BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE
FOR THE STATE OF TENNESSEE

TENNESSEE SECURITIES DIVISION,	)	
	)	
Petitioner,	)	
	)	
v.	)	**Matter No.: 23-01039**
	)	
EDWARD D. JONES & CO., L.P.	)	
	)	
Respondent.	)	

CONSENT ORDER

WHEREAS, Edward D. Jones & Co., L.P. ("Edward Jones") CRD# 250, is a registered broker-dealer with a principal place of business at 12555 Manchester Road, St. Louis, Missouri, 63131-3710; and

WHEREAS, a coordinated investigation into Edward Jones's supervision of financial advisers who serviced brokerage customers who hired the firm's investment adviser to manage some or all of the customers' securities investments during the period of approximately July 1, 2016, to June 30, 2018 (the "Investigation") has been conducted by a multistate task force, coordinated among members of the North American Securities Administrators Association ("NASAA"), with Texas and Montana serving as the "Lead States"; and

WHEREAS, Edward Jones neither admits nor denies the Findings of Facts or Conclusions of Law set forth herein, except Edward Jones admits that, because it is a registered dealer in the State of Tennessee, the Commissioner of the Tennessee Department of Commerce and Insurance ("Commissioner") has jurisdiction over this matter pursuant to Section 48-1-115 of the Tennessee

Securities Act of 1980 as amended, Tenn. Code Ann. §§ 48-1-101 to 48-1-201 ("the Act"); and WHEREAS, Edward Jones elects to permanently waive any right to a hearing, judicial review, or appeal under the Act, with respect to the entry of this Consent Order (the "Order").

NOW, THEREFORE, the Commissioner as administrator of the Act hereby enters this Order:

FINDING OF FACTS

1. Edward D. Jones & Co., L.P. ("Respondent") is a financial services firm headquartered in St. Louis, Missouri, that serves over seven million investors across North America. The firm provides its services through its approximately 18,000 financial advisers ("FAs"). The firm's focus is serving the needs of retail investors.

2. On or about August 17, 1981, Respondent registered with the Securities Division of the Tennessee Department of Commerce & Insurance ("Division") as a broker-dealer. Respondent has also been registered with the U.S. Securities and Exchange Commission ("SEC") as an investment adviser since October 24, 1963, and has been notice filed with the Division as an investment adviser since July 29, 1998.

3. The Division is the lawful agent through which the Commissioner of the Tennessee Department of Commerce and Insurance ("Commissioner") discharges the administration of the Act pursuant to Tenn. Code Ann. § 48-1-115.

Sales of Class A Mutual Fund Shares

4. Respondent's general strategy with respect to its brokerage business has been to focus on helping the serious, long-term individual investor by providing investors with information and disclosures to aid in client choices. FAs often worked with customers to offer high-quality investments with the goal of achieving diversification and investing for the long term. Respondent stated in various training materials, workshops, and conferences that mutual funds are a product that aligned with this philosophy.

5. Mutual funds typically offer more than one class of shares, with each class carrying different sales charges (commonly referred to as "loads"), expense ratios, and minimum initial investment requirements. Retail brokerage customers are typically eligible to purchase Class A, B or C shares; these share classes have the lowest initial investment requirements. The most common share class sold by Respondent was the Class A share.

6. The price of a Class A share includes a sales charge in the form of a single "frontend load" when the shares are purchased. Front-end loads on Class A shares vary but can be up to five percent of the value of the initial investment. Class A shares, like other mutual fund share classes, also have ongoing annual expenses which affect a client's overall costs over the life of the investment.

7. Class A shares are generally suitable for investors with longer term investment horizons at the time of the purchase. As Respondent's training materials highlighted, in a hypothetical scenario, if a customer's retirement goal, investment objective, or time horizon for an investment is long term, the amortized costs of the sales load on a Class A mutual fund share may be lower than other mutual fund investment options in certain circumstances. For example, Class C shares typically charge no initial "load," but have higher annual expense ratios than A shares, making the C shares more expensive over longer holding periods.

8. Certain FAs serviced customers that purchased Class A shares presuming that the customers would hold the shares for several years. In circumstances where that customer sold the Class A shares sooner than originally anticipated, the customer gave up the originally perceived benefit of having paid a larger front-end load (with lower corresponding annual expense ratios than other share classes).

The Launch of Guided Solutions

9. In or around 2013, Respondent conducted research directed to customers and FAs to explore introducing new types of products and services, including new investment advisory services. These investment advisory accounts differed from brokerage-only accounts in many respects, including, but not limited to, the following: the governing regulations, the applicable standard of care, the type of services provided and the benefits to clients, and the way that fees for the services provided are calculated.

10. Investment advisory fees are generally calculated based upon a percentage of the value of the assets managed pursuant to the investment advisory agreement between the client and the firm. The costs related to brokerage-only accounts are typically commissions based on each discrete securities transaction executed on behalf of the customer (i.e., a per trade commission).

11. In April 2016, the United States Department of Labor adopted its fiduciary rule (the "DOL Rule").[1] The DOL Rule provided that investment advice to retirement accounts would be subject to a fiduciary standard of care.[2]

Offering of Guided Solutions

12. In addition to existing brokerage-only account options, Respondent ultimately offered clients several investment advisory account options, including one known as Guided Solutions.

13. The Guided Solutions investment advisory account was a non-discretionary account, requiring the investment adviser or its representative (a.k.a., FAs) to obtain approval from the advisory client prior to executing securities transactions in the account. As an investment

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[1] The fiduciary rule was first proposed by the DOL in October 2010 and then re-proposed in April 2015.

[2] The fiduciary standard for SEC-registered investment advisers is derived from the Investment Advisers Act of 1940 and rules promulgated thereunder by SEC. The governing standard of care for recommendations made to retail brokerage customers became the "Best Interest" standard, rather than the suitability standard, pursuant to the Regulation Best Interest compliance date in 2020.

advisory account, Guided Solutions offered certain ongoing management services, for which Respondent assessed an investment advisory fee. These services included ongoing account monitoring and rebalancing services as well as allocation guardrails.

14. Beginning in 2016, Respondent communicated to its FAs how the requirements of the DOL Rule would impact different types of retirement accounts. This included placing the status of "grandfathered" on brokerage retirement accounts – a status that would impose limitations on investment activities within the brokerage account.[3] Importantly, these included strict limitations on trading, meaning a customer could not continue to build on their investment portfolio within a brokerage-only account.

15. Respondent sent each affected brokerage account holder a "Grandfathering Notice" that identified transactions that could and could not occur in a retirement brokerage account after the effective date of the DOL Rule of June 7, 2016.

16. Respondent did encourage its FAs to meet with the customers that they serviced to discuss those customers' options. FAs provided these customers with written information about the various account options as set out in a document entitled "Making Good Choices" that was created by Respondent. The Guided Solutions program, which included advisory services subject to a fiduciary standard of care, was one of the options outlined in the brochure from which customers could choose.[4] After meeting with the FA that was responsible for their account and reviewing their account options, certain customers chose to invest through a Guided Solutions or other investment advisory account rather than a brokerage-only account. Those new investment advisory clients were provided certain required disclosure forms and they each executed written

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[3] The effect of the DOL Rule was that registered representatives of broker-dealers could not provide investment advice (i.e., securities recommendations) to retirement accounts.

[4] The information set out in the "Making Good Choices" document is similar to the information that broker-dealers and investment advisers are now required to provide to prospective customers in the SEC-mandated Form Client Relationship Summary, required under Regulation Best Interest.

agreements containing the terms of the investment advisory program, including the fees and costs that he or she would be charged for the advisory services provided. The firm also did disclose in its Form ADV brochure that customers "can purchase many of the same or similar investments as those available in an advisory program for a lower fee through Edward Jones as a broker-dealer, although [they] will not receive the additional advisory services."

Class A Share Sales Loads and Corresponding Fee Offset

17. Certain FAs serviced customers who held Class A mutual fund shares in their brokerage accounts and then became Guided Solutions investment advisory clients. And certain of those customers had purchased Class A mutual fund shares in their brokerage account during the two or three years preceding the opening of the Guided Solutions account and at that time had paid a front-end sales load of up to five percent. When these customers chose to open their Guided Solutions accounts, they began a new and different relationship with Respondent as investment advisory clients and were therefore subject to the aforementioned ongoing advisory fees upon account opening.

18. Respondent addressed this scenario in several ways, including encouraging FAs to communicate with clients about these new and different relationships and making disclosures regarding investment advisory services and fees in its Form ADV brochure and in the investment advisory account opening documents it provided to clients. Respondent also supervised certain transactions in brokerage accounts in connection with the opening of Guided Solutions accounts, and continuously enhanced its procedures beginning in the relevant period, including with respect to how assets under care were invested in Guided Solutions accounts.

19. Throughout the relevant period, Respondent also provided a prorated offset of investment advisory fees to clients who, during the two years before becoming an advisory client, paid sales loads for the Class A shares. However, given the front-end load of up to five percent for

the Class A shares, and the annual investment advisory fee between 0.5 to 1.35 percent, a two-year fee offset did not fully offset the front-end load paid on the Class A shares previously purchased by certain customers.

20. Certain of these customers had expected to pay no additional out of pocket expenses relative to their investments in such Class A shares at the time of the Class A share purchase. These customers ended up opening a Guided Solutions account and paying an ongoing fee for the investment advisory services provided relative to those assets.

21. In these cases, Respondent retained the front-end load previously assessed on the initial purchase of Class A mutual fund shares where that front-end load was not fully offset against the annual investment advisory fees for investment advisory services as described above.

22. Between 2016 and 2018 (the "relevant time period"), the States estimate that certain FAs serviced brokerage customers who became Guided Solutions advisory clients and collectively paid more than ten million dollars in front-end loads for Class A shares in brokerage accounts across the United States and its territories that was retained by the Respondent and not applied as an offset to investment advisory fees.

<u>Mitigating Facts</u>

23. In foregoing restitution to Respondent's customers, the States considered the positive performance of the investment advisory accounts (as compared to the brokerage accounts), the low per-customer restitution amount across the affected accounts, the variability in facts and circumstances for each customer, and the prolonged time-frame since the date of this activity.

<u>CONCLUSIONS OF LAW</u>

1. The Commissioner has jurisdiction over this matter pursuant to Tenn. Code Ann. § 48-1-115(b).

2. Tenn. Code Ann. § 48-1-112(a)(2)(J) requires that Respondent establish and maintain a system to supervise the activities of its broker dealer agents that is reasonably designed to achieve compliance with the Act, including the establishment and maintenance of written procedures.

3. During the relevant time period, Respondent did not have reasonably designed procedures with respect to its activities as a broker-dealer that would have detected the conduct described herein relating to the holding period of Class A share mutual funds.

4. Respondent's failure during the relevant time period to establish and maintain reasonably designed procedures relating to the foregoing constitutes a violation of Tenn. Code Ann. § 48-1-112(a)(2)(J).

5. Pursuant to Tenn. Code Ann. § 48-1-112(d), the violation of the Act described above constitutes a basis for the assessment of a payment of $320,754.72 by the Respondent to the Tennessee Securities Investor Education Fund.

6. The Commissioner finds that the following relief is appropriate and in the public interest.

ORDER

On the basis of the Findings of Fact, Conclusions of Law, and Edward Jones's consent to entry of this Order,

IT IS HEREBY ORDERED, pursuant to Tenn. Code Ann. § 48-1-116, that:

1. This Order concludes the Investigation and any other action that the Division could commence under applicable law on behalf of Tennessee as it relates to the substance of the Findings of Fact and Conclusions of Law herein, provided however, that excluded from and not covered by this paragraph 1 are any claims by the Division arising from or relating to Edward Jones's failure to comply with the undertakings contained herein.

2. This Order is entered into solely for the purpose of resolving the referenced Investigation and is not intended to be used for any other purpose.

3. Respondent is **ORDERED** to pay a contribution in the amount of $320,754.72 to the Tennessee Securities Investor Education Fund. The payment of such contribution shall be made by check payable to the Tennessee Department of Commerce and Insurance. Page one (1) of this Order must accompany the payment for reference. Payment shall be mailed to the attention of:

State of Tennessee
Department of Commerce and Insurance
Attn: Legal Division
500 James Robertson Parkway
Davy Crockett Tower
Nashville, TN 37243

CONSTRUCTION AND DEFAULT

1. This Order shall not (a) form the basis for any disqualifications of Edward Jones from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which Edward Jones or any of its affiliates may be subject under the laws, rules, and regulations of the settling states; (b) form the basis for any disqualifications of Edward Jones under the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator of self-regulatory organizations; or under the federal securities laws, including but not limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF; (c) form the basis for disqualification of Edward Jones under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership.

2. Except in an action by the Division to enforce the obligations in this Order, this Order is not intended to be deemed or used as (a) an admission of, or evidence of, the validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of, or evidence of, any such alleged fault or omission of Edward Jones in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or other tribunal. Nothing in this Order affects Edward Jones' testimonial obligations or right to take legal positions in litigation in which the Division is not a party. Evidence of any compromise offers and negotiations of the parties related to the Order, including the Order and its terms and any conduct or statements made during compromise negotiations, should not be used as evidence against any Party in any proceeding to prove or disprove the validity or amount of a disputed claim except in an action or proceeding to interpret or enforce the Order.

3. This Order shall be binding upon Edward Jones and its successors and assigns, as well as to successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

4. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of Tennessee without regard to any choice of law principles.

5. This Order is not intended to state or imply willful, reckless, or fraudulent conduct or breach of any fiduciary duty by Edward Jones or its affiliates, directors, officers, employees, associated persons, or agents.

6. Edward Jones enters this Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Division or any member, officer, employee, agent, or representative of the Division to induce Edward Jones to enter this Order.

GENERAL STIPULATIONS

1. It is expressly understood that this Order is subject to the Commissioner's acceptance and has no force and effect until such acceptance is evidenced by the entry and execution of the Commissioner.

2. It is expressly understood that this Order is in the public interest, necessary for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act.

3. This Order is executed by the Commissioner, the Division, and the Respondent to avoid further administrative action with respect to this cause. Should this Order not be accepted by the Commissioner, it is agreed that presentation to and consideration of this Order by the Commissioner shall not unfairly or illegally prejudice the Commissioner from further participation or resolution of these proceedings.

4. The Respondent fully understands that this Order will in no way preclude additional proceedings by the Commissioner against the Respondent for acts and/or omissions not specifically addressed in this Order nor for facts and/or omissions that do not arise from the facts or transactions herein.

5. The Respondent fully understands that the Commissioner enters into this Order as the authorized administrator of the Act and Tennessee Securities Rules pursuant to Tenn. Code Ann. § 48-1-115(a).

6. The Respondent waives all further procedural steps and waives all rights to seek judicial review of, or otherwise challenge the validity of this Order, the stipulations and imposition of discipline contained herein, or the consideration and entry and execution of this Order by the Commissioner.

7. This Order is submitted on the condition that, if accepted, the Commissioner will not bring any future actions against the Respondent alleging violations based on the same factual findings described herein.

ENTERED AND EXECUTED Dec 27, 2024, 2024.

Carter Lawrence (Dec 27, 2024 13:19 CST)

Carter Lawrence, Commissioner
Department of Commerce and Insurance

APPROVED FOR ENTRY AND EXECUTION

Elizabeth H. Bowling
Assistant Commissioner for Securities
Department of Commerce and Insurance

Jacob R. Strait
Associate General Counsel for Securities
Department of Commerce and Insurance

Edward D. Jones & Co., L.P.
By:
Title: SENIOR ASSOCIATE GENERAL COUNSEL

Approved as to form by:

Gibson Dunn & Crutcher, LLP