

STATE OF NEW HAMPSHIRE  
DEPARTMENT OF STATE  
BUREAU OF SECURITIES REGULATION  
25 CAPITOL STREET  
CONCORD, NH 03301

RECEIVED  
JUL 30 2020  
NEW HAMPSHIRE  
DEPARTMENT OF STATE

**CONSENT ORDER**  
**IN THE MATTER OF:**

**LPL Financial LLC - CRD # 6413**

**I-2019000029**

- I. For purposes of settling the above-captioned matter, and in lieu of administrative proceedings, LPL Financial LLC (“LPL”) has submitted an offer of settlement which the State of New Hampshire, Department of State, Bureau of Securities Regulation (the “Bureau”) has determined to accept. Accordingly, without admitting or denying the facts or allegations contained herein, LPL does hereby consent to the following undertakings and sanctions:

**THE FACTS**

1. LPL is a broker-dealer licensed with the State of New Hampshire since 1983 and an investment advisor licensed with the United States Securities and Exchange Commission since 1975. Dain F. Stokes (“Stokes”) is a former broker-dealer agent and investment adviser representative of LPL, who had been registered from June 2009 and up to his termination on August 28, 2019. Stokes primarily operated out of an LPL branch office in Bedford, New Hampshire.
2. Investor #1 is from Fremont, New Hampshire and had been a client of Stokes while he was registered at LPL. Investor #2 and Investor #3 are a husband and wife from Alton, New Hampshire and also were clients of Stokes while he was registered at LPL.
3. The Bureau commenced an investigation against Stokes after receiving a tip in August 2019 that Stokes was soliciting unsecured promissory notes from LPL clients for a purported investment opportunity in Africa, involving notable celebrities and promising high returns. The solicitations to Investors #1–3 did not occur on LPL systems. The Bureau determined that there was no truth to this claim and concluded that Stokes defrauded Investor #1 of two hundred one thousand dollars (\$201,000) and Investors #2 and #3 of three hundred seventy-five thousand dollars (\$375,000) in furtherance of the sham African investment opportunity. While Stokes informed the clients that the investment opportunity was not an LPL investment, the Bureau traced the funds received by Stokes and found no evidence that the

funds were invested or loaned to any investment opportunity in Africa and determined that Stokes spent some of the funds for personal expenses. Stokes has failed to pay back Investors #1–3, and the funds owed to them currently remain outstanding, well past the maturity dates of the unsecured promissory notes issued by Stokes.

4. The Bureau determined that LPL failed to reasonably supervise Stokes since at least 2015, having missed several opportunities to act on information known, or with reasonable inquiry should have been known, to LPL. Had LPL taken reasonable supervisory efforts to act on known information, or act on information it could have uncovered based on what it did know, the Bureau believes LPL would have prevented Stokes from committing the fraud against Investors #1–3.
5. As part of its investigation, the Bureau discovered that LPL had placed Stokes on heightened supervision in October 2016, due in part to concerns for his deteriorating personal financial condition and declining credit score. However, the Bureau determined that LPL failed to adhere to several of the terms of its own heightened supervision plan with respect to Stokes, including but not limited to, failing to visit Stokes' office on an unannounced basis, failing to visit Stokes' office at least quarterly, and failing to follow-up on questionable e-mails identified in LPL's system for further review.
6. Since the Bureau began its investigation in August 2019, LPL has fully cooperated with the Bureau. After Stokes' termination in August 2019, and considering Stokes' seemingly desperate financial situation, the Bureau raised concerns regarding Stokes' business. In response to the Bureau's concerns, LPL undertook a thorough internal review of every variable annuity sale by Stokes since 2015, including a re-evaluation of the suitability of every annuity sale. LPL also reached out to all of Stokes' clients. Additionally, at the Bureau's suggestion, LPL engaged a third-party to conduct an independent review of the same transactions. As a result of LPL's internal review and the third-party independent review, LPL has agreed to provide offers of remediation to twenty-one clients associated with thirty-two variable annuity contracts, as will be more fully-described below.

#### **THE LAW**

1. LPL is a "person" within the meaning of N.H. RSA 421-B:2, XVI and 421-B:1-102(39) and a "broker-dealer" within the meaning of N.H. RSA 421-B:2, III-a and 421-B:1-102(6).
2. Pursuant to N.H. RSA 421-B:4-412(c) and (d)(9), if the secretary of state finds that the order is in the public interest and subsection (d) other than subsection (d)(7), (d)(11) or (d)(14) authorizes the action, an order under this chapter may censure, impose a bar, or impose a civil penalty in an amount not to exceed a maximum of \$2,500 for each violation on a

registrant and if the registrant is a broker-dealer. Additionally, a person may be disciplined under subsections (a) through (c) if the person has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this chapter or the predecessor act or a rule adopted or order issued under this chapter or the predecessor act. The Bureau determined that LPL failed to reasonably supervise Stokes.

3. Pursuant to N.H. RSA 421-B:6-604(a)(1), if the secretary of state determines that a person has engaged, is engaging, or is about to engage, in an act, practice, or course of business constituting a violation of this chapter or an order issued under this chapter, or that a person has, is, or is about to materially aid an act, practice, or course of business constituting a violation of this chapter or an order issued under this chapter, the secretary of state may issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this chapter. LPL is subject to this provision.
4. Pursuant to N.H. RSA 421-B:6-604(d), in a final order, the secretary of state may impose a civil penalty up to a maximum of \$2,500 for a single violation. LPL is subject to this provision.
5. Pursuant to N.H. RSA 421-B:6-604(e), after notice and hearing, the secretary of state may enter an order of rescission, restitution, or disgorgement directed to a person who has violated this chapter, or a rule or order under this chapter. Rescission, restitution, or disgorgement shall be in addition to any other penalty provided for under this chapter. LPL is subject to this provision.
6. Pursuant to N.H. RSA 421-B:6-604(g), in a final order, the secretary of state may charge the actual cost of an investigation or proceeding for a violation of this chapter or an order issued under this chapter. LPL is subject to this provision.

II. In view of the foregoing, LPL agrees to the following undertakings and sanctions:

1. LPL voluntarily enters into this Consent Order and represents and avers that no employee or representative of the Bureau has made any promise, representation, or threat to induce their execution.
2. LPL waives its right to an administrative hearing and any appeal therein under this chapter.
3. This Consent Order is entered into for the purpose of resolving only the matter as described herein. This Consent Order shall have no collateral estoppel effect in any other lawsuit, proceeding, or action, not described herein. Likewise, this Consent Order shall not be

construed to restrict the Bureau's right to initiate an administrative investigation or proceeding relative to conduct by LPL or its agents that the Bureau has no knowledge of at the time of the date of final entry of this Consent Order. The Bureau is not restricted from pursuing any complaint it may receive related to any conduct by Stokes while with LPL, including but not limited to, any complaints involving any of the annuity transactions reviewed by LPL or the third-party. Up and until December 31, 2021, LPL shall forward to the Bureau any complaints it receives against Stokes within ten (10) business days of receipt.

4. LPL shall not to take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, denying any allegation in this Consent Order or create the impression that the Consent Order is without factual basis. Nothing in this provision affects LPL's testimonial obligations or right to take any legal positions in administrative proceedings or in litigation, in which the State of New Hampshire is not a party.
5. LPL shall cease and desist from further violations of N.H. RSA 421-B:4-412(d)(9) and fully adhere to heightened supervision plans of agents doing business with New Hampshire clients.
6. LPL shall pay restitution to Investor #1 totaling two hundred one thousand dollars (\$201,000) and restitution to Investors #2 and #3 totaling three hundred seventy-five thousand dollars (\$375,000). Payments shall be made within ten days of the execution of this Consent Order. LPL shall provide these checks to the Bureau for distribution to Investors #1-3. These payments shall be made by United States postal money order, certified check, bank cashier's check, or bank money order and made payable to the Investor.
7. LPL shall, within thirty (30) days of the execution of this Consent Order, make thirty-two (32) written offers to the twenty-one (21) clients identified in Exhibit A, offering them the opportunity to surrender their variable annuity contract where LPL will pay the surrender charges. Within thirty (30) days of receiving electronic or written notice that the proposed written offer is not unacceptable to the Bureau, LPL shall make the written offers to the clients identified in Exhibit A. The offers shall remain open for at least ninety (90) days. If a client accepts the written offer, then LPL shall promptly facilitate the transaction and, within thirty (30) days following the final payment to clients, LPL shall provide the Bureau with a written notice and certification of the disposition of the payments made.
8. Within one hundred eighty (180) days of the execution of this Consent Order, LPL agrees to make changes to enhance its heightened supervision policies in a manner not unacceptable to the Bureau; provided that the Bureau shall not unreasonably withhold its approval of those changes.

9. LPL shall pay a fine in the amount of two hundred and seventy-five thousand dollars (\$275,000.00), the Bureau's costs in the amount of seventy-five thousand dollars (\$75,000), and pay disgorgement in the amount of fifty thousand dollars (\$50,000), for a total of four hundred thousand dollars (\$400,000). Payment shall be made upon execution of this Consent Order and shall be made by 1) United States postal money order, certified check, bank cashier's check, or bank money order; 2) made payable to the State of New Hampshire; and 3) hand-delivered or mailed to the Bureau of Securities Regulation, Department of State, State House, Room 204, Concord, New Hampshire, 03301.
10. This Consent Order is not intended to be a final order based upon violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct. Furthermore, the Consent Order waives any disqualifications in the New Hampshire laws, or rule or regulations hereunder, including any disqualification from relying upon the registration exemptions or safe harbor provisions to which LPL or any of its affiliates may be subject. This Consent Order is not intended to be the basis of any disqualifications under Section 3(a)(39) of the Securities Exchange Act of 1934 or Regulation A and Rules 504 and 506 of the Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF. This Consent Order is 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 the SRO rules prohibiting continuance in membership. This Consent Order is not intended to form the basis of a disqualification under Section 204(a)(2) of the Uniform Securities Act of 1956 or Section 412(d) of the Uniform Securities Act of 2002.

III. Based on the foregoing, the Bureau deems it appropriate and in the public interest to accept and enter into this Order. **THEREFORE, IT IS HEREBY ORDERED THAT:**

1. LPL shall cease and desist from further violations of N.H. RSA 421-B:4-412(d)(9) and fully adhere to heightened supervision plans of agents doing business with New Hampshire clients;
2. LPL pays restitution to Investor #1 in the amount of two hundred one thousand dollars (\$201,000) and restitution to Investors #2 and #3 in the amount of three hundred seventy-five thousand dollars (\$375,000);
3. LPL makes the offers described in the above-mentioned Section II, Paragraph 7;
4. LPL pays a fine in the amount of two hundred seventy-five thousand dollars (\$275,000.00), the Bureau's costs in the amount of seventy-five thousand dollars (\$75,000.00), and pays disgorgement totaling fifty thousand dollars (\$50,000), for a total of four hundred thousand dollars (\$400,000); and
5. LPL complies with all other undertakings outlined herein.

**SO ORDERED.**

Executed this 20 day of July 2020.

Cecilia B Mavico

on behalf of LPL Financial LLC

(Please print name below)

Cecilia B. Mavico  
SVP & Associate General Counsel

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Cece Mavico  
Head of Regulatory Strategy & Investigations  
SVP & Associate General Counsel  
Counsel for LPL Financial LLC

Entered this 30<sup>th</sup> day of July 2020.

Barry J. Glennon

Barry Glennon, Director  
N.H. Bureau of Securities Regulation

## Exhibit A

Customer Name	Contract Number	Contract Issue Date
Investor A	016835786	1/6/2017
Investor B	016829108	8/1/2016
	016822323	2/16/2016
Investor C	016829506	8/4/2016
Investor D	016819057	12/14/2015
	016819060	12/2/2015
Investor E	016819062	12/2/2015
Investor F	016836758	2/15/2017
Investor G	016829085	7/20/2016
	016831746	9/23/2016
Investor H	016831553	9/20/2016
Investor I	016807532	4/23/2015
	016825502	5/2/2016
	016833935	11/17/2016
Investor J	016818045	11/10/2015
	016818052	11/3/2015
	016820022	12/17/2015
Investor K	016804154	2/3/2015
	016828002	7/5/2016
	18423097	1/11/18
Investor L	017564990	4/4/2013
Investor M	016827051	6/3/2016
	016827167	6/3/2016
Investor N	016818509	11/12/2015
Investor O	18423365	2/1/2018
Investor P	17422548	11/27/17
Investor Q	17420760	6/09/2017
Investor R	18425607	7/10/2018
	17420759	6/9/2017
Investor S	17420411	5/12/2017
Investor T	17420385	5/10/17
Investor U	17420572	5/30/2017