LPL to pay at least $11.7 million for range of abuses

By Editorial Staff *Thu, May 7, 2015*

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LPL Financial LLC, America's largest independent broker-dealer, has been censured and fined $10 million by the Financial Industry Regulatory Authority (FINRA), the self-policing agency for broker-dealers.

LPL, which had revenues of $1.1 billion in the first quarter of 2015, was charged with "broad supervisory failures in a number of key areas." The broker-dealer consented to the entry of FINRA's findings without admitting or denying the charges.

A FINRA release said LPL didn't properly supervise the sale of complex products. LPL also failed to monitor and report trades and deliver to customers more than 14 million trade confirmations, the release said.

LPL will also be required to pay about $1.7 million in restitution to certain customers who purchased non-traditional ETFs. The firm may pay additional compensation to ETF purchasers pending a review of its ETF systems and procedures.

FINRA found that, at various times spanning multiple years:

- LPL failed to supervise sales of certain complex structured products, including ETFs, variable annuities and non-traded REITs.
- With regard to non-traditional ETFs, the firm did not monitor the length of time that customers held these products in their accounts, did not enforce its limits on the concentration of those products in customer accounts, and failed to ensure that all of its registered representatives were adequately trained on the risks of the products.
- LPL failed to supervise its sales of variable annuities, in some instances permitting sales without disclosing surrender fees.
- In connection with certain mutual fund "switch" transactions, LPL used an automated surveillance system that excluded these trades from supervisory review.
- LPL also failed to supervise non-traded REITs by, among other things, failing to identify accounts eligible for volume sales charge discounts.

According to FINRA, LPL's systems to review trading activity in customer accounts were plagued by multiple deficiencies. For example, LPL's surveillance system failed to generate alerts for certain high-risk activity, including low-priced equity transactions, actively traded securities and potential employee front-running.

The firm used a separate, but flawed, automated system to review its trade blotter that failed to provide trading activity past due for supervisory review, FINRA said, and the firm failed to deliver over 14 million confirmations for trades in 67,000 customer accounts.

According to other FINRA charges:

- Due to coding defects that remained undetected for nearly six weeks, LPL's anti-money laundering surveillance system failed to generate alerts for excessive ATM withdrawals and ATM withdrawals in foreign jurisdictions.
- LPL failed to report certain trades to FINRA and the MSRB, and failed to ensure it provided complete and accurate information to FINRA and to federal and state regulators concerning certain variable annuity transactions.
- LPL failed to reasonably supervise its advertising and other communications, including its registered representatives' use of consolidated reports. LPL did not monitor the creation or use of consolidated reports, and failed to ensure that these reports reflected complete and accurate information.

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