STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF SECURITIES

In the matter of	DFI File S-238691 (LX)
LPL FINANCIAL LLC,	ADMINISTRATIVE CONSENT ORDER
Respondent.	

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 Wisconsin; and

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

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"); and

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 Wis. Stats. §§ 551.412(6) and (7) and 551.604 with respect to this Administrative Consent Order (the
"Order");

NOW, THEREFORE, the State of Wisconsin, Department of Financial Institutions, Division of Securities ("Division"), as administrator of the Wisconsin Uniform Securities Laws, Wis. Stats. Ch. 551, 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 ofunregistered, 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 óbligated 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.

5. As executed in January 2000 and amended in mid-2006, the Subscription Agreement

included data for equity securities, but not for fixed income securities.

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

B. BLUE SKY COMPLIANCE EFFORTS

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

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

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

10. Lacking necessary training, supervision and process implementation of various order

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

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

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

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

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

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

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

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

D. POST-REINSTATEMENT REVIEW AND REMEDIAL MEASURES

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

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

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

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

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

II. CONCLUSIONS OF LAW

1. The Division has jurisdiction over this matter pursuant to Wis. Stat. § 551.613.

2. LPL offered and sold unregistered, non-exempt securities in Wisconsin, in violation of Wis. Stat. § 551.301.

3. LPL failed to invest sufficient and appropriate resources in personnel, expertise, systems, and operations to adequately comply with Blue Sky laws, rules, and regulations, in violation of Wis. Stat. § 551.412(4)(i).

4. LPL failed to reasonably supervise the flow of information to ensure full and proper compliance with state securities registration requirements, in violation of Wis. Stat. § 551.412(4)(i).

5. LPL failed to maintain adequate systems to reasonably supervise agents, staff, and employees to prevent the sale of unregistered, non-exempt securities, in violation of Wis. Stat. § 551.412(4)(i).

6. LPL failed to supervise agents, staff, and employees in the performance of duties with respect to systems operation, process, and checks and balances to ensure

compliance with Blue Sky laws, rules, and regulations, in violation of Wis. Stat. § 551.412(4)(i).

7. LPL acted negligently in canceling certain third-party services critical for compliance with Blue Sky laws, rules, and regulations, in violation of Wis. Stat. § 551.412(4)(i).

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 Wis. Stat. § 551.411(3) and Wis. Admin. Code § DFI-Sec. 4.03.

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 Wis. Stats. §§ 551.412(4)(i) and 551.411(3), and Wis. Admin. Code § DFI-Sec. 4.03.

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 Wisconsin law on behalf of Wisconsin 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 the Wis. Stats. §§ 551.301, 551.412(4)(i) and 551.411(3) and Wisc. Admin. Code § DFI-Sec. 4.03, and will

comply with Wis. Stats. §§ 551.301, 551.412(4)(i) and 551.411(3) and Wisc. Admin. Code § DFI-Sec. 4.03.

A. PENALTY

4. LPL Financial Holdings Inc., or its direct or indirect subsidiaries, shall, within 15 business days of the mailing of the executed Order by the Division, pay the sum of $499,000.00 to the State of Wisconsin, Department of Financial Institutions, Division of Securities to be deposited in the Gifts, Grants, Settlements and Publications appropriation under Wis. Stat. § 20.144(1)(h) for securities and investor education, and/or for other securities and investor protection purposes. The check shall be made payable to the "Wisconsin Department of Financial Institutions."

B. CUSTOMER REMEDIATION

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

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

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

8. The Historical Trade Review shall be conducted by an unaffiliated third party that is

not unacceptable to the Lead States (the "Independent Reviewer"). The Independent Reviewer shall not be a person or entity who has provided LPL with any products or services related to Blue Sky compliance prior to July 1, 2017.

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

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

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

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

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

9. LPL shall offer to repurchase the securities where the securities are still held in an LPL Account (subject to a standardized repurchase formula) or to pay damages where

the position has been sold (subject to a standardized damages formula) for each trade involving an unregistered, non-exempt equity or fixed income security. Each offer shall include interest at a rate of three (3) percent simple interest per annum. Interest shall be calculated from the trade date of the purchase to the earlier of May 1, 2018 or the date on which the customer 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 Wisconsin

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 Wisconsin.

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

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

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

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

a. Within sixty (60) days of the date that Offer Letters are sent, LPL shall provide the Division a list of offerees in Wisconsin for whom Offer Letters were

returned as undeliverable so that the Jurisdiction may attempt to locate those offerees.

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

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

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

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

v. If both the Division and LPL are unable to locate the address for any individual within the population of offerees addressed in this Section

III(B)(12)(a), LPL shall re-send an Offer Letter to all such individuals who come forward to either LPL or the Jurisdiction within six (6) months after completion of the Historical Trade Review and Repurchase Program (as described and defined in Section III(B)(13), below).

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

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

    a. For each offer made:

        i. The trade date(s) and corresponding product(s) covered by the offer;

        ii. The name and address of the offeree(s);

        iii. Whether the offer was either accepted, affirmatively rejected, or deemed rejected due to a failure to timely accept;

        iv. The date(s) and amount(s) remitted for each offer; and

        v. Any special circumstances relevant to that offer (*e.g.*, if the original customer is now deceased and the payment was remitted to the customer's heirs or estate).

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

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

15. No later than December 31, 2019, LPL shall require the Independent Reviewer to certify

to LPL that the Independent Reviewer's determinations as to which transactions contravened state registration requirements are true, accurate, and based on all available information and a good faith interpretation of applicable law. Prior to the Independent Reviewer's certification, LPL shall direct that any third-party who provided services in furtherance of the Independent Reviewer's determinations provide a written representation to the Independent Reviewer that all services rendered in furtherance of the Historical Trade Review were fully completed in accordance with both the third-party's statement of work and all directives provided to the third-party by the Independent Reviewer.

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

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

18. At LPL's request, the Lead States for all Jurisdictions where necessary and/or the Division for its own part may extend, for good cause shown, any of the procedural

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

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

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

20. The Operational Review shall include the following areas:

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

        i. Identification and escalation protocols by supervisory and compliance personnel involving significant matters relating to compliance with state securities laws, rules and regulations;

        ii. Communication and information sharing between departments and business units (*e.g.*, procurement, technology, trading, and retail

brokerage) relative to state securities registration requirements and operations processes for ensuring intra- and inter-departmental coordination on matters relating to state securities registration requirements; and,

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

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

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

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

21. The Operational Review shall be conducted by an unaffiliated third party that is not unacceptable to the Lead States (the "Consultant"). The Consultant shall not be a person or entity who has been engaged or retained by LPL between January 1, 2012 and July 1,

2017 for the purpose of conducting any review of similar scope and substance.

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

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

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

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

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

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

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

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

they were not adopted or implemented.

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

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

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

D. AUDITS AND INSPECTIONS

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

E. CONSTRUCTION AND DEFAULT

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

under the laws, rules, and regulations of Wisconsin.

31. 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 Wisconsin statute, rule, or regulation that prohibits fraudulent, manipulative or deceptive conduct.

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

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

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

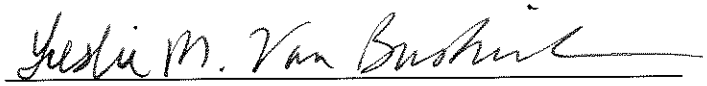
35. This Order is not intended to state or imply willful, reckless, or fraudulent conduct by LPL, or its affiliates, directors, officers, employees, associated persons, or agents.

36. LPL, through its execution of this Order, voluntarily waives the right to a hearing on this matter and to judicial review of this Order under Wis. Stat. § 551.604.

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

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

Executed this 22nd day of January, 2019.



Leslie M. Van Buskirk
Administrator

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY LPL

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

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 entry of this Order by the Division as settlement of the issues contained in this Order.

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

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

Cecilia Baute Mavico represents that **[he/she]** is SVP, Head of Regulatory Inquiries + Strategy of LPL and that, as such, has been authorized by LPL to enter into this Order for and on behalf of LPL.

Dated this 11 day of January 2019.

LPL

By: Cecilia B. Mavico.

Title SVP, Head of Regulatory Inquiries + Strategy

SUBSCRIBED AND SWORN TO before me this 11 day of January 2019.

Diane H. Carter

Notary Public

My Commission expires:

1/26/27

DIANE H. CARTER
MY COMMISSION
EXPIRES
1/26/2027
NOTARY PUBLIC
SOUTH CAROLINA