

Wisconsin Dept. of Financial Institutions: Part of \$26 million settlement with LPL Financial over sale of securities

Posted on Friday, May 4, 2018

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MADISON – The Wisconsin Department of Financial Institutions (DFI) today announced that the agency is part of a nationwide \$26 million settlement with LPL Financial LLC over the sale of certain securities sold since October 2006. As part of the settlement, LPL has agreed to pay DFI civil penalties of \$499,000 upon entering a final order.

“This settlement sends a strong message that DFI will hold firms accountable and continue to serve a vital role in protecting the financial interests of Wisconsin investors,” said Leslie Van Buskirk, Administrator of DFI’s Division of Securities.

In July 2017, the North American Securities Administrators Association (NASAA), of which DFI is a member, established a task force with Massachusetts and Alabama as lead states to investigate 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. NASAA President Joseph P. Borg said LPL fully cooperated with the NASAA task force.

The investigation focused on LPL’s retention, use, and subsequent cancellation of certain third-party services integral to LPL’s compliance with state securities registration requirements. Investigators also looked into certain other legacy deficiencies within LPL’s compliance structure related to LPL’s controls, monitoring

and reporting tools, and escalation protocols regarding the firm's response to significant compliance issues. State securities regulators concluded that LPL offered and sold unregistered, non-exempt securities and failed to reasonably supervise the flow of information to ensure full and proper compliance with state securities registration requirements.

While no evidence was found of willful, reckless, or fraudulent conduct by LPL, investigators did find that the firm failed to maintain adequate systems to reasonably supervise agents, staff, and employees to prevent the sale of unregistered, non-exempt securities. State investigators also determined that LPL failed to maintain books and records necessary to ensure full and proper compliance with state securities registration requirements; and failed to conduct appropriate and necessary due diligence regarding the retention, use, and subsequent cancellation of certain third-party services critical for compliance with state securities registration requirements.

In addition to a civil penalty, the settlement calls for LPL to offer to repurchase from investors securities held in LPL accounts determined to have been unregistered, non-exempt equity or fixed-income securities sold since October 1, 2006. Each offer also shall include 3 percent simple interest per year. Other requirements were agreed upon for investors holding affected securities sold or transferred from an LPL account.

As part of the settlement, LPL also agreed to a "top-to-bottom" review of the integration of new securities products to assess the firm'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. The firm also agreed to a similar review of its vendor service protocols to ensure processes are in place for identification and management of critical services used to ensure compliance with state securities laws.