least $1,000,000 of LPL customers' money. As a result, LPL violated Exchange Act § 17(a), Exchange Act Rule 17a-4, and FINRA Rules 3110, 4511, and 2010.

FACTS AND VIOLATIVE CONDUCT

A. LPL failed to comply with its recordkeeping obligations.

1. *Federal securities laws and FINRA Rules require broker-dealers to create, maintain, and preserve certain records.*

Exchange Act §17(a) and Rule 17a-3 require a broker-dealer to create and maintain certain records relating to its business, including trade blotters, asset and liability ledgers, order tickets, trade confirmations, and other records. Rule 17a-4 specifies the manner and length of time that those records must be maintained. FINRA Rule 4511 provides, in part, that each member "shall make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules" . . . and all "books and records required to be made pursuant to the FINRA rules shall be preserved in a format and media that complies with" Rule 17a-4.[1]

Exchange Act Rule 17a-4(b)(4) requires that broker dealers "preserve for a period of not less than three years… copies of all communications sent (and any approvals thereof) by the member relating to its business as such, including all … communications with the public."

When firms choose to store the records set forth in Exchange Act Rules 17a-3 and 17a-4 electronically, they must comply with a number of additional requirements set forth in Rule 17a-4(f). For example, Rule 17a-4(f) requires firms to (1) notify FINRA at least 90 days before storing records electronically, (2) have in place an audit system providing for tracking records stored electronically as well as any changes made to such records, (3) retain a third-party vendor with access to the records, and (4) store the records in a non-rewriteable, non-erasable format.

Exchange Act Rule 17a-3(a)(17)(i) requires broker-dealers recommending securities to, among other things, create an account record that includes "the customer's or owner's name, tax identification number, address, telephone number, date of birth, employment status (including occupation and whether the customer is an associated person of a member, broker, or dealer), annual income, net worth (excluding value of primary residence), and the account's investment objectives." The rule also requires each broker-dealer to create a record that it has furnished to each customer for whom a suitability determination has been made a copy of the account record or alternate document that contains the same information. The notice (36-Month Letter) must be provided to the customer within 30 days of the account opening and thereafter at intervals no greater than 36 months, provided a suitability determination has been made within the prior period. Exchange Act Rule 17a-3(a)(17)(i) is "designed to reduce the number of

[1] FINRA Rule 4511 replaced NASD Rule 3110, which contained similar requirements, effective December 5, 2011.

misunderstandings between customers and broker-dealers regarding the customer's situation or investment objectives."[2]

2. ***LPL failed to establish and maintain a supervisory system reasonably designed to comply with its recordkeeping obligations.***

FINRA Rule 3110(a) requires members to "establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."[3]

FINRA Rule 3110(b) requires members to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."

From January 2014 through September 2019, LPL failed to establish and maintain a supervisory system, including written procedures, reasonably designed to comply with its recordkeeping requirements. LPL self-reported these violations to FINRA.

First, although LPL's written procedures identified the recordkeeping requirements of Rule 17a-4(f), the procedures did not inform personnel that local computer drives and shared computer drives did not meet record retention requirements and should not be used for records storage. In addition, although the written procedures stated that branch managers were primarily responsible for compliance with recordkeeping requirements, the written procedures did not identify how or how often branch managers, or any other personnel, including home office personnel, should monitor usage of local and shared drives as electronic storage locations.

Second, LPL failed to preserve a total of approximately 1.5 million customer communications that it had retained a third-party vendor, Vendor A, to store. These communications included mutual fund switch letters, 36-Month Letters, and wire transfer confirmations that were required to be preserved for at least three years, pursuant to Exchange Act Rule 17a-4(b)(4). In August 2017, after FINRA requested certain customer letters that LPL could not locate, LPL contacted Vendor A in an attempt to locate them. Vendor A informed LPL that about 500,000 customer communications, including the letters, had been deleted because Vendor A placed them in a temporary storage location from which records were automatically deleted after one year. Subsequently, LPL did not take reasonable steps to verify that Vendor A migrated the other documents remaining in the temporary storage location to an appropriate location. Therefore, on October 26, 2018, Vendor A discovered that the migration did not occur and that approximately one million additional LPL customer communications had been deleted.

---

[2] *Books and Records Requirements for Broker and Dealers Under the Securities Exchange Act of 1934*, Sec. Exch. Act Rel. No. 34-44992 (Oct. 26, 2001).

[3] FINRA Rule 3110 replaced NASD Rule 3010, which contained similar requirements, effective December 1, 2014.

Third, LPL failed to comply with the specific requirements of Exchange Act Rule 17a-4(f) with respect to storing certain records electronically, including records stored on local and shared electronic drives. LPL did not:

- notify its examining authority (FINRA) 90 days prior to storing records electronically in 2014 and again in May 2017, when it changed the electronic storage medium that it used;

- have an audit system "providing for accountability regarding inputting of records . . . to electronic storage media and inputting of any changes made to every original and duplicate record," which prevented the firm from being able to identify whether those records were altered or deleted, or whether LPL's ability to respond to regulatory requests was impacted; or

- retain a third-party vendor with "access to and the ability to download information from the [broker-dealer's] electronic storage media to any acceptable medium" and to obtain an undertaking from the vendor that it would provide requested electronic records to the SEC, FINRA, or any other regulatory authority in the event the firm was unable to provide the records itself.

Fourth, LPL failed to store the required records in a form and manner reasonably designed to safeguard them from possible loss, alteration, or destruction. LPL stored electronically more than 87 million required records—including its general ledger, supervisory procedures, customer statements and onboarding documents, and notices to customers—on local and shared computer drives and on electronic storage devices, but it did not store these records in a non-rewriteable, non-erasable format, as required by Exchange Act Rule 17a-4(f), or otherwise establish reasonable systems and controls to prevent the records from being altered or deleted. For example, LPL stored approximately 80 million required records on electronic storage devices that were limited to certain administrative personnel and which recorded whether any alterations or deletions occurred. While those records do not reflect that any alterations or deletions occurred, the documents were stored in a format that was susceptible to alteration and deletion. LPL stored the remaining approximately seven million of these required records on local and shared computer drives that were accessible by numerous personnel in a format that was susceptible to alteration or deletion. LPL did not create any records reflecting whether any of these documents were altered or deleted.

Finally, in December 2017 and December 2019, LPL failed to send 36-Month Letters to approximately one million customers. LPL retained Vendor A to send 36-Month Letters. However, in December 2017, LPL failed to instruct Vendor A to send letters to 381,000 customers. LPL lacked any process to confirm that instructions of this type were given to Vendor A or to confirm that Vendor A had actually sent the letters. LPL discovered this failure after FINRA made inquiries. Subsequently, in December 2019, LPL failed to send additional 36-Month Letters to approximately 625,000 customers due to a misconfiguration of its systems for identifying the dates by which customers should receive these letters.

Therefore, LPL violated NASD Rule 3010 and FINRA Rules 3110 and 2010. In addition, LPL violated Exchange Act § 17(a) and Exchange Act Rules 17a-4(b)(4), 17a-4(f), and 17a-3(a)(17)(i) and FINRA Rules 4511 and 2010.

B. LPL failed to fingerprint associated persons.

1. LPL failed to fingerprint non-registered associated persons.

Exchange Act Rule 17f-2 requires all partners, directors, officers, and employees of broker-dealers, unless they are exempt, to be fingerprinted. As explained in Notice to Members 05-39, members are responsible for obtaining a prospective employee's fingerprints and certain required identifying information, so that the firm can determine whether the prospective employee is subject to statutory disqualification. LPL's written policies and procedures called for associated persons, including non-registered personnel, to be fingerprinted prior to association with LPL.

From January 2014 through the present, LPL has failed to obtain fingerprints for more than 7,000 non-registered associated persons. LPL identified this failure during a retrospective review and self-reported it to FINRA. Most of these individuals were technology professionals located outside of the United States and were retained for project-specific activities relating to the firm's securities business, pursuant to a statement of work. Because these associated persons were not fingerprinted, LPL did not screen them to determine whether any individual was subject to a statutory disqualification. As part of the remediation efforts that the firm has commenced, it determined that approximately 5,000 of the individuals are no longer associated with LPL, and LPL cannot obtain their fingerprints or determine if they were subject to statutory disqualification.

Therefore, LPL violated Exchange Act § 17(f), Exchange Act Rule 17f-2, and FINRA Rule 2010.

2. LPL permitted a non-registered associated person subject to statutory disqualification to associate with the firm.

Exchange Act Rule 17f-2 also requires that once fingerprints are obtained, they be submitted "to the Attorney General of the United States or its designee for identification and appropriate processing." Notice to Members 05-39 states that members are responsible for submitting fingerprints to FINRA for transmission to the FBI, so that members can use the results to make informed hiring decisions. Article III, Section 3(b) of FINRA's By-Laws prohibits member firms from associating with a statutorily disqualified individual. Under Exchange Act § 3(a)(39), a person is subject to disqualification if that person is subject to an order of a regulatory agency barring that person's association with a broker or dealer, or if that person has been convicted of a felony within the prior ten years.

In January 2017, LPL obtained fingerprints for an individual, submitted them to FINRA for processing and received a notice from FINRA stating that the individual had been convicted of a misdemeanor for possession of a forged instrument, and was therefore subject to disqualification. However, LPL permitted this individual to associate with the firm in January 2017 and to remain associated with the firm until September 2019.

Therefore, LPL violated Exchange Act § 17(f), Exchange Act Rule 17f-2, Article III, Section 3(b) of FINRA's By-Laws, and FINRA Rule 2010.

3. LPL failed to create and maintain required records.

Exchange Act § 17(a) and Rule 17a-3(a)(13) requires broker-dealers to create and maintain fingerprint records for all of its eligible associated persons. FINRA Rule 4511 requires member firms to create the records specified in Exchange Act Rule 17a-3. Since January 2014, LPL has not created or maintained required fingerprint records for the more than 7,000 non-registered associated persons that it failed to fingerprint.

Therefore, LPL violated Exchange Act § 17(a), Exchange Act Rule 17a-3(a)(13), and FINRA Rules 4511 and 2010.

4. LPL failed to establish and maintain a reasonable supervisory system and written procedures for fingerprinting associated persons.

From January 2014 to the present, LPL failed to maintain a supervisory system and written procedures reasonably designed to achieve compliance with the Exchange Act and FINRA rules discussed above regarding the fingerprinting and screening of non-registered associated persons.

LPL's written procedures required fingerprinting and screening of all associated persons. However, LPL did not have a reasonable process, including written procedures, for identifying whether a non-registered individual was an associated person. For example, LPL did not assign anyone at the firm responsibility for identifying or screening individuals retained for project-specific activities pursuant to a statement of work. Therefore, LPL violated FINRA Rules 3110(a) and (b) and 2010.

C. LPL failed to reasonably supervise consolidated reports.

A consolidated report is a document that combines information about most or all of a customer's financial holdings, including assets held away from the firm. In April 2010, FINRA issued Regulatory Notice (RN) 10-19, which cautioned firms that unless "rigorously supervised," consolidated reports can "raise a number of regulatory concerns, including the potential for communicating inaccurate, confusing, or misleading information to customers." RN 10-19 specifically warned that consolidated reports "can create a misconception that the firm produced or verified all of the data" contained in the reports, "including the valuation of assets held away" from the firm. Consequently, RN 10-19 warned that "if a firm is unable to test or otherwise validate data for non-held

assets, including valuation information, the firm should clearly and prominently disclose that the information provided for those assets is unverified." RN 10-19 further warned that "any firm that cannot properly supervise the dissemination of consolidated reports by its registered representatives must prohibit the dissemination of those reports and take the necessary steps to ensure that its registered representatives comply with this prohibition."

1. LPL failed to establish and maintain a reasonably designed system for supervising consolidated reports.

In 2015, after the issuance of the prior AWC entered into with LPL for failing to reasonably supervise consolidated reports, LPL limited representatives who wished to create consolidated reports to using only LPL proprietary systems or specific, approved third-party vendors. However, from May 2015 to the present, LPL's system for supervising consolidated reports created by its approved third-party vendors was unreasonably designed in numerous respects, as set forth below.

a. LPL did not review draft consolidated reports.

Each of the firm's approved third-party vendors could pull data directly from LPL, as well as from other financial institutions. Each vendor also allowed representatives to manually enter values for assets held away from LPL, including securities positions held at other broker-dealers, insurance policies, or personal assets such as homes, automobiles, or bank accounts.

When a registered representative finalized a consolidated report using one of the firm's approved third-party vendors, a copy of the report was sent automatically to LPL, and the firm was able to review and validate the information contained within it. However, each of LPL's approved third-party vendors also allowed the firm's representatives to generate "non-finalized" or draft consolidated reports, which were intended for internal use only and therefore not sent to LPL or reviewed by the firm. Although the draft reports contained a disclaimer noting that they were "[f]or internal use only; not for client distribution," they did not clearly and prominently disclose that the information provided in the reports was unverified.

Moreover, although LPL's written supervisory procedures stated that consolidated reports sent to customers needed to be reviewed by the firm, LPL did not have a reasonably designed system to identify when its representatives sent customers draft consolidated reports, which were supposed to be for internal use only. Indeed, LPL does not know how many draft consolidated reports—including draft reports containing manually-added values—that its representatives sent to customers since 2015.

b. LPL did not reasonably review manually-added assets.

LPL's written supervisory procedures required the firm to "review and validate" all manually entered valuations for "securities-related assets," including retirement or brokerage accounts held away from LPL, private placements, or variable annuities.

However, in practice, LPL only reviewed manually-entered assets if the representatives specifically characterized the assets as "securities-related." If representatives characterized the manually-added assets as "non-securities-related," the firm excluded them from its review—even if the assets were securities.

c. LPL failed to reasonably review thousands of consolidated reports because its third-party vendors gave representatives and customers direct access to the reports.

LPL failed to understand certain functionalities of its approved vendors' consolidated reporting systems. Two of LPL's vendors allowed representatives to provide customers with direct access to the vendors' websites, through which customers could access consolidated reports without LPL's knowledge or review. Although LPL is unable to quantify precisely how many customers accessed consolidated reports in this manner, at least 9,000 customers accessed one of the third-party vendors' portals in one year alone, from June 2019 through June 2020.

Moreover, three of LPL's approved third-party vendors provided representatives with the option of receiving consolidated reports directly, and which the firm therefore failed to supervise entirely. Two of the approved vendors allowed representatives to export consolidated reports to Microsoft Excel files, after which the representatives could manually alter the reports. LPL was unaware that its vendors provided direct access of consolidated reports to registered representatives, and therefore the firm did not receive, much less review, those reports or any exported Excel files. LPL does not know how many consolidated reports or exported Excel files were created in this manner since 2015, nor does it know how many were sent to customers or how many contained manually-added assets.

Finally, one approved third-party vendor enabled LPL representatives to direct that emails be sent to customers that contained hyperlinks to consolidated reports. Between September 2015 and April 2020, the vendor sent LPL customers at least 87,000 emails with links to consolidated reports. LPL was unaware that the vendor provided this service and therefore did not review any consolidated reports that its representatives disseminated in this manner.

2. LPL's failure to reasonably supervise consolidated reports enabled a former firm representative to create and disseminate some reports containing false information.

Former LPL registered representative JTB exploited LPL's failure to reasonably supervise its representatives' creation and dissemination of consolidated reports by sending reports containing fictitious assets to several LPL customers as part of a Ponzi scheme away from LPL.[4] After receiving information from LPL following its internal

[4] Although JTB's fraudulent scheme spanned many years, he was registered through LPL for only a portion of that time, specifically, from February 2018 through May 2019. LPL has paid restitution to numerous customers from whom JTB misappropriated money while he was associated with the firm.

investigation of JTB, FINRA began an investigation of JTB and barred him for converting at least $1,000,000 of LPL customers' funds. JTB subsequently was arrested for and pled guilty to securities fraud.

As set forth below, JTB exploited the firm's failure to have a reasonable supervisory system.

a. Draft reports

First, as noted above, LPL did not receive or review draft consolidated reports that were designated for internal use only, even though those reports could be sent to customers and could contain manually-added assets. JTB provided at least one LPL customer with a draft consolidated report and at least one LPL customer with a screenshot of a report; both contained fictitious valuations for assets purportedly held away from LPL. For example, in or around March 2019, JTB sent a draft consolidated report to a customer that was generated by one of LPL's approved third-party vendors that listed the name of an entity that JTB created; the customer believed he had made an investment through that entity in securities. The draft consolidated report listed a valuation of $321,904 for the securities purchased through JTB's entity. In truth, JTB used the entity to perpetrate his Ponzi scheme, and the customer's "investment" through the entity was worthless.

LPL did not review these consolidated reports because JTB had not "finalized" them.

b. Manually-added assets

Second, LPL did not review manually-added assets that its representatives characterized as non-securities related. JTB used an approved third-party vendor to create consolidated reports for which he manually added assets. Although JTB described the manually-added assets in at least one consolidated report as exchange-traded funds (ETFs), which are securities, he included the ETFs, with their manually-added valuations, under a subheading entitled "certificates of deposit." Although LPL received those consolidated reports, it did not review or validate the manually-added ETFs or their valuations because they were listed by JTB under the subheading for "certificates of deposit," which are not securities. JTB provided these consolidated reports, which bore the firm's logo, containing fictitious, manually-added assets to customers.

c. Direct access to Consolidated Reports

Finally, LPL failed to recognize that its vendors allowed representatives to give customers direct access to the vendors' portals for accessing consolidated reports. JTB provided 12 of his customers with direct access to the website of one of the firm's approved third-party vendors, where they were able to access consolidated reports that contained fictitious, manually-added assets. JTB also directly accessed the website of the vendor on at least one day.

As LPL was unaware that the firm's approved vendors offered direct website access to firm representatives and customers, it did not review the consolidated reports that JTB's customers accessed directly from the vendor's website or from JTB.

Therefore, by failing to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable FINRA rules concerning consolidated reports, LPL violated FINRA Rules 3110 and 2010. By failing to retain some of the consolidated reports, LPL also violated Exchange Act Rule 17a-4 and FINRA Rules 4511 and 2010.

To address the recordkeeping, fingerprinting, and consolidated report violations described above, LPL hired certain third parties. LPL has also commenced remediation efforts with the assistance of the third parties, including through an extensive review of its recordkeeping systems and of the third-party vendors who offer consolidated reports, and revisions to its supervisory system, written procedures, and processes.

B. Respondent also consents to the imposition of the following sanctions:

- a censure
- a $6,500,000 fine; and
- an undertaking to do the following:

a. Continue to retain (or, as necessary, retain within 60 days of the date of the notice of acceptance of this AWC) at its own expense a third-party consultant not unacceptable to FINRA to conduct a comprehensive review of Respondent's compliance in the areas identified in this AWC, including but not limited to:

(i) Ensuring that the firm's supervisory system, including written procedures, is reasonably designed to achieve compliance with its obligations relating to record retention, including the management of third-party data vendors; retention and preservation of electronic records; and provision of required 36-Month Letters to customers, consistent with Exchange Act § 17(a), Exchange Act Rules 17a-3 and 17a-4, and FINRA Rules 4511, 3110, and 2010;

(ii) Ensuring that the firm's supervisory system, including written procedures, is reasonably designed to achieve compliance with its obligations relating to properly screening all individuals who associate with the firm in a non-registered capacity, including by fingerprinting and screening associated persons and retaining related records, consistent with Exchange Act § 17(a) and 17(f), Exchange Act Rules 17a-3 and 17f-2, and FINRA Rule 3110, 4511, and 2010;

(iii) Ensuring that the firm's supervisory system, including written

procedures, is reasonably designed to achieve compliance with its obligations relating to the use of vendors that provide services that include firm regulatory obligations (third-party vendors) such as consolidated reports, including being aware of the features of and tools used by its third-party vendors. In addition, with respect to consolidated reports the firm shall establish a supervisory system, including written procedures, that is reasonably designed to supervise consolidated reports generated by its third-party vendors, and to validate manually added assets in draft and final consolidated reports, consistent with Exchange Act § 17(a), Exchange Act Rule 17a-4, and FINRA Rules 3110, 4511, and 2010.

b. Cooperate with the third-party consultant in all respects, including providing the third-party consultant with access to Respondent's files, books, records, and personnel, as reasonably requested for the above-mentioned review. Respondent shall require the third-party consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the third-party consultant's communications with FINRA. Further, upon request, Respondent shall make available to FINRA any and all communications between the third-party consultant and the Respondent and documents examined by the third-party consultant in connection with this review, from the date of acceptance of this AWC forward.

c. Refrain from terminating the relationship with the third-party consultant without FINRA's written approval. Respondent shall not be in and shall not have an attorney-client relationship with the third-party consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the third-party consultant from transmitting any information, reports, or documents to FINRA;

d. Require the third-party consultant to submit an initial written report to Respondent and FINRA at the conclusion of the third-party consultant's review, which shall be no more than 90 days after the date of the notice of acceptance of this AWC. The initial report shall, at a minimum, (i) evaluate and address the adequacy of Respondent's obligations related to records retention, fingerprinting and screening of associated persons, and consolidated reports.; (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Respondent should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to records retention, screening of associated persons, and creation, use, and distribution of consolidated reports; and

(i) Within 90 days after delivery of the initial report, Respondent shall

adopt and implement the recommendations of the third-party consultant or, if Respondent considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the third-party consultant designed to achieve the same objective. Respondent shall submit such proposed alternative procedures in writing simultaneously to the third-party consultant and FINRA.

(ii) Respondent shall require the third-party consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the third-party consultant's original recommendation and (B) provide Respondent and FINRA with a written report reflecting its evaluation and determination within 30 days of submission of any Respondent's proposed alternative procedures. In the event the third-party consultant and Respondent are unable to agree, Respondent must abide by the third-party consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the third-party consultant.

(iii) Within 30 days after the issuance of the later of the third-party consultant's initial report or any written report regarding proposed alternative procedures, Respondent shall provide the third-party consultant and FINRA with a written implementation report, certified by an officer of Respondent, attesting to, containing documentation of, and setting forth the details of Respondent's implementation of the third-party consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.

2. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.

3. Respondent shall further retain the third-party consultant to conduct a follow-up review and submit a final written report to the Respondent and to FINRA no later than one year from the date of the notice of acceptance of this AWC. In the final report, the third-party consultant shall address Respondent's implementation of the systems, policies, procedures, and training, and shall make any further recommendations it deems necessary. Within 30 days of receipt of the third-party consultant's final report, Respondent shall adopt and implement the recommendations contained in the final report and inform FINRA in writing that it has done so.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a complaint issued specifying the allegations against it;

B. To be notified of the complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and

D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;

3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and

4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than

the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

December 30, 2020
____
Date

LPL Financial LLC
Respondent

By: Cecilia B. Mavico

Print Name: Cecilia B. Mavico

Title: SVP, Associate General Counsel
Head of Regulatory Strategy & Special Investigations

Reviewed by:

Paul M. Tyrrell
____
Paul M. Tyrrell
Counsel for Respondent
Sidley Austin LLP
60 State Street, 36th Floor
Boston, MA 02109

Accepted by FINRA:

Signed on behalf of the
Director of ODA, by delegated authority

December 31, 2020
____
Date

Stuart Feldman
____
Michael S. Choi
Senior Counsel
FINRA Department of Enforcement
Two Jericho Plaza
Jericho, NY 11753

Stuart P. Feldman
Senior Counsel
FINRA Department of Enforcement
99 High Street, Suite 900
Boston, MA 02110