STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:	)	
	)	
EDWARD JONES & CO., L.P., CRD No. 250,	)	Case No.: AP-23-18
	)	
Respondent.	)	

CONSENT ORDER

1. A multistate task force, coordinated among members of the North American Securities Administrators Association ("**NASAA**") investigated Edward D. Jones & Co., L.P.'s ("**Respondent**" or "**Edward Jones**") supervision of financial advisors ("**FAs**") who serviced brokerage customers that enlisted the firm's investment adviser services to manage some or all of the customers' securities investments ("**Investigation**") during the period of approximately July 1, 2016 to June 30, 2018 ("**Relevant Period**").

2. The Enforcement Section of the Missouri Securities Division of the Office of Secretary of State ("**Enforcement Section**") alleges that during the Relevant Period, Respondent engaged in activities that constitute violations of the Missouri Securities Act of 2003, Chapter 409, *et seq*. ("**the Act**").[1]

3. Respondent and the Enforcement Section desire to settle the allegations raised by the Enforcement Section relating to Respondent's alleged violation of 15 CSR 30-51.171(2)(A). The alleged violation constitutes sufficient grounds to fine Respondent in accordance with Sections 409.4-412(c) and 409.4-412(d)(9).

CONSENT TO JURISDICTION

4. Respondent and the Enforcement Section stipulate and agree that the Missouri Commissioner of Securities (the "**Commissioner**") has jurisdiction over Respondent and these matters pursuant to the Act.

5. Respondent and the Enforcement Section stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), which provides:

[1] Unless otherwise specified, all statutory references are to the 2016 Revised Statutes of Missouri, as updated by the 2023 Cumulative Supplement.

> "The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act."

WAIVER AND EXCEPTION

6. Respondent waives any right to a hearing with respect to this matter.

7. Respondent waives any rights that it may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Respondent specifically forever releases and holds harmless the Missouri Office of the Secretary of State, Secretary of State, Commissioner, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.

CONSENT TO COMMISSIONER'S ORDER

8. Respondent and the Enforcement Section stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.

9. Respondent agrees not to take any action or to make or permit to be made any public statement creating the impression that this Order is without a factual basis. Nothing in this paragraph affects Respondent's (a) testimonial obligations; or (b) rights to take legal or factual position in defense of litigation or in defense of other legal proceedings in which the Commissioner is not a party; or (c) rights to make public statements that are factual.

10. Respondent agrees that it is not the prevailing party in this action because the parties have reached a good faith settlement.

11. This Order shall be binding upon Edward Jones and its successors and assigns, as well as on 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.

12. Respondent neither admits nor denies the allegations made by the Enforcement Section, but consents to the Commissioner's Findings of Fact, Conclusions of Law, and Order as set forth below solely for the purpose of resolving this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.

THE COMMISSIONER'S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

I. FINDINGS OF FACT

A. Respondent

13. Respondent is a registered broker-dealer ("**BD**") and investment adviser ("**IA**") with a principal place of business at 12555 Manchester Road, St. Louis, Missouri 63131-3710. Edward Jones has been a Missouri-registered BD since July 18, 1983 and has operated as a federal covered IA since October 24, 1963. Respondent has notice filed with the Missouri Commissioner of Securities since October 21, 1988.

B. Sales of Class A Mutual Funds

14. Respondent's general strategy with respect to its brokerage business has been to focus on helping serious, long-term individual investors by providing such investors with information and disclosures to aid them in their investment decisions. 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.

15. 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. Respondent sold Class A shares most frequently.

16. The price of a Class A share includes a sales charge in the form of a single "front-end 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 customer's overall costs over the life of the investment.

17. 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.

18. 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).

C. The Launch of Guided Solutions

19. In or around 2013, Respondent conducted research 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 customers, and the way that fees for the services provided are calculated.

20. 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 customer and the firm, whereas 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).

21. In April 2016, the United States Department of Labor adopted its fiduciary rule (the "**DOL Rule**").[2] The DOL Rule provided that investment advice to retirement accounts would be subject to a fiduciary standard of care.[3]

D. Offering of Guided Solutions

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

23. The Guided Solutions investment advisory account was a non-discretionary account, requiring the FAs to obtain approval from the advisory customer prior to executing securities transactions in the account. As an investment advisory account, Guided Solutions offered certain ongoing management services for which Respondent would be assessed an investment advisory fee. These services included ongoing account monitoring and rebalancing services.

24. 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[4]. Importantly, these included strict limitations on trading, meaning a customer could not continue to build on their investment portfolio within a brokerage-only account.

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

[3] The fiduciary standard for SEC-registered investment advisers is derived from the Investment Advisers Act of 1940 and rules promulgated thereunder by the 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.

[4] 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.

25. 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.

26. Respondent did encourage its FAs to meet with customers 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." This document 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.[5] 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 customers were provided certain required disclosure forms and they each executed written 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."

E. Class A Share Loads and Corresponding Fee Offset

27. Certain FAs serviced customers who held Class A mutual fund shares in their brokerage accounts who became Guided Solutions investment advisory customers. 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 customers and were therefore subject to the aforementioned ongoing advisory fees upon account opening.

28. Respondent addressed this scenario in several ways, including encouraging FAs to communicate with customers 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 customers. 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.

29. Throughout the Relevant Period, Respondent also provided a prorated offset of investment advisory fees to customers who, during the two years before becoming an advisory customer, paid sales loads for the Class A shares. However, given the front-end load of up

[5] 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.

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.

30. 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.

31. 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.

32. During the Relevant Period, the States estimate that certain FAs serviced brokerage customers who became Guided Solutions advisory customers 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 Respondent and not applied as an offset to investment advisory fees.

F. Mitigating Facts

33. 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 timeframe since the date of this activity.

II. CONCLUSIONS OF LAW

34. **THE COMMISSIONER CONCLUDES** that Edward Jones is a broker-dealer as defined in Section 409.1.102(4).

35. **THE COMMISSIONER CONCLUDES** that Edward Jones has been registered, pursuant to the Act, as a broker-dealer with the State of Missouri since July 18, 1983.

36. **THE COMMISSIONER CONCLUDES** that during the Relevant Period, Edward Jones failed to have reasonably designed supervisory 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 in violation of 15 CSR 30-51.171(2)(A).

37. **THE COMMISSIONER CONCLUDES** that an order is in the public interest to fine Respondent as a broker-dealer pursuant to Sections 409.4-412(c) and 409.4-412(d)(9).

38. **THE COMMISSIONER CONCLUDES** that the violation above is sufficient to issue an order in accordance with Section 409.6-604.

39. The Commissioner, after consideration of the stipulations set forth above and on consent of the Respondent and the Enforcement Section, finds and concludes that the Commissioner has jurisdiction over Respondent in this matter and that the following order is in the public interest, necessary for the protection of public investors, and consistent with the purposes intended by Chapter 409.

III. ORDER

NOW, THEREFORE, it is hereby Ordered that:

40. Respondent shall pay $320,754.72 to the Missouri Secretary of State Investor Education and Protection Fund. **This amount is due upon execution of Order and shall be made payable to the Missouri Secretary of State's Investor Education and Protection Fund** and sent to the Missouri Securities Division at 600 W. Main Street, Jefferson City, Missouri 65101; and

41. Respondent shall pay its own costs and attorneys' fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 19th DAY OF December, 2024.

JOHN R. ASHCROFT
SECRETARY OF STATE

DOUGLAS M. JACOBY
COMMISSIONER OF SECURITIES

Consented to by:

THE MISSOURI SECURITIES DIVISION

William F. H. Dunker
Enforcement Counsel

RESPONDENT

Edward D. Jones & Co., L.P., CRD No. 250

James E. Crowe III
Senior Associate General Counsel