

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 102008 / December 20, 2024

INVESTMENT ADVISERS ACT OF 1940
Release No. 6799 / December 20, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22374

In the Matter of

LPL Financial LLC

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against LPL Financial LLC (“LPL” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Respondent admits the facts set forth in Section III below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. These proceedings arise out of Respondent's failure to submit to the Commission complete and accurate data in response to Commission staff electronic blue sheets ("EBS") requests, resulting in the reporting of EBS that were incomplete or deficient.

2. Commission staff routinely sends requests for securities trading records to market makers, broker-dealers and/or clearing firms in order to review trading activity, and firms provide the requested records in a universal electronic format known as the EBS format. It is a fundamental obligation of broker-dealers to provide complete and accurate EBS data when requested by representatives of the Commission to do so. The submission of complete and accurate EBS data is critical to many aspects of the Commission's operations and its ability to discharge its enforcement and regulatory mandates. The failure of a broker-dealer to provide complete and accurate EBS information in response to a Commission request can impact the Commission's ability to discharge its statutory obligations, undermine the integrity of its investigations and examinations, and ultimately interfere with the Commission's ability to protect investors.

3. From at least July 2018 through May 2021 (the "Relevant Period"), in response to requests from the Commission, Respondent made at least 3,679 EBS submissions to the Commission that contained inaccurate information or omissions, resulting from ten types of errors. Those errors resulted in the misreporting of trade data for at least 399,000 transactions. As a result, Respondent violated the recordkeeping and reporting requirements of Section 17(a)(1) of the Exchange Act and Rules 17a-4(j) and 17a-25 thereunder.

Respondent

4. **LPL** is a California limited liability company with its principal office in Fort Mill, South Carolina. Respondent has been dually registered with the Commission as a broker-dealer since August 1973 and as an investment adviser since August 1975.

Facts

A. LPL's Deficient EBS Submissions

5. During the Relevant Period, in response to requests from the Commission, LPL made at least 3,679 EBS submissions to the Commission that contained inaccurate information or omissions, resulting from ten types of errors. Those errors resulted in the misreporting of trade data for at least 399,000 transactions.

6. LPL's submissions during the Relevant Period, among other things, omitted responsive transactions and/or contained inaccurate information about securities transactions reported, including with respect to EBS fields for average price accounts, order execution time,

exchange codes, and transaction type identifiers. Many transaction records were affected by more than one type of error.

7. The errors in LPL's EBS submissions were caused, in large part, by coding issues in LPL's and/or its vendors' EBS reporting systems. For example, due to coding errors and programming issues in one vendor's systems, LPL failed to identify the correct transaction type identifier field for more than 35,600 transactions, submitted EBS information that did not contain the proper field for LPL's average price accounts (e.g., house accounts used to incrementally execute orders over time and then transfer the shares between the customer's account and the average price account in one transaction) for at least 26,000 transactions, and omitted more than 1,700 responsive average price account transactions. Moreover, due to coding errors in another vendor's coding system, LPL reported the order execution times utilizing a 12-hour instead of 24-hour format, as required, for at least 8,600 transactions.

8. In addition, LPL provided EBS data with missing or inaccurate fields relating to firm or customer identifying information such as large trader identifiers and contra-party identifiers, as well as the address, state, and employer fields. For example, due to LPL's coding errors and other deficiencies, LPL either failed to apply large trader identifiers or applied inaccurate large trader identifiers for more than 340,000 transactions. As a result of its vendor's programming issues, LPL also failed to populate or provided the incorrect contra-party identifier information for more than 13,000 transactions.

9. At the time of at least some of its EBS submissions, LPL did not detect the above errors at least in part because it did not have reasonable procedures to verify that all of the information it was reporting was accurate. LPL did not, for example, conduct adequate periodic sampling, manual validation and review of information received from or transmitted by vendors that assisted in its preparation of EBS submissions, and did not have sufficient quality controls in place to ensure the completeness and accuracy of its EBS data prior to its submissions.

B. Respondent's Remedial Efforts

10. LPL engaged in voluntary remedial efforts concerning its EBS systems and control environment. Specifically, LPL hired a regulatory and technology consultant to perform a comprehensive assessment of its EBS regulatory reporting controls and processes, implement new EBS reporting software, and assist LPL in the identification and correction of the deficiencies in its EBS reporting. LPL further developed and implemented an EBS pre-submission application that reviews responsive transactional records, hired new personnel devoted to EBS reporting, and made other structural and procedural enhancements to its EBS reporting program. LPL also self-reported four of the ten types of errors underlying this Order. LPL remediated the deficiencies addressed by this Order, and resubmitted corrected EBS to the Commission.

Violations of the Federal Securities Laws

11. Section 17(a)(1) of the Exchange Act requires, among other things, that broker-dealers make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate in

the public interest, for the protection of investors, or otherwise in furtherance of the Exchange Act. Exchange Act Rule 17a-4(j) requires, in part, broker-dealers such as LPL to furnish promptly legible, true, complete, and current copies of those records of the member, broker, or dealer that are required to be preserved under Exchange Act Rule 17a-4, or any other records of the member, broker, or dealer subject to examination under Section 17(b) of the Exchange Act that are requested by a representative of the Commission. Likewise, Exchange Act Rule 17a-25 requires broker-dealers such as LPL to, upon request, electronically submit to the Commission the securities transaction information as required in the rule.

12. As described above, LPL failed to furnish complete records to the Commission staff that were requested by the Commission in its EBS requests. Therefore, LPL willfully¹ violated the recordkeeping and reporting requirements of Section 17(a)(1) of the Exchange Act and Rule 17a-4(j) thereunder by failing to furnish promptly true and complete EBS information as requested by Commission staff from at least July 2018 through May 2021. In addition, LPL willfully violated Exchange Act Rule 17a-25 by failing to submit electronically certain securities transaction information to the Commission through the EBS system in response to requests made by the Commission.

LPL's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent LPL's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act and Section 203(e) of the Advisers Act, it is hereby ORDERED that:

A. Respondent LPL cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Exchange Act and Rules 17a-4(j) and 17a-25 promulgated thereunder.

B. Respondent LPL is censured.

C. Respondent LPL shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$900,000.00 to the Securities and Exchange Commission for

¹ "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act and Section 203(e) of the Advisers Act, "means no more than that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying LPL as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Thomas P. Smith, Jr., Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY 10004.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission.

Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary