

Delaware Department of Justice Investor Protection Unit secures settlement with LPL Financial, LLC over Leveraged Exchange Traded Funds

LPL will provide restitution to Delaware investors related to suitability and supervision violations

Wilmington – Delaware Attorney General Matt Denn announced that LPL Financial, LLC (LPL) has finalized a settlement with the Delaware Attorney General’s Investor Protection Unit and the Massachusetts Attorney General’s Office to resolve an investigation into LPL’s use of Leveraged Exchange Traded Funds.

“State law requires investment professionals to fully disclose the risks associated with complex financial products and to ensure they are suitable investments for their clients,” Attorney General Denn said today. “We’ve acted to hold LPL accountable to Delaware’s Securities Act to ensure all investment professionals are meeting those requirements and are properly supervised so that we can continue to safeguard the investments, pensions, and retirement funds of Delawareans.”

Leveraged ETFs are exchange traded funds that seek to return, on a daily basis, two hundred percent or, negative two hundred percent, of a particular index, commodity, currency, or economic sector. Leveraged ETFs typically do not invest directly in the underlying index or asset class but rather attempt to accomplish this daily objective by using financial

derivatives, such as futures and swaps contracts. When Leveraged ETFs are held for periods longer than a day, compounding (among other factors) typically causes the Leveraged ETFs return to diverge from that which might be expected from simply multiplying the change in the underlying index by the relevant factor. This potential divergence is magnified in periods of greater volatility. Due to this divergence, an investor can lose money when holding Leveraged ETFs over long periods, even if the investor bets correctly on the direction of the relevant index over the same term.

LPL operates as a broker-dealer and a federally covered investment advisor in Delaware. The State's investigation found that certain LPL investment professionals failed to disclose risks associated with Leveraged ETFs, including the risks described above, and failed to ensure that Leveraged ETFs were suitable investments for their clients. In addition, the investigation found that LPL failed to adequately supervise those investment professionals whose clients held leveraged ETFs for extended periods of time.

LPL settled the investigation by entering into a Consent Order and agreeing to make full restitution to eligible Delaware and Massachusetts investors. In addition, the agreement requires LPL to enhance its oversight of investments in Leveraged ETFs by revising training for their financial advisors, enforcing restrictions on the number of Leveraged ETFs that may be offered to LPL clients, and notifying financial advisors when Leveraged ETF hold periods in client accounts exceed 30 days.

The Attorney General's Investor Protection Unit enforces the Delaware Securities Act and seeks to prevent the public from being victimized by fraudulent, unscrupulous or overreaching practices by those offering investments and investment services within the state. Attorney General Denn urges investors who believe they have been the victims of such practices to call the Investor Protection Unit Hotline at 302-577-8424 or email the Unit at

investor.protection@delaware.gov.

Delaware's investigation was primarily handled by Investor Protection Director Gregory Strong and Assistant Attorney General David Casler.