

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2018058621001**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent LPL Financial LLC ("LPL" or the "Firm") 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 LPL alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. LPL 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 Boston, Massachusetts. LPL has over 20,000 registered persons operating out of nearly 12,000 branch offices.

**RELEVANT DISCIPLINARY HISTORY**

LPL does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

**OVERVIEW**

From January 1, 2014 through September 30, 2018 (the "Relevant Period"), LPL failed to establish and maintain a supervisory system, and failed to establish, maintain, and enforce written supervisory procedures ("WSPs"), reasonably designed to achieve compliance with FINRA Rule 2090, which requires member

firms to use “reasonable diligence” to determine “the essential facts” concerning every customer, including the “authority of each person acting on behalf of such customer.” Specifically, with respect to accounts established under the Uniform Gifts to Minors Act and/or the Uniform Transfers to Minors Act (collectively, “UTMA Accounts”), the Firm failed to establish, maintain, and enforce supervisory systems and procedures to take into account changes in the authority of custodians of such accounts to effect transactions on behalf of the beneficiaries of those accounts. Based on the foregoing, LPL violated NASD Rules 3010(a) and 3010(b), and FINRA Rules 3110(a), 3110(b), and 2010.<sup>1</sup>

### **FACTS AND VIOLATIVE CONDUCT**

FINRA Rule 3110 and its predecessor, NASD Rule 3010, require that each member firm establish and maintain a system, and establish, maintain, and enforce WSPs, that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA rules.

FINRA Rule 2090 requires member firms, in connection with the “opening and maintenance of every account,” to “use reasonable diligence” to determine “the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.” In January 2011, FINRA issued Regulatory Notice 11-02, which reminded firms of their obligation to know “the ‘essential facts’ about a customer” and that those facts should be updated at reasonable intervals “throughout the life of its relationship with customers in order to, among other things, effectively service and supervise the customers’ accounts.”<sup>2</sup>

LPL permitted customers to open UTMA Accounts, which are custodial accounts that provide a way to transfer property to a minor without the need for a formal trust. While the specific requirements and features of UTMA Accounts may vary from state to state, all UTMA Accounts share certain common characteristics. For example, in all states, in order to establish a UTMA Account, the donor appoints a custodian, designates a minor beneficiary, and deposits assets into the account. Once a donor contributes assets to the account, the assets become the property of the minor beneficiary and neither the donor nor the custodian can divest the beneficiary of the donated assets. The custodian makes all investment decisions on the beneficiary’s behalf until the beneficiary reaches the age of majority, at which point the custodian is required by state law to transfer control over the custodial property to the beneficiary.

During the Relevant Period, LPL’s procedures described UTMA Accounts and

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<sup>1</sup> FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014.

<sup>2</sup> Because a firm’s relationship with its customers is dynamic, FINRA has not prescribed a period within which firms must attempt to update information about their customers. The reasonableness of a firm’s efforts in this regard will depend on the facts and circumstances of the particular case. See Reg. Notice 11-02.

their features, explaining that the assets in a UTMA account are “irrevocably transfer[red]” to the beneficiary, and that the custodian manages the assets until the minor beneficiary reaches the “age of trust termination,” at which point the custodian must transfer account assets to the beneficiary, who “takes control” of the account’s assets.

Although LPL was aware that a UTMA Account customer’s circumstances changed when the beneficiary reached the age of trust termination, the Firm did not establish reasonable systems or procedures related to the custodians’ obligation to timely transfer control over the custodial property to the beneficiary. As a result, UTMA Account custodians authorized transactions in at least 5,249 UTMA Accounts held at LPL in which the beneficiaries had reached the age of trust termination.

Accordingly, LPL failed to establish and maintain a system, and establish, maintain, and enforce WSPs, reasonably designed to achieve compliance with its obligation, pursuant to FINRA Rule 2090, to know the “essential facts” about its UTMA Account customers.

By virtue of the foregoing, LPL violated NASD Rules 3010(a) and 3010(b), and FINRA Rules 3110(a), 3110(b), and 2010.

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

- A censure;
- A \$300,000 fine; and
- Within 180 days of Notice of Acceptance of this AWC, or such additional period as agreed to by a FINRA staff member in writing, a registered principal on behalf of LPL shall submit to Pearline M. Hong, Counsel, FINRA, at the address set forth below, a written certification that: (i) the Firm has completed a review of its policies, systems, and procedures regarding the supervision of custodial accounts (including UTMA Accounts) and guardianship accounts established for the benefit of a minor; and (ii) as of the date of the certification, the Firm’s policies, systems, and procedures are reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules, including FINRA Rule 2090.

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

LPL specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

**II.**

**WAIVER OF PROCEDURAL RIGHTS**

LPL 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, LPL specifically and voluntarily waives any right to claim bias or prejudice 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 acceptance or rejection of this AWC.

LPL 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**

LPL 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 LPL; and

C. If accepted:

1. this AWC will become part of LPL's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against LPL;
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 the subject matter thereof in accordance with FINRA Rule 8313; and
4. LPL 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. LPL 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 LPL's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. LPL may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. LPL 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 or its staff.

The undersigned, on behalf of LPL, certifies that a person duly authorized to act on its 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce it to submit it.

LPL Financial LLC  
Respondent

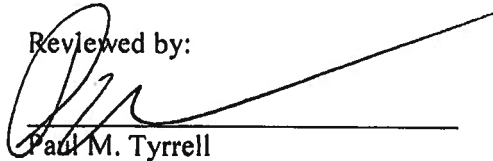
October 30, 2019  
Date

By: Cecilia B Mavico

Print Name: Cecilia B. Mavico

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

Reviewed by:

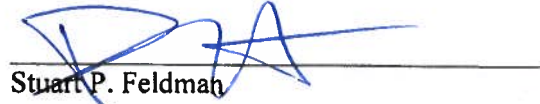


Paul M. Tyrrell  
Sidley Austin LLP  
60 State Street, 36th Floor  
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(617) 223-0350

Accepted by FINRA:

12/26/19  
Date

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



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