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11 Attorneys for Complainant

12 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
13 OF THE STATE OF CALIFORNIA

14 In the Matter of:

CRD NO.: 250

15 THE COMMISSIONER OF FINANCIAL
16 PROTECTION AND INNOVATION,

CONSENT ORDER

17 Complainant,

18 v.

19 EDWARD D. JONES & CO., L.P.,

20 Respondent.
21

22
23 The Commissioner of Financial Protection and Innovation (Commissioner) and Edward D.
24 Jones & Co., L.P. (Edward Jones) hereby enter this Consent Order (Consent Order or Order) with
25 respect to the following:

26 **I.**

27 **RECITALS**

28 A. Edward D. Jones (CRD No. 250) is a broker-dealer registered in California since January 1,

1 1971, and with a principal place of business at 12555 Manchester Road, St. Louis, Missouri 63131-
2 3710.

3 B. Edward Jones has been registered with the U.S. Securities and Exchange Commission
4 (SEC) as an investment adviser since October 24, 1963, and has been notice filed with the
5 California Department of Financial Protection and Innovation since July 8, 1997, with a principal
6 place of business at 12555 Manchester Road, St. Louis, Missouri 63131-3710.

7 C. Edward Jones serves over seven million investors across North America. The firm provides
8 its services through its approximately 18,000 financial advisors (Financial Advisors). The firm's
9 focus is serving the needs of retail investors.

10 D. The Commissioner is authorized to administer and enforce the provisions of the Corporate
11 Securities Law of 1968 (Cal. Corp. Code §§ 25000-25707) (CSL) and the regulations promulgated
12 thereunder at title 10 of the California Code of Regulations, which include the licensure,
13 examination, and regulation of investment advisers and broker-dealers.

14 E. Members of the North American Securities Administrators Association (NASAA)
15 conducted a coordinated investigation into Edward Jones's supervision of Financial Advisors who
16 serviced brokerage customers who hired the firm's investment adviser to manage some or all of the
17 customers' securities investments during the period of approximately July 1, 2016 to June 30, 2018
18 (Investigation).

19 F. Edward Jones has agreed to resolve the Investigation upon the terms specified herein.

20 G. The Commissioner and Edward Jones intend to resolve this matter amicably without the
21 necessity of a hearing or other litigation. Edward Jones admits to the jurisdiction of the
22 Commissioner, neither admits nor denies the findings of fact and conclusions of law contained in this
23 Order, and consents to the entry of this Order by the Commissioner.

24 H. Edward Jones agrees to comply in all material respects with the undertakings specified herein.

25 I. Edward Jones elects to permanently waive the right to any hearings, and to any
26 reconsideration, appeal, or other right to review which may be afforded pursuant to the CSL, the
27 California Administrative Procedures Act, the California Code of Civil Procedure, or any other
28 provision of law with respect to this Consent Order and Order for Fines contained herein.

1 NOW, THEREFORE, in consideration of the foregoing, and the terms and conditions
2 contained herein, the Commissioner and Edward Jones agree to the following.

3 **II.**

4 **FINDINGS OF FACT**

5 A. Sales of Class A Mutual Fund Shares

6 1. Edward Jones’s general strategy with respect to its brokerage business has been to focus on
7 helping the serious, long-term individual investor by providing investors with information and
8 disclosures to aid in client choices. Financial Advisors often worked with customers to offer high-
9 quality investments with the goal of achieving diversification and investing for the long term.

10 Edward Jones stated in various training materials, workshops, and conferences that mutual funds
11 are a product that aligned with this philosophy.

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

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

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

28 5. Certain Financial Advisors serviced customers that purchased Class A shares presuming that

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

5 **B. The Launch of Guided Solutions**

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

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

16 8. In April 2016, the United States Department of Labor adopted its fiduciary rule (the “DOL
17 Rule”).¹ The DOL Rule provided that investment advice to retirement accounts would be subject to
18 a fiduciary standard of care.²

19 **C. Offering of Guided Solutions**

20 9. In addition to existing brokerage-only account options, Edward Jones ultimately offered
21 clients several investment advisory account options, including one known as Guided Solutions.

22 10. The Guided Solutions investment advisory account was a non-discretionary account,
23 requiring the investment adviser or its representative (also known as Financial Advisors) to obtain
24 approval from the advisory client prior to executing securities transactions in the account. As an
25 investment advisory account, Guided Solutions offered certain ongoing management services, for

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

27 ² The fiduciary standard for SEC-registered investment advisers is derived from the Investment Advisers Act of 1940 and
28 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.

1 which Edward Jones assessed an investment advisory fee. These services included ongoing account
2 monitoring and rebalancing services as well as allocation guardrails.

3 11. Beginning in 2016, Edward Jones communicated to its Financial Advisors how the
4 requirements of the DOL Rule would impact different types of retirement accounts. This included
5 placing the status of “grandfathered” on brokerage retirement accounts – a status that would impose
6 limitations on investment activities within the brokerage account³. Importantly, these included strict
7 limitations on trading, meaning a customer could not continue to build on their investment portfolio
8 within a brokerage-only account.

9 12. Edward Jones sent each affected brokerage account holder a “Grandfathering Notice” that
10 identified transactions that could and could not occur in a retirement brokerage account after the
11 effective date of the DOL Rule of June 7, 2016.

12 13. Edward Jones did encourage its Financial Advisors to meet with the customers that they
13 serviced to discuss those customers’ options. Financial Advisors provided these customers with
14 written information about the various account options as set out in a document entitled “Making
15 Good Choices” that was created by Edward Jones. The Guided Solutions program, which included
16 advisory services subject to a fiduciary standard of care, was one of the options outlined in the
17 brochure from which customers could choose.⁴ After meeting with the Financial Advisor that was
18 responsible for their account and reviewing their account options, certain customers chose to invest
19 through a Guided Solutions or other investment advisory account rather than a brokerage-only
20 account. Those new investment advisory clients were provided certain required disclosure forms
21 and they each executed written agreements containing the terms of the investment advisory
22 program, including the fees and costs that he or she would be charged for the advisory services
23 provided. The firm also did disclose in its Form ADV brochure that customers “can purchase many
24 of the same or similar investments as those available in an advisory program for a lower fee through
25 Edward Jones as a broker-dealer, although [they] will not receive the additional advisory services.”

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

28 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.

1 D. Class A Share Sales Loads and Corresponding Fee Offset

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

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

17 16. Throughout the relevant period, Edward Jones also provided a prorated offset of investment
18 advisory fees to clients who, during the two years before becoming an advisory client, paid sales
19 loads for the Class A shares. However, given the front-end load of up to five percent for the Class A
20 shares, and the annual investment advisory fee between 0.5 to 1.35 percent, a two-year fee offset
21 did not fully offset the front-end load paid on the Class A shares previously purchased by certain
22 customers.

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

27 18. In these cases, Edward Jones retained the front-end load previously assessed on the initial
28 purchase of Class A mutual fund shares where that front-end load was not fully offset against the

1 annual investment advisory fees for investment advisory services as described above.

2 19. Between 2016 and 2018 (Relevant Time Period), the States estimate that certain Financial
3 Advisors serviced brokerage customers who became Guided Solutions advisory clients and who
4 collectively paid more than ten million dollars in front-end loads for Class A shares in brokerage
5 accounts across the United States and its territories. The more than ten million dollars in front-end
6 loads paid by clients was retained by Edward Jones and not applied as an offset to investment
7 advisory fees.

8 E. Mitigating Facts

9 20. In foregoing restitution to Edward Jones’s customers, the States considered the positive
10 performance of the investment advisory accounts (as compared to the brokerage accounts), the low
11 per-customer restitution amount across the affected accounts, the variability in facts and
12 circumstances for each customer, and the prolonged timeframe since the date of this activity.

13 **III.**

14 **CONCLUSIONS OF LAW**

15 21. CSL section 25218 and Code of Regulations, title 10, section 260.218.4 require that a
16 broker-dealer firm establish and maintain a supervisory system that is reasonably designed to
17 achieve compliance with securities laws and regulations.

18 22. During the Relevant Time Period, Edward Jones did not have reasonably designed
19 procedures with respect to its activities as a broker-dealer that would have detected the conduct
20 described herein relating to the holding period of Class A share mutual funds.

21 23. Edward Jones’s failure to implement and maintain reasonably designed supervisory systems
22 violated CSL section 25218 and Code of Regulations, title 10, section 260.218.4.

23 **IV.**

24 **TERMS AND CONDITIONS**

25 A. Orders

26 On the basis of the Findings of Fact, Conclusions of Law, and Edward Jones’s consent to entry of
27 this Order, the Commissioner hereby orders the following:

28 24. Order to Pay Fines. Pursuant to Corporations Code section 25252, Edward Jones is hereby

1 ordered to pay an administrative fine totaling \$320,754.72 (Fine) to the Commissioner for
2 violations of the CSL. Payment of the Fine shall be made no more than 30 days after the Effective
3 Date, as defined in Paragraph 44 below, and should be made in the form of a cashier’s check or
4 Automated Clearing House deposit payable to the “Department of Financial Protection and
5 Innovation” and transmitted to the attention of “Accounting – Litigation” at Department of
6 Financial Protection and Innovation, 2101 Arena Boulevard, Sacramento, California 95834-2036.
7 Notice of such payment shall be sent on the same day the payment is made to Joanne Ross, Senior
8 Counsel, Department of Financial Protection and Innovation, Enforcement Division, via email at:
9 Joanne.Ross@dfpi.ca.gov.

10 B. Construction and Default

11 25. Disqualifications. This Order shall not (a) form the basis for any disqualifications of Edward
12 Jones from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and
13 regulations of any state, or for any disqualification from relying upon the securities registration
14 exemptions or safe harbor provisions to which Edward Jones or any of its affiliates may be subject
15 under the laws, rules, and regulations of the settling states; (b) form the basis for any
16 disqualifications of Edward Jones under the laws of any state, the District of Columbia, Puerto
17 Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities
18 regulator of self-regulatory organizations; or under the federal securities laws, including but not
19 limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules
20 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF; (c)
21 form the basis for disqualification of Edward Jones under the Financial Industry Regulatory
22 Authority rules prohibiting continuance in membership or disqualification under other Self-
23 Regulatory Organization rules prohibiting continuance in membership. Except in an action by the
24 Commissioner after the failure of Edward Jones to comply with any obligations of this Order, any
25 acts performed or documents executed in furtherance of this Order: (a) may not be deemed or used
26 as an admission of, or evidence of, the validity of any alleged wrongdoing, liability, or lack of any
27 wrongdoing or liability; or (b) may not be deemed or used as an admission of; or evidence of, any
28 such alleged fault or omission of Edward Jones in any civil, criminal, arbitration, or administrative

1 proceeding in any court, administrative agency, or tribunal. Nothing in this Order affects Edward
2 Jones’s testimonial obligations or right to take legal positions in litigation in which the
3 Commissioner is not a party. Evidence of any compromise offers and negotiations of the parties
4 related to the Order, including the Order and its terms and any conduct or statements made during
5 compromise negotiations, should not be used as evidence against any Party in any proceeding to
6 prove or disprove the validity or amount of a disputed claim except in an action or proceeding to
7 interpret or enforce the Order.

8 26. Willful, Reckless, or Fraudulent Conduct. This Order is not intended to state or imply
9 willful, reckless, or fraudulent conduct or breach of any fiduciary duty by Edward Jones or its
10 affiliates, directors, officers, employees, associated persons, or agents.

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

15 28. Waiver of Hearing Rights. Edward Jones acknowledges that the Commissioner is ready,
16 willing, and able to proceed with the filing of an enforcement action upon the matters discussed
17 herein. Edward Jones hereby waives the right to any hearings, and to any reconsideration, appeal, or
18 other right to review which may be afforded pursuant to the CSL, the California Administrative
19 Procedures Act, the California Code of Civil Procedure, or any other provision of law. Edward
20 Jones further expressly waives any requirement for the filing of an Accusation pursuant to
21 Government Code section 11415.60 (b). By waiving such rights, Edward Jones effectively consents
22 to this Consent Order and Order for Fines contained herein becoming final.

23 29. Full and Final Settlement. The parties hereby acknowledge and agree that this Consent
24 Order is intended to constitute a full, final, and complete resolution of matters subject to the
25 Investigation, and that no further proceedings or actions will be brought by the Commissioner in
26 connection with these matters under the CSL or any other provision of law, excepting therefrom
27 any proceeding to enforce compliance with the terms of this Consent Order.

28 30. Future Actions by Commissioner. If Edward Jones fails to comply with any terms of the

1 Consent Order, the Commissioner may institute proceedings for any and all violations otherwise
2 resolved under this Consent Order. The Commissioner reserves the right to bring any future actions
3 against Edward Jones, or any of its partners, owners, officers, shareholders, directors, employees, or
4 successors for any and all violations of the CSL not explicitly described herein.

5 31. Assisting Other Agencies. Nothing in this Consent Order limits the Commissioner’s ability
6 to assist any other government agency (city, county, state, or federal) with any prosecution,
7 administrative, civil, or criminal brought by that agency against Edward Jones or any other person
8 based upon any of the activities alleged in this matter or otherwise.

9 32. Headings. The headings to the paragraphs of this Order are inserted for convenience only
10 and will not be deemed a part hereof or affect the construction or interpretation of the provisions
11 hereof.

12 33. Reliance. Each of the parties represents, warrants, and agrees that in executing this Order it
13 has relied solely on the statements set forth herein and the advice of its own counsel. Each of the
14 parties further represents, warrants, and agrees that in executing this Order it has placed no reliance
15 on any statement, representation, or promise of any other party, or any other person or entity not
16 expressly set forth herein, or upon the failure of any party or any other person or entity to make any
17 statement, representation, or disclosure of anything whatsoever. The parties have included this
18 clause: (1) to preclude any claim that any party was in any way fraudulently induced to execute this
19 Order; and (2) to preclude the introduction of parol evidence to vary, interpret, supplement, or
20 contradict the terms of this Order.

21 34. Waiver, Amendments, and Modifications. No waiver, amendment, or modification of this
22 Order will be valid or binding unless it is in writing and signed by each of the parties. The waiver of
23 any provision of this Order will not be deemed a waiver of any other provision. No waiver by either
24 party of any breach of, or of compliance with, any condition or provision of this Order by the other
25 party will be considered a waiver of any other condition or provision or of the same condition or
26 provision at another time.

27 35. Full Integration. This Consent Order is the final written expression and the complete and
28 exclusive statement of all the agreements, conditions, promises, representations, and covenants

1 between the parties with respect to the subject matter hereof, and supersedes all prior or
2 contemporaneous agreements, negotiations, representations, understandings, and discussions
3 between and among the parties, their respective representatives, and any other person or entity, with
4 respect to the subject matter covered hereby.

5 36. Governing Law. This Order and any dispute related thereto shall be construed and enforced
6 in accordance with, and governed by, the laws of California without regard to any choice of law
7 principles.

8 37. Effect Upon Future Proceedings. If Edward Jones applies for any license, permit or
9 qualification under the Commissioner's current or future jurisdiction, or is the subject of any future
10 action by the Commissioner as a result of Edward Jones's failure to comply with this Consent
11 Order, then the matters under investigation may be admissible for the purpose of such application(s)
12 or enforcement proceedings(s).

13 38. Voluntary Agreement. Edward Jones enters this Order voluntarily and represents that no
14 threats, offers, promises, or inducements of any kind have been made by the Commissioner or any
15 member, officer, employee, agent, or representative of the Commissioner to induce Edward Jones to
16 enter this Order. The parties each represent and acknowledge that he, she, or it is executing this
17 Consent Order completely voluntarily and without any duress or undue influence of any kind from
18 any source.

19 39. Counterparts. This Order may be executed in one or more separate counterparts, each of
20 which when so executed, shall be deemed an original. Such counterparts shall together constitute a
21 single document.

22 40. Notice. Any notice required under this Consent Order shall be provided to each party by
23 email and overnight mail/courier service at the following addresses.

24 To Respondent: Edward D. Jones & Co, L.P.
25 Attn: James E. Crowe, III, Senior Associate General Counsel
26 12555 Manchester Road
27 St. Louis, Missouri 63131-3710
j.crowe3@edwardjones.com

28 ///

To the Commissioner: Joanne Ross
Senior Counsel, Enforcement Division
Department of Financial Protection and Innovation
2101 Arena Boulevard
Sacramento, California 95834
Joanne.Ross@dfpi.ca.gov

41. Signatures. A fax or electronic mail signature shall be deemed the same as an original signature.

42. Public Record. Edward Jones hereby acknowledges that this Consent Order is and will be a matter of public record.

43. Authority to Sign. Each signatory hereto covenants that he or she possesses all necessary capacity and authority to sign and enter into this Consent Order and undertake the obligations set forth herein.

44. Effective Date. This Consent Order shall become final and effective when signed by all parties and sent by the Commissioner’s agent via e-mail to James E. Crowe, III, Senior Associate General Counsel, at j.crowe3@edwardjones.com.

This Consent Order is in the public interest, is necessary for the protection of investors, and is consistent with the purposes, policies, and provisions of the CSL.

Dated: December 20, 2024

CLOTHILDE V. HEWLETT
Commissioner of Financial Protection and Innovation



By: _____
Mary Ann Smith
Deputy Commissioner
Enforcement Division

Dated: December 19, 2024.

Edward D. Jones & Co., L.P.

By: _____

Name: _____

Title: _____