

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108**

_____)	
IN THE MATTER OF:)	
)	
LPL FINANCIAL LLC,)	CONSENT ORDER
)	
RESPONDENT.)	Docket No. E-2022-0055
_____)	

I. PRELIMINARY STATEMENT

This Consent Order (the “Order”) is entered into by the Enforcement Section of the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts (the “Enforcement Section” and the “Division,” respectively) and LPL Financial LLC (“LPL” or “Respondent”) with respect to an investigation identified by Docket No. E-2022-0055 into whether LPL engaged in acts or practices that violated Massachusetts Uniform Securities Act, Mass. Gen. Laws c. 110A (the “Act”), and the regulations promulgated thereunder at 950 Code Mass. Regs. 10.01-14.413 (the “Regulations”).

On September 28, 2023, LPL submitted an Offer of Settlement (the “Offer”) to the Division. LPL admits the Statement of Facts set forth in Section VI, neither admits nor denies the Violations of Law set forth in Section VII below, and consents to the entry of this Order by the Division, consistent with the language and terms of the Offer, settling the above-captioned matter (E-2022-0055) with prejudice.

II. JURISDICTION AND AUTHORITY

1. The Division has jurisdiction over matters relating to securities pursuant to chapter 110A of the Massachusetts General Laws.
2. This Order is made in accordance with the Act and with Section 10.10 of the Regulations.
3. The acts and practices that were the subject of the Enforcement Section's above-captioned investigation occurred in Massachusetts within the meaning of Section 414 of the Act. At all times during the Relevant Time Period, LPL was registered as a broker-dealer in Massachusetts.

III. RELEVANT TIME PERIOD

4. Except as otherwise expressly stated, the conduct described herein occurred during the approximate time period of January 1, 2020, through November 12, 2021 (the "Relevant Time Period").

IV. RESPONDENT

5. LPL Financial LLC ("LPL") is a limited liability company organized under the laws of California on May 7, 1973, with its principal place of business at 1055 LPL Way, Fort Mill, South Carolina 29715. LPL has a Financial Industry Regulatory Authority ("FINRA") Central Registration Depository ("CRD") number of 6413. LPL maintains an office in Massachusetts at 75 State Street, 22nd Floor, Boston, Massachusetts 02109. LPL has been registered as a broker-dealer in Massachusetts since July 31, 1981, and notice-filed as an investment adviser in Massachusetts since April 14, 1994.

V. RELATED PERSONS

6. Branch Office is a domestic for-profit corporation formed with its principal place of business in Massachusetts. Branch Office and its members operate as a branch office of LPL.

7. Branch Manager is an individual resident of Massachusetts as well as a financial adviser and Chairman of the Board at Branch Office.

8. Former Investment Adviser Representative (“FIAR”) is an individual resident of Massachusetts and a financial adviser who worked at Branch Office from 2015 to November 2021. LPL terminated FIAR on November 12, 2021.

VI. STATEMENT OF FACTS

A. **LPL Financial LLC and Branch Manager.**

9. LPL is among the nation’s largest independent broker-dealers and serves independent financial advisers and financial institutions, providing them with, *inter alia*, compliance services.

10. Between January 2015 and November 2021, Branch Manager supervised Branch Office, an LPL branch office consisting of ten (10) wealth advisers, including FIAR.

11. As the supervisor of an Office of Supervisory Jurisdiction (“OSJ”), Branch Manager was responsible not only for overseeing daily operations, but also maintaining the personal certifications of Branch Office representatives via continuing education programs and related examinations.

B. **Implementation of DocuSign.**

12. Prior to 2020, LPL’s Service Operations Group directed Branch Office financial professionals to use DocuSign as a tool for electronically signing customer correspondence and account paperwork. DocuSign is a software platform that allows parties to sign

documents electronically rather than with pen and paper. LPL presented DocuSign to Branch Office as a streamlined method of conducting business at the Branch Office.

13. In March 2020, Branch Office instituted a remote work model to comply with Massachusetts mandates related to the rapid onset of the Covid-19 global pandemic.

14. In the following months, Branch Office advisers relied heavily on DocuSign. FIAR estimated that Branch Office advisers used DocuSign for only about five percent of customer documentation prior to the onset of the Covid-19 pandemic. Beginning in March 2020, FIAR estimated that DocuSign was used for nearly all customer documentation.

15. DocuSign supported Branch Office's remote work model as it permitted customers and financial advisers to sign documents electronically from separate locations.

16. In practice, DocuSign's e-signature process allows a financial professional to generate relevant forms and select e-signing. DocuSign then creates an envelope that can contain multiple documents. A financial professional would then email the DocuSign envelope to a customer so that they may acknowledge the e-signature disclosure, answer applicable security questions, and e-sign the documents. The resulting certificate of completion reflects the date, time and Internet Protocol ("IP") addresses of e-signatures. These certificates also show whether a signature was completed remotely or in person.

17. As implemented at LPL, DocuSign also had an in-person e-signature process that allowed a financial professional to share their computer with a customer for signing purposes. If the in-person option was selected, the system displayed a screen on the financial professional's computer for the customer to e-sign. Here, the financial professional would show the computer monitor to the customer and give the customer the mouse and keyboard so that they could acknowledge the e-signature disclosure, answer

any applicable security questions, and e-sign. The system then prompted the financial professional to resume control of the computer and e-sign for themselves. Lastly, the system produced a certificate of completion reflecting the date, time, and IP address of the e-signatories.

C. The LPL Audit and Investigation of Branch Office Business Practices.

18. In March 2021, one year after Branch Office began operating remotely, LPL initiated its annual branch examination to ensure compliance with firm policies and procedures. LPL's examination of Branch Office included questionnaires directed at each representative as well as voluntary trainings focused on novel industry insights.

19. LPL subsequently determined that Branch Manager had authorized his staff, including FIAR, to send DocuSign envelopes to a group email address, instead of Branch Manager's own LPL e-mail address, and to electronically affix his signature to documents.

20. The firm's investigation concluded that FIAR used DocuSign to electronically sign at least 137 documents on behalf of Branch Manager through use of the unauthorized group email address.

21. LPL's investigation additionally concluded that FIAR used DocuSign to electronically sign documents on behalf of two LPL customers ("Massachusetts Customer One" and "Massachusetts Customer Two," respectively).

22. The certificates of completion for these signing events indicate that Massachusetts Customer One and Massachusetts Customer Two provided electronic signatures using the in-person functionality of DocuSign; however, LPL's investigation determined that neither customer had seen FIAR in person around the time of the signatures.

23. In fact, the IP address associated with the signatures of Massachusetts Customer

One and Massachusetts Customer Two was identical to the IP address associated with FIAR's signature on behalf of Branch Manager, and both IP addresses corresponded with locations at or near FIAR's home.

24. Branch Manager acknowledged that he authorized Branch Office personnel to e-sign on his behalf using DocuSign in violation of LPL's Document Signature Policy.

25. Branch Manager received a Letter of Caution, and LPL fined him \$1,000.00 for the violation. The Letter of Caution included a specific reminder of LPL's signature policy, stating:

All Documents for clients under your rep code must bear your signature as the representative of record and no one should sign your name other than you – an OSJ delegate is not permitted to sign documents on your behalf utilizing your signature. Additionally, a centralized mailbox should not be utilized to direct DocuSign documents that require your signature.

C. LPL Investigation Findings: FIAR.

26. FIAR acknowledged e-signing envelopes for Branch Manager, who had direct supervisory responsibility over FIAR at all times relevant to the LPL internal investigation.

27. A total of 137 envelopes created using the group email address were e-signed for Branch Manager using IP addresses near FIAR's home in Massachusetts.

28. LPL's investigative analysis also showed that 46 envelopes were e-signed for customers using the same IP addresses near FIAR's home.

29. LPL's Special Investigation Unit ("SIU") attempted to contact five of the affected customers. However, only two customers, Massachusetts Customer One and Massachusetts Customer Two, responded.

a. Massachusetts Customer One

30. Massachusetts Customer One reported to the SIU that she had authorized linking her LPL account and checking account and communicated with FIAR about connecting the two.

31. The SIU reported that FIAR had emailed a DocuSign envelope containing a form setting up on-demand Automated Clearing House transfers between Massachusetts Customer One's LPL account and her outside checking account.

32. Initially, FIAR stated to SIU investigators that Massachusetts Customer One had signed the documents in-person in his driveway during the pandemic.

33. However, the SIU investigation revealed that the documents were actually signed by FIAR on November 6, 2020, while he was operating remotely using an IP address at or near his home.

34. Massachusetts Customer One stated to SIU investigators that FIAR had not met with her since the start of the Covid-19 pandemic and that she did not recall giving FIAR permission to sign her name.

35. Following the SIU investigation, Massachusetts Customer One sent an email stating that she had authorized FIAR to e-sign her name.

b. Massachusetts Customer Two

36. Massachusetts Customer Two informed SIU investigators that he had authorized Branch Office to open a new account and had communicated with FIAR about doing so.

37. The SIU's analysis showed that FIAR had emailed a DocuSign envelope containing new account forms for Massachusetts Customer Two relating to a Living Trust as well as opt-in forms for electronic prospectuses and shareholder communications.

38. SIU investigators found that FIAR signed both documents on December 16, 2020, while he was operating remotely using an IP address at or near his home.

39. Massachusetts Customer Two reported to the SIU that he had never met with FIAR in person and did not recall giving FIAR permission to sign his name.

40. Following the SIU investigation, Massachusetts Customer Two sent an email stating that he had authorized FIAR to e-sign his name.

41. FIAR subsequently submitted a statement asserting that there had been occasions on which he signed “transactions that were part of clients['] mutually agreed upon plan” or utilized the signature function “to finalize items that a client agreed to but did not have capacity or understanding of the process to complete”

42. LPL terminated FIAR on November 12, 2021, for violating LPL document signature policies by electronically signing account documents on behalf of customers.

D. LPL’s Signature Policies and Procedures.

43. As of April 24, 2020, LPL’s Financial Advisor Compliance Manual states in its “Document Signature Policy” section that all documents requiring customer signatures and/or initials must bear original customer signature and initials.

44. That same Document Signature Policy also specifically states that the following actions are prohibited, regardless of customer knowledge or consent:

“[s]igning a client’s name or initials; witnessing the signing of a client’s name or initials by someone other than the client; re-using a client signature or the signature page of a form to execute multiple transactions or requests; cutting or pasting previously provided client’s signature or initials to any documents; modifying any client signature or initials; having clients sign any blank document, or altering any document; obtaining or maintaining documents signed by the client but not fully complete; using a signature stamp of any type without prior written approval from the firm.”

E. LPL Failed to Reasonably Supervise Branch Manager and FIAR.

45. Branch Manager stated that LPL provides its broker-agents with access to its internal policies, including its Document Signature Policy, but he could not recall an instance in which a member of Branch Office had submitted a customer-related document to LPL and had that submission rejected based on noncompliance with its Document Signature Policy.

46. Branch Manager described the process by which Branch Office submits customer-signed documents to LPL for review and stated that if the documents are flawed (*i.e.*, missing a date, incorrect social security number, *etc.*), LPL typically reports to Branch Office that the documents are “not in good order” within twenty-four (24) hours.

47. Branch Manager also stated that when FIAR submitted the documents that FIAR had signed on behalf of Massachusetts Customer One and Massachusetts Customer Two, LPL did not immediately reject the documents for noncompliance with its Document Signature Policy. Instead, it was not until March 2021 that LPL informed Branch Manager of any issue with the documents FIAR had signed on behalf of Massachusetts Customer One and Massachusetts Customer Two.

a. LPL Failed to Reasonably Supervise Branch Manager and His Management of Branch Office and its Representatives.

48. LPL repeatedly failed to supervise Branch Manager’s management of Branch Office, which resulted in multiple violations of LPL’s Document Signature Policy.

49. More specifically, Branch Manager’s decision to authorize Branch Office personnel to sign documents on his behalf via DocuSign resulted in over 500 violations of LPL’s Document Signature Policy, a \$1,000.00 personal fine to Branch Manager, and a Letter of Caution from LPL.

50. Furthermore, LPL's failure to exercise appropriate supervision of its Branch Office is underscored by the nearly six months that passed before discovering that one of its agents had violated not only its Document Signature Policy but also a cardinal rule for financial professionals – the prohibition against signing documents on behalf of customers without proper authorization.

51. Finally, LPL failed to maintain and enforce sufficient supervisory procedures reasonably designed to document customer correspondence and protect customers from fraud and forgery.

VII. VIOLATIONS OF LAW

Count 1 – Violations of Mass. Gen. Laws c. 110A, § 204(a)(2)(J)

52. Section 204(a)(2)(J) of the Act provides:

The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds (1) that the order is in the public interest and (2) that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser:

(J) has failed to reasonably supervise agents, investment adviser representatives or other employees to assure compliance with this chapter[.]

Mass. Gen. Laws. c. 110A, § 204(a)(2)(J).

53. The conduct of LPL, as described above, constitutes violations of Mass. Gen. Laws. c. 110A, § 204(a)(2)(J).

VIII. ORDER

IT IS HEREBY ORDERED:

A. LPL shall permanently cease and desist from future conduct in violation of Mass. Gen. Laws. c. 110A, § 204(a)(2)(J);

B. LPL is hereby censured by the Division;

C. LPL shall, within one hundred eighty (180) days of entry of this Order, conduct a comprehensive internal review of its policies and written supervisory procedures. This comprehensive internal review shall include a review of the following for compliance with the Act and industry standards or best practices:

a. LPL's policies and procedures concerning branch reviews;

b. LPL's policies and procedures regarding the supervision of branch managers;

c. At a minimum, LPL shall certify that its policies and procedures include the following:

i. Reasonably designed processes and training to enable detection of irregularities or abuses in the application of digital customer signatures during the course of branch reviews; and

ii. Reasonably designed training to enable branch managers to detect and prevent irregularities or abuses in the application of digital customer signatures in the course of their supervisory duties.

D. Within thirty (30) days of the comprehensive internal review conducted pursuant to Section VIII(C) above, LPL shall submit a report to the Division containing the findings of the comprehensive internal review (the "Report"). The Report shall include, without

limitation, a description of the review performed, the conclusions reached, and the recommendations for changes in or improvements to LPL policies, compliance training, and written supervisory procedures, as well as the process for implementing recommended changes and improvements. The Report's recommendations shall not be unacceptable to the Division, provided that the Division will not unreasonably withhold its consent of the recommendations. If the recommendations are not unacceptable to the Division, LPL will promptly adopt all recommendations in the Report;

E. Within ten (10) business days of the entry of this Order, LPL shall pay a fine in the amount of \$250,000.00 (USD) to the Commonwealth of Massachusetts. Payment shall be: (1) made by United States postal money order, certified check, bank cashier's check, bank money order, or wire transfer; (2) made payable to the Commonwealth of Massachusetts; (3) either hand-delivered or mailed to the Enforcement Section at One Ashburton Place, Room 1701, Boston, Massachusetts 02108, or wired per Division instructions; and (4) submitted under cover letter or other documentation that identifies the payor and the docket number of the proceedings. Additionally, LPL shall provide the Enforcement Section with notice twenty-four (24) hours prior to the payment;

F. For good cause shown, the Enforcement Section may agree to extend any of the procedural deadlines set forth above. Any request to extend any of the procedural deadlines set forth above shall be made in writing;

G. LPL shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any amounts that LPL shall pay pursuant to the Order;

H. LPL shall not seek or accept, directly or indirectly, reimbursement or indemnification including, but not limited to, any payments made pursuant to an insurance policy, with regard to any amount that LPL shall pay pursuant to this Order;

I. Any fine, penalty, and/or money that LPL shall pay in accordance with this Order is intended by LPL and the Enforcement Section to be a contemporaneous exchange for new value given to LPL pursuant to 11 U.S.C. § 547(c)(1)(A) and is, in fact, a substantially contemporaneous exchange pursuant to 11 U.S.C. § 547(c)(1)(B);

J. If LPL is the subject of a voluntary or involuntary petition in bankruptcy under 11 U.S.C. §§ 101, et seq., within three-hundred sixty-five (365) days of the entry of this Order, LPL shall notify the Enforcement Section, in a signed writing, within five (5) days of the date of the petition;

K. Upon entry of this Order, if LPL fails to comply with any of said terms, the Enforcement Section may institute an action to have this agreement declared null and void. Upon issuance of an appropriate order and after a fair hearing, the Enforcement Section may re-institute an action against LPL; and

L. The Division, for good cause shown, may extend any of the procedural deadlines set forth above.

IX. SEVERABILITY

If any provision of this Order is held to be invalid, illegal, or unenforceable, all other terms and provisions of the Order shall nevertheless remain in full force and effect.

X. WAIVER

LPL waives all rights to contest this Order, including, but not limited to, (A) the right to contest whether the Order is fair, reasonable, and/or in the public interest, (B) the

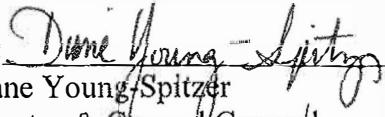
right to contest the Order's findings of fact, and (C) the right to contest the Order's conclusions of law. LPL further waives the procedural due process right to a hearing, all procedural rights provided by Section 407A of the Act, and the right to seek judicial review of the Order under Section 411 of the Act and Section 14 of the Massachusetts Administrative Procedure Act, Mass. Gen. Laws c. 30A, § 14.

XI. NO DISQUALIFICATION

This Order waives any disqualification in the Massachusetts laws, or rules or regulations thereunder, including any disqualification from relying upon the registration exemptions or safe harbor provisions to which LPL may be subject. This Order is not intended to be a final order based upon violations of the Act that prohibit fraudulent, manipulative, or deceptive conduct. This Order is not intended to form the basis of any disqualifications under Section 3(a)(39) of the Securities Exchange Act of 1934; or Rules 504(b)(3) and 506(d)(1) of Regulation D, Rule 262(a) of Regulation A and Rule 503(a) of Regulation CF under the Securities Act of 1933. This Order not intended to form the basis of disqualification under the FINRA rules prohibiting continuance in membership absent the filing of a MC-400A application or disqualification under SRO rules prohibiting continuance in membership. This Order is not intended to form a basis of a disqualification under 204(a)(2) of the Uniform Securities Act of 1956 or Section 412(d) of the Uniform Securities Act of 2002. Except in an action by the Division to enforce the obligations of this Order, any acts performed or documents executed in furtherance of this Order: (a) may not be deemed or used as an admission or, or evidence of, the validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) may not be deemed or used as 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 tribunal.

**WILLIAM FRANCIS GALVIN
SECRETARY OF THE COMMONWEALTH**

By:  _____
Diane Young Spitzer
Director & General Counsel
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Dated: October 3, 2023